

MOTORCAR PARTS AMERICA INC  
Form 10-Q  
May 14, 2012

---

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-33861

MOTORCAR PARTS OF AMERICA, INC.  
(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of incorporation or  
organization)

11-2153962  
(I.R.S. Employer Identification No.)

2929 California Street, Torrance, California  
(Address of principal executive offices)

90503

(Zip Code)

Registrant's telephone number, including area code: (310) 212-7910

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

There were 14,470,821 shares of Common Stock outstanding at May 7, 2012.

---

---

---

MOTORCAR PARTS OF AMERICA, INC.

TABLE OF CONTENTS

	Page
PART I — FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	4
<u>Consolidated Balance Sheets as of December 31, 2011 (unaudited) and March 31, 2011</u>	4
<u>Consolidated Statements of Operations (unaudited) for the three and nine months ended December 31, 2011 and 2010</u>	5
<u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended December 31, 2011 and 2010</u>	6
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	42
PART II — OTHER INFORMATION	
Item 1A. <u>Risk Factors</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 5. <u>Other Information</u>	46
Item 6. <u>Exhibits</u>	46
<u>SIGNATURES</u>	50

Table of Contents

MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

The following terms are frequently used in the text of this report and have the meanings indicated below.

“Used Core” — An automobile part which has been used in the operation of a vehicle. Generally, the Used Core is an original equipment (“OE”) automobile part installed by the vehicle manufacturer and subsequently removed for replacement. Used Cores contain salvageable parts which are an important raw material in the remanufacturing process. We obtain most Used Cores by providing credits to our customers for Used Cores returned to us under our core exchange program. Our customers receive these Used Cores from consumers who deliver a Used Core to obtain credit from our customers upon the purchase of a newly remanufactured automobile part. When sufficient Used Cores cannot be obtained from our customers, we will purchase Used Cores from core brokers, who are in the business of buying and selling Used Cores. The Used Cores purchased from core brokers or returned to us by our customers under the core exchange program, and which have been physically received by us, are part of our raw material or work in process inventory included in long-term core inventory.

“Remanufactured Core” — The Used Core underlying an automobile part that has gone through the remanufacturing process and through that process has become part of a newly remanufactured automobile part. The remanufacturing process takes a Used Core, breaks it down into its component parts, replaces those components that cannot be reused and reassembles the salvageable components of the Used Core and additional new components into a remanufactured automobile part. Remanufactured Cores are included in our on-hand finished goods inventory and in the remanufactured finished good product held for sale at customer locations. Used Cores returned by consumers to our customers but not yet returned to us continue to be classified as Remanufactured Cores until we physically receive these Used Cores. All Remanufactured Cores are included in our long-term core inventory or in our long-term core inventory deposit.

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets

	December 31, 2011 (Unaudited)	March 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash	\$ 3,133,000	\$ 2,477,000
Short-term investments	305,000	304,000
Accounts receivable — net	24,887,000	10,635,000
Inventory— net	123,795,000	29,733,000
Inventory unreturned	13,043,000	5,031,000
Deferred income taxes	5,670,000	5,658,000
Prepaid expenses and other current assets	4,411,000	6,299,000
Total current assets	175,244,000	60,137,000
Plant and equipment — net	13,942,000	11,663,000
Long-term core inventory — net	187,475,000	80,558,000
Long-term core inventory deposit	26,658,000	25,984,000
Long-term deferred income taxes	1,617,000	1,346,000
Long-term note receivable	-	4,863,000
Goodwill	40,263,000	-
Intangible assets — net	44,157,000	5,530,000
Other assets	1,934,000	1,784,000
<b>TOTAL ASSETS</b>	<b>\$ 491,290,000</b>	<b>\$ 191,865,000</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 136,422,000	\$ 38,973,000
Accrued liabilities	20,345,000	7,318,000
Customer finished goods returns accrual	26,910,000	9,161,000
Revolving loan	40,500,000	-
Other current liabilities	2,114,000	918,000
Current portion of term loan	2,000,000	2,000,000
Current portion of capital lease obligations	559,000	372,000
Total current liabilities	228,850,000	58,742,000
Term loan, less current portion	14,000,000	5,500,000
Revolving loan	47,713,000	-
Deferred core revenue	9,352,000	8,729,000
Customer core returns accrual (see Note 2)	103,079,000	-
Other liabilities	1,120,000	1,255,000
Capital lease obligations, less current portion	241,000	462,000
Total liabilities	404,355,000	74,688,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued	-	-

Edgar Filing: MOTORCAR PARTS AMERICA INC - Form 10-Q

Series A junior participating preferred stock; par value \$.01 per share, 20,000 shares authorized; none issued	-	-
Common stock; par value \$.01 per share, 20,000,000 shares authorized; 12,533,821 and 12,078,271 shares issued; 12,519,421 and 12,063,871 outstanding at December 31, 2011 and March 31, 2011, respectively	125,000	121,000
Treasury stock, at cost, 14,400 shares of common stock at December 31, 2011 and March 31, 2011, respectively	(89,000 )	(89,000 )
Additional paid-in capital	98,693,000	93,140,000
Additional paid-in capital-warrant	1,879,000	1,879,000
Accumulated other comprehensive loss	(1,201,000 )	(349,000 )
Retained (deficit) earnings	(12,472,000 )	22,475,000
Total shareholders' equity	86,935,000	117,177,000
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 491,290,000</b>	<b>\$ 191,865,000</b>

The accompanying condensed notes to consolidated financial statements are an integral part hereof.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Net sales	\$84,097,000	\$41,288,000	\$262,223,000	\$118,499,000
Cost of goods sold	86,455,000	28,115,000	239,981,000	81,099,000
Gross (loss) profit	(2,358,000 )	13,173,000	22,242,000	37,400,000
Operating expenses:				
General and administrative	10,589,000	4,384,000	30,966,000	11,979,000
Sales and marketing	3,369,000	1,798,000	9,019,000	4,739,000
Research and development	453,000	391,000	1,270,000	1,153,000
Impairment of fixed assets	1,031,000	-	1,031,000	-
Acquisition costs	-	-	713,000	-
Total operating expenses	15,442,000	6,573,000	42,999,000	17,871,000
Operating (loss) income	(17,800,000)	6,600,000	(20,757,000 )	19,529,000
Interest expense	3,262,000	997,000	8,565,000	4,300,000
(Loss) income before income tax expense	(21,062,000)	5,603,000	(29,322,000 )	15,229,000
Income tax expense	1,987,000	1,842,000	5,625,000	5,447,000
Net (loss) income	\$(23,049,000)	\$3,761,000	\$(34,947,000 )	\$9,782,000
Basic net (loss) income per share	\$(1.84 )	\$0.31	\$(2.81 )	\$0.81
Diluted net (loss) income per share	\$(1.84 )	\$0.30	\$(2.81 )	\$0.80
Weighted average number of shares outstanding:				
Basic	12,517,269	12,042,792	12,417,292	12,038,296
Diluted	12,517,269	12,399,211	12,417,292	12,254,510

The accompanying condensed notes to consolidated financial statements are an integral part hereof.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Unaudited)

	Nine Months Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net (loss) income	\$(34,947,000 )	\$9,782,000
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	4,074,000	2,331,000
Amortization of intangible assets	2,651,000	580,000
Amortization of deferred gain on sale-leaseback	-	(306,000 )
Amortization of deferred financing costs	65,000	64,000
Provision for inventory reserves	804,000	1,454,000
Provision for customer payment discrepancies	114,000	563,000
Net provision recovery of doubtful accounts	(28,000 )	(39,000 )
Deferred income taxes	(313,000 )	160,000
Share-based compensation expense	35,000	46,000
Impact of tax benefit on APIC pool from stock options exercised	84,000	36,000
Gain on redemption of short-term investment	-	(25,000 )
Impairment of fixed assets	1,031,000	-
Loss on disposal of assets	17,000	37,000
Changes in current assets and liabilities:		
Accounts receivable	3,650,000	2,271,000
Inventory	(27,125,000 )	2,209,000
Inventory unreturned	1,808,000	(227,000 )
Prepaid expenses and other current assets	4,111,000	26,000
Other assets	(175,000 )	(180,000 )
Accounts payable and accrued liabilities	17,644,000	(464,000 )
Customer finished goods returns accrual	(2,562,000 )	(46,000 )
Deferred core revenue	623,000	1,917,000
Long-term core inventory	(16,707,000 )	(11,535,000)
Long-term core inventory deposits	(674,000 )	(216,000 )
Customer core returns accrual	541,000	-
Other liabilities	(69,000 )	(804,000 )
Net cash (used in) provided by operating activities	(45,348,000 )	7,634,000
Cash flows from investing activities:		
Purchase of plant and equipment	(1,068,000 )	(1,119,000 )
Purchase of businesses	-	(464,000 )
Long-term note receivable	-	(4,863,000 )
Change in short term investments	(29,000 )	178,000
Net cash used in investing activities	(1,097,000 )	(6,268,000 )
Cash flows from financing activities:		
Borrowings under revolving loan	128,267,000	39,700,000
Repayments under revolving loan	(89,598,000 )	(39,400,000)
Proceeds from term loan	10,000,000	-
Repayments of term loan	(1,500,000 )	(1,500,000 )
Deferred financing costs	-	(16,000 )



Edgar Filing: MOTORCAR PARTS AMERICA INC - Form 10-Q

Payments on capital lease obligations	(452,000 )	(882,000 )
Exercise of stock options	320,000	166,000
Excess tax benefit from employee stock options exercised	255,000	78,000
Impact of tax benefit on APIC pool from stock options exercised	(84,000 )	(36,000 )
Repurchase of common stock, including fees	-	(89,000 )
Proceeds from issuance of common stock	1,000	1,000
Net cash provided by (used in) financing activities	47,209,000	(1,978,000 )
Effect of exchange rate changes on cash	(108,000 )	24,000
Net increase (decrease) in cash	656,000	(588,000 )
Cash — Beginning of period	2,477,000	1,210,000
Cash — End of period	\$3,133,000	\$622,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net	\$7,643,000	\$4,306,000
Income taxes, net of refunds	2,796,000	6,658,000
Non-cash investing and financing activities:		
Common stock issued in business acquisition	\$4,946,000	\$-

The accompanying condensed notes to consolidated financial statements are an integral part hereof.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES  
Condensed Notes to Consolidated Financial Statements  
December 31, 2011  
(Unaudited)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended December 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2012. This report should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2011, which are included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on June 13, 2011.

The accompanying consolidated financial statements have been prepared on a consistent basis with, and there have been no material changes to, the accounting policies described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements that are presented in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2011. The accompanying consolidated financial statements include the financial position and results of operations and the effects of the provisional estimates of fair value of the acquired company from the date of acquisition (see Note 2).

Certain prior period amounts have been reclassified to conform to the current period presentation.

1. Company Background and Organization

Motorcar Parts of America, Inc. and its subsidiaries (the “Company” or “MPA”) remanufacture, produce and distribute automobile parts for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. These replacement parts are sold for use on vehicles after initial vehicle purchase. These automotive parts are sold to automotive retail chain stores and warehouse distributors throughout the United States and Canada and to major automobile manufacturers.

The Company obtains used automobile parts, commonly known as Used Cores, primarily from its customers as trade-ins. It also purchases Used Cores from vendors (core brokers). The customers grant credit to the consumer when the used part is returned to them, and the Company in turn provides a credit to the customers upon return to the Company. These Used Cores are an essential material needed for the remanufacturing operations. The Company has remanufacturing, warehousing and shipping/receiving operations for alternators and starters in Mexico, California, Connecticut, Singapore and Malaysia. In addition, the Company utilizes third party warehouse distribution centers in Edison, New Jersey and Springfield, Oregon.

In May 2011, pursuant to a purchase agreement (the “Fenco Purchase Agreement”) with FAPL Holdings Inc. (“Holdings”), the parent company of Fenwick Automotive Products Limited (“FAPL”), a privately-owned Toronto-based manufacturer, remanufacturer and distributor of new and remanufactured aftermarket auto parts, and certain other individuals, the Company acquired all of the outstanding equity of Holding’s subsidiaries. This transaction provides the Company opportunities to expand beyond its existing product lines of alternators and starters and further enhance its market presence in North America. As a result of this acquisition, the Company now manufactures, remanufactures and distributes new and remanufactured aftermarket auto parts through its newly acquired subsidiaries, including

steering components, brake calipers, master cylinders, hub assembly and bearings, clutches and clutch hydraulics for the full range of passenger and truck vehicles. The remanufactured products are sold under the Fenco™ brand name and new products are sold under the Dynapak® brand name.

Table of Contents

Pursuant to the guidance provided under the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), the Company reassessed and revised its segment reporting, as a result of this acquisition. The Company now reflects two reportable segments, rotating electrical and under-the-car product line, based on the way the Company manages, evaluates and internally reports its business activities. Prior to this acquisition, the Company operated in one reportable segment, rotating electrical.

In July 2011, the Company established a wholly owned Chinese subsidiary to, among other things, provide certain purchasing and logistics services to the Company in China.

2. Acquisition

On May 6, 2011, the Company entered into and consummated transactions pursuant to the Purchase Agreement. Pursuant to the Purchase Agreement, the Company purchased (i) all of the outstanding equity of FAPL, (ii) all of the outstanding equity of Introcan, Inc., a Delaware corporation (“Introcan”), and (iii) 1% of the outstanding equity of Fapco S.A. de C.V., a Mexican variable capital company (“Fapco”) (collectively, “Fenco”). Since FAPL owned 99% of Fapco prior to these acquisitions, the Company now owns 100% of Fapco.

In consideration for the acquisition of Fenco, the Company issued Holdings 360,000 shares of the Company’s common stock (the “MPA Shares”). For a period of 18 months following the closing of the acquisition, the MPA Shares shall be (i) subject to transfer restrictions pursuant to a Hold Agreement between the Company and Holdings, dated May 6, 2011 (the “Hold Agreement”), and (ii) held in escrow in order to secure certain indemnification obligations under the Purchase Agreement pursuant to an Escrow Agreement by and among Holdings, Stikeman Elliott LLP, certain other individuals, and the Company, dated May 6, 2011 (the “Escrow Agreement”).

The estimated fair value of Fenco tangible and intangible assets acquired and liabilities assumed are based on provisional estimates and assumptions. These provisional estimates and assumptions could change significantly during the purchase price measurement period, as the valuations of the net tangible assets and intangible assets are finalized. In accordance with ASC 805, during the measurement period an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date. Any change could result in material variances between the Company’s future financial results and the amounts presented below, including variances in fair values recorded. The Company made preliminary estimates of fair value based on its best estimates using information that it obtained as of the reporting date. Based on new information available about facts and circumstances that existed as of the acquisition date, the Company has further adjusted the recognition of certain assets and liabilities as of that date. The preliminary estimate of assets acquired and the liabilities assumed in connection with the acquisition and the subsequent change in valuation estimates made in the third quarter are presented in the following table. These third quarter adjustments to the provisional amounts previously recorded were made retrospectively to the acquisition date and included adjustments to some of its valuation estimates related primarily to long-term core inventory, inventory unreturned, accounts receivable reserves, and the customer core returns accrual.

Table of Contents

	US\$			
Consideration				
Stock issued (1)	\$	4,946,000		
Total	\$	4,946,000		
	Revised Provisional Estimated Fair Value September 30, 2011	Subsequent Change in Valuation Estimates	Revised Provisional Estimated Fair Value December 31, 2011	Estimated Useful Life
Accounts receivable, net of allowances	\$ 24,087,000	\$ (1,059,000 )	\$ 23,028,000	
Inventory	65,234,000	-	65,234,000	
Long-term core inventory	94,217,000	(1,494,000 )	92,723,000	
Inventory unreturned	8,631,000	1,189,000	9,820,000	
Prepaid expenses	2,332,000		2,332,000	
Trademarks	19,663,000		19,663,000	20 years
Customer contracts	21,531,000		21,531,000	10 years
Non-compete agreements	84,000		84,000	2 years
Plant and equipment, net	6,241,000		6,241,000	
Revolving loan	(49,544,000 )		(49,544,000 )	
Accounts payable and accrued liabilities	(97,072,000 )	97,000	(96,975,000 )	
Customer core returns accrual (2)	(102,538,000 )	-	(102,538,000 )	
Income taxes payable	(223,000 )		(223,000 )	
Customer finished goods returns accrual	(18,652,000 )	(1,659,000 )	(20,311,000 )	
Capital lease obligations	(417,000 )		(417,000 )	
Debenture loan - due to registrant	(4,923,000 )		(4,923,000 )	
Term loan	(1,042,000 )		(1,042,000 )	
Fair value of net assets acquired	(32,391,000 )	(2,926,000 )	(35,317,000 )	
Goodwill on acquisition	\$ 37,337,000	\$ 2,926,000	\$ 40,263,000	

(1) Based on the Company's May 5, 2011, closing common stock price of \$13.74 per share.

(2) The estimated fair value of the customer core return liabilities assumed by the Company in connection with the acquisition is included in customer core returns accrual in the accompanying balance sheet at December 31, 2011. The Company classifies the portion of core liability related to the core inventory purchased and on the shelves of its customers as long-term liabilities. Upon the sale of a remanufactured core a core liability is created to record the obligation to provide the Company's customer with a credit upon the return of a like core by the customer. Since the return of a core is based on the sale of a remanufactured automobile part to an end user of the Company's customer, the offset to this core liability generated by its return to the Company by its customer is usually followed by the sale of a replacement remanufactured auto part, and thus a portion of the core liability is continually outstanding and is recorded as long-term. The amount the Company has classified as long-term is the portion that management projects will remain outstanding for an uninterrupted period extending one year from the balance sheet date.

As a result of the revised provisional estimated fair value, the excess of the purchase price over the fair value of the net assets acquired of \$40,263,000 was recorded as goodwill on acquisition in the accompanying consolidated balance sheet as of May 6, 2011. The changes in estimated fair value were primarily the result of revisions to the valuation of inventory, including long-term core inventory, the customer core returns accrual, and the further assessment of cores on hand at the date of acquisition.

The above estimates of fair value are still provisional as of December 31, 2011 primarily in the areas of inventory, including long-term core inventory, the customer core returns accrual, and intangible assets. The Company continues to review information as to estimated fair value and quantities. These estimates will be finalized as of March 31, 2012.

Table of Contents

The unaudited pro forma financial information presented below assumes the acquisition had occurred on April 1, 2011 and 2010, respectively. The unaudited pro forma information presented is for illustrative purposes only and is not necessarily indicative of the results of operations that would have been realized if the acquisition had been completed on the date indicated, nor is it indicative of future operating results. The following historical financial information has been adjusted to give effect to pro forma events that are (i) directly attributable to the acquisition, (ii) factually supportable, and (iii) with respect to statements of operations, expected to have a continuing impact on the combined results, including the amortization of the fair value of the identifiable intangible assets and the cost of goods sold impact related to the fair value step-up of inventory acquired. The unaudited pro forma information does not reflect any operating efficiencies, associated cost savings or additional costs that the Company may achieve with respect to the combined companies.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Net sales	\$84,097,000	\$84,607,000	\$288,757,000	\$273,887,000
Operating (loss) income	(17,800,000)	5,700,000	(22,401,000 )	17,606,000
(Loss) income before income tax expense	(21,062,000)	1,213,000	(31,759,000 )	5,101,000
Net loss	(23,049,000)	(646,000 )	(37,591,000 )	(363,000 )
Basic net loss per share	\$(1.84 )	\$(0.05 )	\$(3.03 )	\$(0.03 )
Diluted net loss per share	\$(1.84 )	\$(0.05 )	\$(3.03 )	\$(0.03 )

## 3. Intangible Assets

The following is a summary of the Company's intangible assets subject to amortization at December 31, 2011 and March 31, 2011.

		December 31, 2011		March 31, 2011	
	Weighted Average Amortization Period	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Trademarks	20 years	\$20,216,000	\$ 884,000	\$553,000	\$ 189,000
Customer relationships	10 years	27,995,000	3,337,000	6,464,000	1,447,000
Non-compete agreements	3 years	341,000	174,000	257,000	108,000
Total	13 years	\$48,552,000	\$ 4,395,000	\$7,274,000	\$ 1,744,000

Table of Contents

Amortization expense for acquired intangible assets for the three and nine months ended December 31, 2011 and 2010 is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Amortization expense	\$940,000	\$193,000	\$2,651,000	\$580,000

The aggregate estimated future amortization expense for intangible assets subject to amortization is as follows:

Year Ending March 31,	
2012 - remaining 3 months	\$ 1,036,000
2013	3,952,000
2014	3,878,000
2015	3,807,000
2016	3,485,000
Thereafter	27,999,000
Total	\$ 44,157,000

## 4. Accounts Receivable — Net

Included in accounts receivable — net are significant offset accounts related to customer allowances earned, customer payment discrepancies, returned goods authorizations (“RGA”) issued for in-transit unit returns, estimated future credits to be provided for Used Cores returned by the customers and potential bad debts. Due to the forward looking nature and the different aging periods of certain estimated offset accounts, they may not, at any point in time, directly relate to the balances in the open trade accounts receivable.

Accounts receivable — net is comprised of the following:

	December 31,	
	2011	March 31, 2011
Accounts receivable — trade	\$ 76,049,000	\$ 33,066,000
Allowance for bad debts	(1,021,000 )	(1,026,000 )
Customer allowances earned	(21,855,000 )	(6,644,000 )
Customer payment discrepancies	(208,000 )	(648,000 )
Customer returns RGA issued	(5,151,000 )	(3,719,000 )
Customer core returns accruals	(22,927,000 )	(10,394,000 )
Less: total accounts receivable offset accounts	(51,162,000 )	(22,431,000 )
Total accounts receivable — net	\$ 24,887,000	\$ 10,635,000

## Warranty Returns

The Company allows its customers to return goods to the Company that their end-user customers have returned to them, whether the returned item is or is not defective (warranty returns). The Company accrues an estimate of its exposure to warranty returns based on a historical analysis of the level of this type of return as a percentage of total unit sales. Amounts charged to expense for these warranty returns are considered in arriving at the Company’s net sales. At December 31, 2011, the warranty return accrual of \$1,995,000 was included under the customer returns RGA issued in the above table and the warranty estimate of \$5,570,000 was included in customer finished goods returns



accrual in the consolidated balance sheets.

11

---

Table of Contents

Change in the Company's warranty return accrual is as follows:

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Balance at beginning of period (1)	\$7,324,000	\$2,975,000	\$8,969,000	\$3,445,000
Charged to expense	15,421,000	9,622,000	44,079,000	28,841,000
Amounts processed	(15,180,000)	(9,936,000)	(45,483,000)	(29,625,000)
Balance at end of period	\$7,565,000	\$2,661,000	\$7,565,000	\$2,661,000

1) Includes \$5,204,000 of estimated warranty return accrual established in the opening balance sheet in connection with the Company's May 6, 2011 acquisition.

## 5. Inventory

Inventory is comprised of the following:

	December 31, 2011	March 31, 2011
Non-core inventory		
Raw materials	\$ 34,733,000	\$ 11,805,000
Work-in-process	138,000	104,000
Finished goods	96,058,000	19,579,000
	130,929,000	31,488,000
Less allowance for excess and obsolete inventory	(7,134,000 )	(1,755,000 )
Total	\$ 123,795,000	\$ 29,733,000
Inventory unreturned	\$ 13,043,000	\$ 5,031,000
Long-term core inventory		
Used cores held at the Company's facilities	\$ 50,662,000	\$ 22,112,000
Used cores expected to be returned by customers	4,451,000	3,467,000
Remanufactured cores held in finished goods	32,971,000	13,994,000
Remanufactured cores held at customers' locations	105,788,000	41,829,000
	193,872,000	81,402,000
Less allowance for excess and obsolete inventory	(6,397,000 )	(844,000 )
Total	\$ 187,475,000	\$ 80,558,000
Long-term core inventory deposit	\$ 26,658,000	\$ 25,984,000

Table of Contents

## 6. Major Customers

The Company's largest customers accounted for the following total percentage of net sales and accounts receivable — trade:

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2011		2010		2011		2010	
Sales								
Customer A	48	%	52	%	45	%	49	%
Customer B	11	%	18	%	9	%	18	%
Customer C	4	%	7	%	4	%	8	%
Customer D	12	%	4	%	13	%	4	%
	December 31, 2011		March 31, 2011					
Accounts Receivable Trade								
Customer A	31	%	26	%				
Customer B	6	%	13	%				
Customer C	8	%	17	%				
Customer D	19	%	2	%				

The Company's largest suppliers accounted for the following total percentage of raw materials purchases:

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2011		2010		2011		2010	
Significant supplier purchases								
Supplier A	1	%	9	%	2	%	15	%
Supplier B	7	%	-		11	%	-	

## 7. Debt

The Company has two outstanding credit agreements as described below.

## Parent Company Credit Agreement

The Company's revolving credit and term loan agreement, as amended, (the "Old Parent Company Credit Agreement"), with Union Bank, N.A. and Branch Banking & Trust Company, allowed the Company to borrow up to a total of \$60,000,000 (the "Old Parent Company Credit Facility"). The Old Parent Company Credit Facility was comprised of (i) a revolving facility with a \$7,000,000 letter of credit sub-facility and (ii) a term loan. The Company was able to borrow on a revolving basis up to an amount equal to \$50,000,000 minus all outstanding letter of credit obligations (the "Old Parent Company Revolving Loan"). The term loan was in the principal amount of \$10,000,000 (the "Old Parent Company Term Loan").

The Old Parent Company Term Loan was scheduled to mature in October 2014 and required principal payments of \$500,000 on a quarterly basis. The Old Parent Company Revolving Loan was scheduled to expire in October 2012 and provided the Company the option to request up to two one-year extensions.

The balance outstanding under the Old Parent Company Revolving Loan was \$40,500,000 at December 31, 2011. There was no outstanding balance on the Old Parent Company Revolving Loan at March 31, 2011. The Company had reserved \$1,126,000 of the Old Parent Company Revolving Loan for standby letters of credit for workers' compensation insurance and \$4,406,000 for commercial letters of credit as of December 31, 2011. As of December 31, 2011, \$3,968,000 was available under the Old Parent Company Revolving Loan.

Table of Contents

In January 2012, the Company replaced the Old Parent Company Credit Agreement by entering into a new parent company financing agreement (the “New Parent Company Financing Agreement”) with a syndicate of lenders, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent (the “New Parent Company Loans”). The New Parent Company Loans consist of: (i) term loans aggregating \$75,000,000 (the “New Parent Company Term Loans”) and (ii) revolving loans of up to \$20,000,000, subject to borrowing base restrictions and a \$10,000,000 sublimit for letters of credit (the “New Parent Company Revolving Loans,”). The lenders hold a security interest in substantially all of the assets of the Company’s rotating electrical segment. As permitted by the New Parent Company Financing Agreement, the Company subsequently raised \$15,000,000 of capital. The New Parent Company Financing Agreement permits the Company to invest up to \$20,000,000 in Fenco.

A portion of the proceeds from the New Parent Company Term Loans was used to repay all amounts outstanding under the Old Parent Company Credit Facility and the Old Parent Company Credit Agreement was terminated.

Fenco Credit Agreement

In connection with the acquisition of Fenco, the Company’s now wholly-owned subsidiaries, FAPL and Introcan, as borrowers (the “Fenco Borrowers”), entered into an amended and restated credit agreement, dated May 6, 2011 (the “Fenco Credit Agreement”) with Manufacturers and Traders Trust Company as lead arranger, M&T Bank as lender and administrative agent and the other lenders from time to time party thereto (the “Fenco Lenders”). Pursuant to the Fenco Credit Agreement, the Fenco Lenders have made available to the Fenco Borrowers a revolving credit facility in the maximum principal amount of \$50,000,000 (the “Fenco Revolving Facility”) and a term loan in the principal amount of \$10,000,000 (the “Fenco Term Loan”). The availability of the Fenco Revolving Facility is subject to a borrowing base calculation consisting of eligible accounts receivable and eligible inventory. At December 31, 2011, approximately \$1,128,000 was available under the Fenco Revolving Facility.

As of December 31, 2011, \$47,713,000 of the Fenco Revolving Facility was outstanding, \$712,000 was reserved for standby commercial letters of credit and \$372,000 was reserved for certain expenses. In addition, \$1,000,000 of this Fenco Revolving Facility was reserved for Canadian operations use. The Fenco Lenders hold a security interest in substantially all of the assets of the under-the-car product line segment.

The Fenco Revolving Facility and the Fenco Term Loan mature on October 6, 2012, but may be accelerated upon the occurrence of an insolvency event or event of default under the Fenco Credit Agreement. On May 11, 2012, the maturity date of the Fenco Revolving Facility and the Fenco Term Loan was extended to May 13, 2013.

The Fenco Borrowers may receive advances under the Fenco Revolving Facility by any one or more of the following options: (i) swingline advances in Canadian or US dollars; (ii) Canadian dollar prime-based loans; (iii) US dollar base rate loans; (iv) LIBOR loans; or (v) letters of credits.

The Fenco Term Loan bears interest at the LIBO rate plus an applicable margin. Outstanding advances under the Revolving Facility bear interest as follows:

- (i) in respect of swingline advances in Canadian dollars and Canadian dollar prime-based loans, at the reference rate announced by the Royal Bank of Canada plus an applicable margin;
- (ii) in respect of swingline advances in US dollars and US dollar base rate loans, at a base rate (which shall be equal to the highest of (x) M&T Bank’s prime rate, (y) the Federal Funds Rate plus ½ of 1%, or (z) the one month LIBO rate) plus an applicable margin;
- (iii) in respect of LIBOR loans, at the LIBO rate plus an applicable margin.

The Company has classified the Fenco Revolving Facility as long-term as of December 31, 2011 as the Company has the ability and intent to hold the balance outstanding for an uninterrupted period extending beyond one year from the balance sheet date. The Fenco Credit Agreement, among other things, requires the Fenco Borrowers to maintain certain financial covenants. As of December 31, 2011, the Fenco Borrowers were not in compliance with the minimum EBITDA covenant and the requirement to submit the most recent interim financial statements within time frames specified by the Fenco Credit Agreement. On May 11, 2012, the Fenco Borrowers obtained a waiver for non-compliance with these covenants.

Table of Contents

## 8. Accounts Receivable Discount Programs

The Company has established receivable discount programs with certain customers and their respective banks. Under these programs, the Company may sell those customers' receivables to those banks at a discount to be agreed upon at the time the receivables are sold. These discount arrangements allow the Company to accelerate collection of customers' receivables.

The following is a summary of the Company's accounts receivable discount programs:

	Nine Months Ended December 31,			
	2011		2010	
Receivables discounted	\$ 197,019,000		\$ 100,857,000	
Weighted average days	314		328	
Annualized weighted average discount rate	2.9	%	4.1	%
Amount of discount as interest expense	\$ 4,984,000		\$ 3,755,000	

## 9. Net (Loss) Income Per Share

Basic net (loss) income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share includes the effect, if any, from the potential exercise or conversion of securities, such as stock options and warrants, which would result in the issuance of incremental shares of common stock.

The following presents a reconciliation of basic and diluted net (loss) income per share:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Net (loss) income	\$(23,049,000)	\$3,761,000	\$(34,947,000)	\$9,782,000
Basic shares	12,517,269	12,042,792	12,417,292	12,038,296
Effect of dilutive stock options and warrants	-	356,419	-	216,214
Diluted shares	12,517,269	12,399,211	12,417,292	12,254,510
Net (loss) income per share:				
Basic	\$(1.84	) \$0.31	\$(2.81	) \$0.81
Diluted	\$(1.84	) \$0.30	\$(2.81	) \$0.80

The effect of dilutive options and warrants excludes 1,442,284 shares subject to options and 546,283 shares subject to warrants with exercise prices ranging from \$1.80 to \$15.06 per share for the three and nine months ended December 31, 2011— all of which were anti-dilutive. The effect of dilutive options and warrants excludes 449,001 shares subject to options and 546,283 shares subject to warrants with exercise prices ranging from \$11.50 to \$15.00 per share for the three months ended December 31, 2010 and 1,063,984 shares subject to options and 546,283 shares subject to warrants with exercise prices ranging from \$8.70 to \$15.00 per share for the nine months ended December 31, 2010 — all of which were anti-dilutive.

Table of Contents

## 10. Comprehensive (Loss) Income

Comprehensive (loss) income is defined as the change in equity during a period resulting from transactions and other events and circumstances from non-owner sources. The Company's total comprehensive (loss) income consists of net (loss) income, unrealized (loss) gain on short-term investments and foreign currency translation adjustments.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Net (loss) income	\$(23,049,000)	\$3,761,000	\$(34,947,000)	\$9,782,000
Unrealized gain (loss) on short-term investments	9,000	9,000	(17,000 )	(5,000 )
Foreign currency translation	(389,000 )	237,000	(835,000 )	696,000
Comprehensive net (loss) income	\$(23,429,000)	\$4,007,000	\$(35,799,000)	\$10,473,000

## 11. Income Taxes

The Company recorded income tax expense for the nine months ended December 31, 2011. This is primarily due to not recognizing income tax benefits related to the net losses of the Fenco operations for the nine months ended December 31, 2011 due to the recoverability of these tax benefits not being deemed by the Company to be more likely than not to be realized. For the nine months ended December 31, 2011, the Company recorded \$275,000 of income tax expense specifically related to the Fenco subsidiaries located in Mexico, a separate tax jurisdiction.

The income tax expenses, excluding the net losses of the Fenco operations, reflect income tax rates of 39.3%, which are higher than the federal statutory rates primarily due to state income taxes, which were partially offset by the benefit of lower statutory tax rates in other foreign taxing jurisdictions. In addition, the Company's income tax rates for the nine months ended December 31, 2011 were impacted by an additional 1.0% in the period due to certain non-deductible transaction costs incurred in connection with the Company's acquisition of Fenco.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions with varying statutes of limitations.

## 12. Financial Risk Management and Derivatives

Purchases and expenses denominated in currencies other than the U.S. dollar, which are primarily related to the Company's production facilities overseas, expose the Company to market risk from material movements in foreign exchange rates between the U.S. dollar and the foreign currency. The Company's primary risk exposure is from changes in the rate between the U.S. dollar and the Mexican peso related to the operation of one of the Company's facilities in Mexico. The Company enters into forward foreign currency exchange contracts to exchange U.S. dollars for Mexican pesos in order to mitigate this risk. In addition, during the year ended March 31, 2011, the Company began entering into forward foreign currency exchange contracts to exchange U.S. dollars for Chinese yuan to mitigate the risk of exposure from material movements in exchange rates on certain purchases made from Chinese vendors. The extent to which forward foreign currency exchange contracts are used is modified periodically in response to management's estimate of market conditions and the terms and length of specific purchase requirements to fund those overseas facilities and purchases.

The Company enters into forward foreign currency exchange contracts in order to reduce the impact of foreign currency fluctuations and not to engage in currency speculation. The use of derivative financial instruments allows the Company to reduce its exposure to the risk that the eventual cash outflow resulting from funding the expenses of the



foreign operations and purchases will be materially affected by changes in exchange rates. The Company does not hold or issue financial instruments for trading purposes. The forward foreign currency exchange contracts are designated for forecasted expenditure requirements to fund foreign operations and purchases.

Table of Contents

The Company had forward foreign currency exchange contracts with a U.S. dollar equivalent notional value of \$13,746,000 and \$9,356,000 at December 31, 2011 and March 31, 2011, respectively. The forward foreign currency exchange contracts entered into require the Company to exchange U.S. dollars for foreign currencies. These contracts generally expire in a year or less, at rates agreed at the inception of the contracts. The counterparty to this derivative transaction is a major financial institution with investment grade or better credit rating; however, the Company is exposed to credit risk with this institution. The credit risk is limited to the potential unrealized gains (which offset currency fluctuations adverse to the Company) in any such contract should this counterparty fail to perform as contracted. Any changes in the fair values of forward foreign currency exchange contracts are reflected in current period earnings and accounted for as an increase or offset to general and administrative expenses.

The following table shows the effect of the Company's derivative instruments on its consolidated statements of operations:

Derivatives Not Designated as Hedging Instruments	Loss (Gain) Recognized within General and Administrative Expenses			
	Three Months Ended		Nine Months Ended	
	December 31, 2011		December 31, 2010	
Forward foreign currency exchange contracts	\$ (488,000 )	\$ (31,000 )	\$ 1,399,000	\$ 301,000

The fair value of the forward foreign currency exchange contracts of \$1,044,000 is included in other current liabilities in the consolidated balance sheet at December 31, 2011. The fair value of the forward foreign currency exchange contracts of \$355,000 is included in prepaid expenses and other current assets in the consolidated balance sheet at March 31, 2011.

## 13. Fair Value Measurements

The following table summarizes the Company's financial assets and liabilities measured at fair value, by level within the fair value hierarchy as of December 31, 2011 and March 31, 2011:

	December 31, 2011 Fair Value Measurements Using Inputs Considered as				Fair Value	March 31, 2011 Fair Value Measurements Using Inputs Considered as		
	Fair Value	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Short-term investments								
Mutual funds	\$ 305,000	\$ 305,000	-	-	\$ 304,000	\$ 304,000	-	-
Prepaid expenses and other current assets								
Forward foreign currency exchange contracts	-	-	-	-	355,000	-	\$ 355,000	-
Liabilities								
Other current liabilities								

Deferred compensation	305,000	305,000	-	-	304,000	304,000	-	-
Forward foreign currency exchange contracts	1,044,000	-	\$1,044,000	-	-	-	-	-

The Company's short-term investments, which fund its deferred compensation liabilities, consist of investments in mutual funds. These investments are classified as Level 1 as the shares of these mutual funds trade with sufficient frequency and volume to enable the Company to obtain pricing information on an ongoing basis.

The forward foreign currency exchange contracts are primarily measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. During the three months ended December 31, 2011 and 2010, a gain of \$488,000 and \$31,000, respectively, was recorded in general and administrative expenses due to the change in the value of the forward foreign currency exchange contracts subsequent to entering into the contracts. During the nine months ended December 31, 2011 and 2010, a loss of \$1,399,000 and \$301,000, respectively, was recorded in general and administrative expenses due to the change in the value of the forward foreign currency exchange contracts subsequent to entering into the contracts.

## Table of Contents

During the three and nine months ended December 31, 2011, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

The fair value of assets acquired and liabilities assumed in connection with the acquisition of Fenco on May 6, 2011 were determined using Level 3 inputs. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The valuation techniques that were used by the Company to determine the fair value of the assets acquired and liabilities assumed are the market approach, the income approach and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value based on current market expectations about those future amounts, including present value techniques, option-pricing models and the excess earnings method. The cost approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost). The Company used significant assumptions in the valuation techniques used including the discount rate and forecasted profitability of the Company.

The carrying amounts of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these instruments. The carrying amounts of the revolving loans, term loans and other long-term liabilities approximate their fair value based on current rates for instruments with similar characteristics.

### 14. Impairment of Fixed Assets

In December 2011, the Company decided to discontinue the constant velocity (“CV”) axle product line and shut-down the related facility located in Bedford, New Hampshire. As a result the Company recorded an impairment loss of approximately \$1,031,000 for the three and nine months ended December 31, 2011, which represents the write-off of the carrying amount of fixed assets. The CV business did not qualify for discontinued operations presentation under US GAAP as of December 31, 2011.

### 15. Segment Information

On May 6, 2011, the Company acquired Fenco. As a result of this acquisition, the Company reassessed and revised its segment reporting to reflect two reportable segments, the rotating electrical segment and the under-the-car product line segment, based on the way the Company manages, evaluates and internally reports its business activities. Prior to this acquisition, the Company operated only in the rotating electrical segment.

The rotating electrical segment is comprised of the Company’s alternator and starter business. This segment remanufactures, produces, and distributes alternators and starters for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. These replacement parts are sold for use on vehicles after initial vehicle purchase.

The under-the-car product line segment manufactures, remanufactures and distributes new and remanufactured aftermarket auto parts, including steering components, brake calipers, master cylinders, hub assembly and bearings, clutches and clutch hydraulics for the full range of passenger and truck vehicles.

The Company’s products are sold to automotive retail chain stores, warehouse distributors, and to major automobile manufacturers throughout North America.

The accounting policies for each of the Company’s segments are the same as those described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements that are presented in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

The results of operations of Fenco have been included from the date of acquisition on May 6, 2011. Financial information relating to the Company's reportable segments is as follows:

18

---

Table of Contents

Selected income statement data	Three months ended December 31, 2011			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net sales to external customers	\$41,895,000	\$ 42,202,000	\$ -	\$ 84,097,000
Intersegment revenue, net of cost	241,000	-	(241,000 )	-
Gross profit (loss)	12,636,000	(14,994,000 )	-	(2,358,000 )
Operating income (loss)	5,630,000	(23,430,000 )	-	(17,800,000)
Net income (loss)	3,028,000	(26,077,000 )	-	(23,049,000)

Selected income statement data	Three months ended December 31, 2010			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net sales to external customers	\$41,288,000	\$ -	\$ -	\$ 41,288,000
Gross profit	13,173,000	-	-	13,173,000
Operating income	6,600,000	-	-	6,600,000
Net income	3,761,000	-	-	3,761,000

Selected income statement data	Nine months ended December 31, 2011			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net sales to external customers	\$ 126,648,000	\$ 135,575,000	\$ -	\$ 262,223,000
Intersegment revenue, net of cost	1,853,000	-	(1,853,000 )	-
Gross profit	40,483,000	(18,241,000 )	-	22,242,000
Operating income (loss)	15,902,000	(36,659,000 )	-	(20,757,000 )
Net income (loss)	8,280,000	(43,227,000 )	-	(34,947,000 )

Selected income statement data	Nine months ended December 31, 2010			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net sales to external customers	\$ 118,499,000	\$ -	\$ -	\$ 118,499,000
Gross profit	37,400,000	-	-	37,400,000
Operating income	19,529,000	-	-	19,529,000
Net income	9,782,000	-	-	9,782,000

Selected balance sheet data	December 31, 2011			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Current assets	\$90,842,000	\$ 112,612,000	\$(28,210,000)	\$ 175,244,000
Non-current assets	166,525,000	181,116,000	(31,595,000)	316,046,000
Total assets	\$257,367,000	\$ 293,728,000	\$(59,805,000)	\$491,290,000
Current liabilities	\$112,805,000	\$ 144,255,000	\$(28,210,000)	\$228,850,000
Non-current liabilities	14,400,000	187,754,000	(26,649,000)	175,505,000
Total liabilities	127,205,000	332,009,000	(54,859,000)	404,355,000
Equity (deficit)	130,162,000	(38,281,000 )	(4,946,000 )	86,935,000

Total liabilities and equity	\$257,367,000	\$ 293,728,000	\$(59,805,000)	\$491,290,000
------------------------------	---------------	----------------	----------------	---------------

Table of Contents

Selected balance sheet data	March 31, 2011			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Current assets	\$60,137,000	\$ -	\$ -	\$60,137,000
Non-current assets	131,728,000	-	-	131,728,000
Total assets	\$191,865,000	\$ -	\$ -	\$191,865,000
Current liabilities	\$58,742,000	\$ -	\$ -	\$58,742,000
Non-current liabilities	15,946,000	-	-	15,946,000
Total liabilities	74,688,000	-	-	74,688,000
Equity	117,177,000	-	-	117,177,000
Total liabilities and equity	\$191,865,000	\$ -	\$ -	\$191,865,000

Selected cash flow data	Nine months ended December 31, 2011			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$7,124,000	\$ (52,472,000 )	\$ -	\$(45,348,000)
Net cash used in investing activities	(775,000 )	(322,000 )	-	(1,097,000 )
Net cash provided by financing activities	39,209,000	8,000,000	-	47,209,000
Effect of exchange rate changes on cash	(108,000 )	-	-	(108,000 )
Cash — Beginning of period	2,477,000	-	-	2,477,000
Cash — End of period	2,856,000	277,000	-	3,133,000
Additional selected financial data				
Depreciation and amortization	\$2,634,000	\$ 4,091,000	\$ -	\$6,725,000
Capital expenditures	746,000	322,000	-	1,068,000

Selected cash flow data	Nine months ended December 31, 2010			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net cash provided by operating activities	\$7,634,000	\$ -	\$ -	\$ 7,634,000
Net cash used in investing activities	(6,268,000)	-	-	(6,268,000 )
Net cash used in financing activities	(1,978,000)	-	-	(1,978,000 )
Effect of exchange rate changes on cash	24,000	-	-	24,000
Cash — Beginning of period	1,210,000	-	-	1,210,000
Cash — End of period	622,000	-	-	622,000
Additional selected financial data				
Depreciation and amortization	\$2,911,000	\$ -	\$ -	\$ 2,911,000
Capital expenditures	1,119,000	-	-	1,119,000

## 16. Impact on Previously Issued Financial Statements of Changes in Provisional Estimates of Fair Value

On May 6, 2011, the Company acquired Fenco. The Company made preliminary estimates of fair value based on its best estimates using information that it obtained as of the reporting date. Based on new information available about facts and circumstances that existed as of the acquisition date, the Company adjusted the recognition of certain assets and liabilities to the provisional amounts previously recorded in the first two quarters ended September 30, 2011. During the third quarter ended December 31, 2011, the Company has further adjusted the recognition of certain assets and liabilities as of that date. These adjustments to the provisional amounts previously recorded were made



retrospectively to the acquisition date and adjustments were primarily related to long-term core inventory, inventory unreturned, accounts receivable reserves, and the customer core returns accrual.

Table of Contents

The consolidated balance sheet as of June 30, 2011 as previously restated, was further impacted during the third quarter ended December 31, 2011 by the retrospective impact of the adjustments presented in the table below:

	June 30, 2011 (Unaudited)		
	As Previously	Change in	As Restated
	Reported	Opening	
		Valuation	
		Estimates	
		(1)	
<b>ASSETS</b>			
Current assets:			
Cash	\$ 1,275,000	\$-	\$ 1,275,000
Short-term investments	311,000	-	311,000
Accounts receivable — net	28,917,000	(1,059,000)	27,858,000
Inventory— net	106,897,000	-	106,897,000
Inventory unreturned	12,257,000	1,189,000	13,446,000
Deferred income taxes	5,715,000	-	5,715,000
Prepaid expenses and other current assets	5,353,000	-	5,353,000
Total current assets	160,725,000	130,000	160,855,000
Plant and equipment — net	17,159,000	-	17,159,000
Long-term core inventory — net	177,339,000	(1,494,000)	175,845,000
Long-term core inventory deposit	26,248,000	-	26,248,000
Long-term deferred income taxes	1,368,000	-	1,368,000
Goodwill	37,337,000	2,926,000	40,263,000
Intangible assets — net	46,084,000	-	46,084,000
Other assets	1,839,000	-	1,839,000
<b>TOTAL ASSETS</b>	<b>\$468,099,000</b>	<b>\$ 1,562,000</b>	<b>\$469,661,000</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$98,723,000	\$-	\$98,723,000
Accrued liabilities	34,760,000	(97,000 )	34,663,000
Customer finished goods returns accrual	25,193,000	1,659,000	26,852,000
Revolving loan	18,500,000	-	18,500,000
Other current liabilities	914,000	-	914,000
Current portion of term loan	2,000,000	-	2,000,000
Current portion of capital lease obligations	749,000	-	749,000
Total current liabilities	180,839,000	1,562,000	182,401,000
Term loan, less current portion	15,000,000	-	15,000,000
Revolving loan	47,630,000	-	47,630,000
Deferred core revenue	8,930,000	-	8,930,000
Customer core returns accrual (see Note 2)	97,479,000	-	97,479,000
Other liabilities	1,692,000	-	1,692,000
Capital lease obligations, less current portion	372,000	-	372,000
Total liabilities	351,942,000	1,562,000	353,504,000
Commitments and contingencies			
Shareholders' equity:			
Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued	-	-	-
	-	-	-

Series A junior participating preferred stock; par value \$.01 per share, 20,000 shares authorized; none issued			
Common stock; par value \$.01 per share, 20,000,000 shares authorized; 12,441,971 and 12,078,271 shares issued; 12,499,421 and 12,427,571 outstanding at June 30, 2011 and March 31, 2011, respectively	124,000	-	124,000
Treasury stock, at cost, 14,400 shares of common stock at June 30, 2011 and March 31, 2011, respectively	(89,000 )	-	(89,000 )
Additional paid-in capital	98,139,000	-	98,139,000
Additional paid-in capital-warrant	1,879,000	-	1,879,000
Accumulated other comprehensive loss	(64,000 )	-	(64,000 )
Retained earnings	16,168,000	-	16,168,000
Total shareholders' equity	116,157,000	-	116,157,000
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$468,099,000</b>	<b>\$1,562,000</b>	<b>\$469,661,000</b>

1) Represents the impact of the change in the opening valuation estimates on the previously restated consolidated balance sheet at June 30, 2011.

Table of Contents

The consolidated balance sheet as of September 30, 2011 as previously reported, was impacted during the third quarter ended December 31, 2011 by the retrospective impact of the adjustments presented in the table below:

	September 30, 2011 (Unaudited)		
	As Previously Reported	Change in Opening Valuation Estimates (1)	As Restated
<b>ASSETS</b>			
Current assets:			
Cash	\$ 1,197,000	\$-	\$ 1,197,000
Short-term investments	281,000	-	281,000
Accounts receivable — net	35,411,000	(1,059,000)	34,352,000
Inventory— net	116,241,000	-	116,241,000
Inventory unreturned	13,489,000	1,189,000	14,678,000
Deferred income taxes	5,722,000	-	5,722,000
Prepaid expenses and other current assets	4,756,000	-	4,756,000
Total current assets	177,097,000	130,000	177,227,000
Plant and equipment — net	15,198,000	-	15,198,000
Long-term core inventory — net	188,151,000	(1,494,000)	186,657,000
Long-term core inventory deposit	26,473,000	-	26,473,000
Long-term deferred income taxes	1,563,000	-	1,563,000
Goodwill	37,337,000	2,926,000	40,263,000
Intangible assets — net	45,097,000	-	45,097,000
Other assets	1,887,000	-	1,887,000
<b>TOTAL ASSETS</b>	<b>\$492,803,000</b>	<b>\$ 1,562,000</b>	<b>\$494,365,000</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 115,271,000	\$-	\$ 115,271,000
Accrued liabilities	18,931,000	(97,000 )	18,834,000
Customer finished goods returns accrual	25,302,000	1,659,000	26,961,000
Revolving loan	37,500,000	-	37,500,000
Other current liabilities	2,494,000	-	2,494,000
Current portion of term loan	2,000,000	-	2,000,000
Current portion of capital lease obligations	644,000	-	644,000
Total current liabilities	202,142,000	1,562,000	203,704,000
Term loan, less current portion	14,500,000	-	14,500,000
Revolving loan	47,748,000	-	47,748,000
Deferred core revenue	9,160,000	-	9,160,000
Customer core returns accrual (see Note 2)	107,399,000	-	107,399,000
Other liabilities	1,296,000	-	1,296,000
Capital lease obligations, less current portion	307,000	-	307,000
Total liabilities	382,552,000	1,562,000	384,114,000
Commitments and contingencies			
Shareholders' equity:			
Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued	-	-	-
	-	-	-

Series A junior participating preferred stock; par value \$.01 per share, 20,000 shares authorized; none issued			
Common stock; par value \$.01 per share, 20,000,000 shares authorized; 12,513,821 and 12,078,271 shares issued; 12,499,421 and 12,063,871 outstanding at September 30, 2011 and March 31, 2011, respectively	125,000	-	125,000
Treasury stock, at cost, 14,400 shares of common stock at June 30, 2011 and March 31, 2011, respectively	(89,000 )	-	(89,000 )
Additional paid-in capital	98,580,000	-	98,580,000
Additional paid-in capital-warrant	1,879,000	-	1,879,000
Accumulated other comprehensive loss	(821,000 )	-	(821,000 )
Retained earnings	10,577,000	-	10,577,000
Total shareholders' equity	110,251,000	-	110,251,000
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$492,803,000</b>	<b>\$1,562,000</b>	<b>\$494,365,000</b>

1) Represents the impact of the change in the opening valuation estimates on the previously reported consolidated balance sheet at September 30, 2011.

## Table of Contents

### 17. Subsequent Events

#### New Parent Company Financing Agreement

In January 2012, the Company replaced the Old Parent Company Credit Agreement by entering into a new parent company financing agreement with a syndicate of lenders, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent (the “New Parent Company Loans”). The New Parent Company Loans consists of: (i) term loans aggregating \$75,000,000 (the “New Parent Company Term Loans”) and (ii) revolving loans of up to \$20,000,000, subject to borrowing base restrictions and a \$10,000,000 sublimit for letters of credit (the “New Parent Company Revolving Loans,”). The lenders hold a security interest in substantially all of the assets of the Company’s rotating electrical segment. As permitted by the New Parent Company Financing Agreement, the Company subsequently raised \$15,000,000 of capital. The New Parent Company Financing Agreement permits the Company to invest up to \$20,000,000 in Fenco.

The New Parent Company Term Loans require quarterly principal payments of \$250,000 beginning on October 1, 2012 through July 1, 2013, and quarterly principal payments of \$1,000,000 beginning on October 1, 2013. The New Parent Company Loans mature on January 17, 2017.

The New Parent Company Loans bear interest, at the reference rate, plus an applicable margin, or at the Eurodollar rate, plus an applicable per annum margin, as selected by the Company. The applicable per annum margins for the New Revolving Loans are 2.5% for reference rate loans and 3.0% for Eurodollar rate loans. The applicable per annum margins for the New Term Loans are 7.0% for reference rate loans and 8.0% for Eurodollar rate loans. Additionally, the Company is subject to a 0.5% per annum fee on the unused portions of the New Revolving Loans.

The New Parent Company Loans, among other things, require the Company to maintain certain financial covenants including a maximum senior leverage ratio, a minimum fixed charge coverage ratio, and a minimum consolidated earnings before interest, income tax, depreciation and amortization expenses (“EBITDA”).

A portion of the proceeds from the New Parent Company Term Loans was used to repay all amounts outstanding under the Old Parent Company Credit Facility, and the Old Parent Company Credit Agreement was terminated.

#### Equity Transaction

In April 2012, the Company entered into a Subscription Agreement (“Subscription Agreement”) and a Registration Rights Agreement (“Registration Rights Agreement”) to raise approximately \$15,000,000 in gross proceeds through a private placement of its common stock. Pursuant to the terms of the Subscription Agreement, certain accredited investors purchased an aggregate of 1,936,000 shares of common stock in a private placement exempt from registration under the Securities Act in reliance upon Rule 506 of Regulation D, for a purchase price of \$7.75 per share (“Private Placement”). The Company plans to use the proceeds to enhance the integration of its Fenco acquisition and for general corporate purposes.

### 18. New Accounting Pronouncements

#### Fair Value Measurements and Disclosures

In January 2010, the FASB issued an update which requires new disclosures for transfers in and out of Level 1 and Level 2 of the fair value hierarchy and expanded disclosures for activity in Level 3 of the fair value hierarchy. The update also clarifies existing disclosures regarding the level of disaggregation for disclosure and disclosures about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim

and annual reporting periods beginning after December 15, 2009. The adoption of this update on January 1, 2010 did not have any impact on the Company's consolidated financial position and results of operations. The disclosures regarding certain Level 3 activity are effective for fiscal years beginning after December 15, 2010. The adoption of this guidance on April 1, 2011 did not have any impact on the Company's consolidated financial position and results of operations.

## Table of Contents

### When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts

In December 2010, the FASB issued guidance which modifies step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units with a carrying amount equal to or less than zero for which qualitative factors indicate that it is more likely than not that a goodwill impairment exists, step 2 of the goodwill impairment test will need to be performed. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption of this update is prohibited. The adoption of this guidance on April 1, 2011 did not have any impact on the Company's consolidated financial position and the results of operations.

### Disclosure of Supplementary Pro Forma Information for Business Combinations

In December 2010, the FASB issued guidance which specifies that if comparative financial statements are presented, disclosure of revenue and earnings of a combined entity should be made as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance is effective for business combinations consummated in fiscal years beginning on or after December 15, 2010. The adoption of this guidance on April 1, 2011 did not have any impact on the Company's consolidated financial position and the results of operations.

### Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued an update which clarifies some existing concepts, eliminates wording differences between U.S. GAAP and International Financial Reporting Standards ("IFRS"), and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. The update results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS, and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The amendments in this update are effective for interim and annual reporting periods beginning after December 15, 2011. Early application of this update by public entities is prohibited. The Company does not expect the adoption of this guidance on January 1, 2012 to have any impact on its consolidated financial position and the results of operations.

### Comprehensive Income

In June 2011, the FASB issued guidance which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This guidance eliminates the option to present components of other comprehensive income as a part of the statement of equity. This guidance should be applied, retrospectively, for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Other than the change in presentation, the Company has determined the changes from the adoption of this guidance on April 1, 2012 will not have an impact on its consolidated financial position and the results of operations.

### Testing Goodwill for Impairment

In September 2011, the FASB issued an amendment which gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill



impairment test is unnecessary. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the first step of the two-step goodwill impairment test. If the carrying value of the reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of this guidance on April 1, 2012 is not expected to have any impact on the Company's consolidated financial position and the results of operations.

## Table of Contents

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis presents factors that Motorcar Parts of America, Inc. and its subsidiaries ("our", "we", or "us") believe are relevant to an assessment and understanding of our consolidated financial position and results of operations. This financial and business analysis should be read in conjunction with our March 31, 2011 audited consolidated financial statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on June 13, 2011.

#### Disclosure Regarding Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements with respect to our future performance that involve risks and uncertainties. Various factors could cause actual results to differ materially from those projected in such statements. These factors include, but are not limited to: concentration of sales to certain customers, changes in our relationship with any of our major customers, the increasing customer pressure for lower prices and more favorable payment and other terms, the increasing demands on our working capital, the significant strain on working capital associated with large Remanufactured Core inventory purchases from customers, our ability to obtain any additional financing we may seek or require, our ability to maintain positive cash flows from operations, potential future changes in our previously reported results as a result of the identification and correction of errors in our accounting policies or procedures or potential material weaknesses in our internal controls over financial reporting, lower revenues than anticipated from new and existing contracts, our failure to meet the financial covenants or the other obligations set forth in our credit agreements and our lenders' refusal to waive any such defaults, any meaningful difference between projected production needs and ultimate sales to our customers, increases in interest rates, changes in the financial condition of any of our major customers, the impact of high gasoline prices, the potential for changes in consumer spending, consumer preferences and general economic conditions, increased competition in the automotive parts industry, including increased competition from Chinese and other offshore manufacturers, difficulty in obtaining Used Cores and component parts or increases in the costs of those parts, political, criminal or economic instability in any of the foreign countries where we conduct operations, currency exchange fluctuations, unforeseen increases in operating costs, our ability to integrate our Fenco operations, and other factors discussed herein and in our other filings with the SEC.

#### Management Overview

The after-market for automobile parts is divided into two markets. The first market is the do-it-yourself ("DIY") market, which is generally serviced by the large retail chain outlets. Consumers who purchase parts from the DIY channel generally install parts into their vehicles themselves. In most cases, this is a cheaper alternative than having the repair performed by a professional installer. The second market is the professional installer market, commonly known as the do-it-for-me ("DIFM") market. This market is serviced by the traditional warehouse distributors, the dealer networks, and the commercial divisions of retail chains. Generally, the consumer in this channel is a professional parts installer.

We historically have remanufactured alternators and starters for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. As a result of our acquisition on May 6, 2011, we now also manufacture, remanufacture and distribute new and remanufactured steering components, brake calipers, master cylinders, hub assembly and bearings, clutches and clutch hydraulics, and control arms for the full range of passenger and truck vehicles. The remanufactured products are sold under the Fenco™ brand name and new products are sold under the Dynapak® brand name.

Our products are distributed to both the DIY and DIFM markets and are distributed predominantly throughout North America. We sell our products to the largest auto parts retail and traditional warehouse chains and to major automobile manufacturers for both their after-market programs and their warranty replacement programs ("OES").

Demand and replacement rates for after-market remanufactured automobile parts generally increase with the age of vehicles and increases in miles driven.

Historically, the largest share of our business was in the DIY market. While that is still the case, our DIFM business is now a significant part of our business. In times of recession, we believe consumers are more likely to purchase replacement parts in the DIY market because of lower prices compared to the DIFM market. We believe the key driver for replacement parts sales is vehicle age.

## Table of Contents

The DIFM market is an attractive opportunity for growth. We are positioned to benefit from this market opportunity in two ways: (1) our auto parts retail customers are expanding their efforts to target the DIFM market and (2) we sell our products under private label and our Quality-Built®, Talon®, Xtreme®, Reliance™ and other brand names directly to suppliers that focus on professional installers. In addition, we sell our products to original equipment manufacturers for distribution to the professional installer both for warranty replacement and their general after-market channels. We have been successful in growing sales to this market.

In May 2011, pursuant to a purchase agreement with FAPL Holdings Inc. (“Holdings”), the parent company of Fenwick Automotive Products Limited (“FAPL”), a privately-owned Toronto-based manufacturer, remanufacturer and distributor of new and remanufactured aftermarket auto parts, and certain other individuals, we acquired all of the outstanding equity of Holdings subsidiaries. This transaction provides us opportunities to expand beyond our existing product lines of alternators and starters and further enhances our market presence in North America.

As a result of this acquisition, we reassessed and revised our segment reporting to reflect two reportable segments, rotating electrical and under-the-car product line, based on the way we manage, evaluate and internally report our business activities. Prior to this acquisition, we operated in one reportable segment pursuant to the guidance provided under the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

### Under-the-car Product Line Turnaround Plan

Our top turnaround priority is to improve the financial performance of our under-the-car product line business to position it for sustained profitability and growth in the long-term. At the same time we are focused on maintaining strong liquidity and our excellent reputation for customer service. We have been systematically and aggressively implementing our under-the-car product line turnaround plan since acquisition with our initial goal to enhance customer service followed by our plan to streamline the operations, with a goal of achieving profitability and positive cash flow for the under-the-car business. This turnaround plan is built on the following elements: upgrading customer service levels; focusing on product excellence; discontinuing certain product offerings; improving manufacturing and logistics productivity; and implementing cost savings throughout the operating model.

**Customer Service Levels.** We have made certain inventory purchases above our normal cost in order to expedite improving customer service levels. This initiative has resulted in significant improvements in our customers’ order fill rates. As of December 31, 2011, we had increased inventory levels by approximately \$25 million. We expect to decrease these inventory levels as we continue to normalize our supply chain.

**Product Excellence.** We continue to place significant attention on maintaining and improving product excellence in our under-the-car product line business. We have implemented a personnel training program at Fenco’s facilities in Monterrey, Mexico and have also implemented new quality control systems including new end of line testing at all of our production facilities. Throughout our system we have engaged third party labs to test purchased products.

**Review of Product Offerings.** With our Fenco acquisition we have added several new product lines which are vehicle operation critical. We have reviewed and continue to review the market opportunities for our products and potential products. In December 2011, we decided to discontinue the CV axle product line and shut-down the related facility. We have successfully supported our customers through this transition and continue to sell down the remaining CV axle inventory.

**Manufacturing Productivity.** We have implemented a process of continuing improvements at Fenco facilities and expect to see enhancement to productivity as we introduce lean operating disciplines.

We anticipate continuing to refine this turnaround plan as the various elements are implemented. We expect these and related initiatives will be substantially completed in the first quarter of fiscal 2014 and result in positive EBITDA. Our ability to successfully implement this plan and the timing of our implementation of this plan will depend on, among other things, our customer and vendor support and the financial resources that are or will become available for implementation of this plan. In April 2012, we secured capital to enable us to invest up to an additional \$20 million in Fenco.

Table of Contents

## Results of Operations for the Three Months Ended December 31, 2011 and 2010

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere herein. The acquisition of Fenco on May 6, 2011 has had a significant impact on the comparability of results as discussed below.

The following table summarizes certain key operating data by segment for the periods indicated:

Three months ended December 31, 2011	Rotating Electrical	Under-the-Car Product Line	Consolidated
Gross profit percentage	30.0 %	(35.5 ) %	(2.8 ) %
Cash flow used in operations	\$3,048,000	\$ (3,162,000 )	\$ (114,000 )
Finished goods turnover (annualized) (1)	5.6	3.3	3.9
Annualized return on equity (2)	-	-	(78.7 ) %
<b>2010</b>			
Gross profit percentage	31.9 %	- %	31.9 %
Cash flow provided by operations	\$(1,446,000)	\$ -	\$(1,446,000 )
Finished goods turnover (annualized) (1)	6.1	-	6.1
Annualized return on equity (2)	-	-	14.5 %

(1) Annualized finished goods turnover for the fiscal quarter is calculated by multiplying cost of sales for the quarter by 4 and dividing the result by the average between beginning and ending non-core finished goods inventory values for the fiscal quarter. We believe this provides a useful measure of our ability to turn production into revenues.

(2) Annualized return on equity is computed as consolidated net income for the fiscal quarter multiplied by 4 and dividing the result by beginning consolidated shareholders' equity. Annualized return on equity measures our ability to invest shareholders' funds profitably.

Table of Contents

## Net Sales and Gross Profit

The following table summarizes net sales and gross profit by segment for the three months ended December 31, 2011 and 2010:

Three months ended December 31,	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
<b>2011</b>				
Net sales to external customers	\$41,895,000	\$ 42,202,000	\$ -	\$ 84,097,000
Intersegment revenue, net of cost	241,000	-	(241,000 )	-
Cost of goods sold	29,500,000	57,196,000	(241,000 )	86,455,000
Gross profit (loss)	12,636,000	(14,994,000 )	-	(2,358,000 )
Cost of goods sold as a percentage of net sales	70.0 %	135.5 %	-	102.8 %
Gross profit (loss) percentage	30.0 %	(35.5 ) %	-	(2.8 ) %
<b>2010</b>				
Net sales	\$41,288,000	\$ -	\$ -	\$ 41,288,000
Cost of goods sold	28,115,000	-	-	28,115,000
Gross profit	13,173,000	-	-	13,173,000
Cost of goods sold as a percentage of net sales	68.1 %	- %	-	68.1 %
Gross profit percentage	31.9 %	- %	-	31.9 %

Net Sales. Our consolidated net sales for the three months ended December 31, 2011 increased by \$42,809,000, or 103.7%, to \$84,097,000 compared to consolidated net sales for the three months ended December 31, 2010 of \$41,288,000. The increase in consolidated net sales was due primarily to (i) our May 6, 2011 acquisition of Fenco which resulted in additional net sales of \$42,202,000 or 102.2%, and (ii) increase in net sales to customers of \$607,000 or 1.5%, primarily to the existing customers in our rotating electrical product line.

Cost of Goods Sold/Gross Profit. Our consolidated cost of goods sold as a percentage of consolidated net sales increased during the three months ended December 31, 2011 to 102.8% from 68.1% for the three months ended December 31, 2010, resulting in a corresponding decrease in our consolidated gross profit percentage of 34.7% to a negative consolidated gross profit of 2.8% for the three months ended December 31, 2011 from 31.9% for the three months ended December 31, 2010.

- Rotating Electrical product line

The gross profit percentage in our rotating electrical product line decreased to 30.0% from 31.9% during the three months ended December 31, 2010 due primarily to customer purchasing and return patterns and lower recycling income partly offset by lower manufacturing costs during the three months ended December 31, 2011.

- Under-the-car product line

The gross profit percentage in our under-the-car product line was negative 35.5% for the three months ended December 31, 2011 representing a negative gross profit of \$14,994,000. This negative gross profit was primarily the result of low sales prices, higher customer allowances being provided and higher manufacturing costs due in part to the increase in the under-absorption of overhead on lower production levels. As we integrate the Fenco business, we are addressing future pricing and the efficiency of the manufacturing operations and implementing cost savings initiatives for production, warehousing, and distribution.

In addition to the overall negative contribution of our under-the-car product line sales, our gross profit was also significantly impacted by our decision to discontinue the CV axle product line, which we substantially reduced sales and support for in December 2011. We have successfully transitioned our customers to new suppliers and we are in the process of liquidating our remaining inventory. The negative gross profit impact of the discontinued line was \$5,466,000 (of which \$657,000 relates to severance cost), including (i) the negative contribution from the product line in the period up to the closure, of \$279,000, and (ii) the recording of the additional reserve of \$4,530,000 for the core and raw material inventory to reduce the cost to net realizable value.



Table of Contents

In addition, our gross profit in the three months ended December 31, 2011, was further impacted by (i) the negative contribution of \$379,000 related to certain additional product lines we stopped selling and supporting in December 2011, (ii) additional costs of approximately \$358,000 that were incurred in connection with the modification of a product for a new customer program, and (iii) contractual customer penalties of \$292,000.

To improve customer service, plant productivity and product quality levels we also incurred additional expenses that impacted our gross profit percentage as follows:

- In order to improve our quality and productivity levels, we replaced and trained a large number of personnel at Fenco's facilities at Monterrey, Mexico at an approximate cost of \$1,100,000
- To expedite improving customer service levels, we made certain inventory purchases above our normal cost for \$1,013,000 for inventory that was sold during the three months ended December 31, 2011, and we incurred increased inbound freight expenses of \$419,000.

In connection with the May 6, 2011 Fenco acquisition, \$373,000 was charged to cost of goods sold in our under-the-car product line related to the fair value step-up of inventory acquired which was sold during the three months ended December 31, 2011. As of December 31, 2011, there was \$467,000 of inventory fair value step-up value remaining to be expensed as the inventory is sold.

Excluding the impact of the above items related to the under-the-car product line, the gross profit percentage in the three months ended December 31, 2011, would have been approximately negative 14.9% before the impact of the unique current period customer allowances and rebates. We anticipate that the gross profit percentage will be improved after effective and timely implementation of our planned cost savings initiatives for production, warehousing, and distribution.

Table of Contents

## Operating Expenses

The following table summarizes operating expenses by segment for the three months ended December 31, 2011 and 2010:

Three months ended December 31,	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated	
2011					
General and administrative	\$4,495,000	\$ 6,094,000	\$ -	\$ 10,589,000	
Sales and marketing	2,058,000	1,311,000	-	3,369,000	
Research and development	453,000	-	-	453,000	
Impairment of fixed assets	-	1,031,000	-	1,031,000	
Percent of net sales					
General and administrative	10.7	% 14.4	% -	12.6	%
Sales and marketing	4.9	% 3.1	% -	4.0	%
Research and development	1.1	% -	-	0.5	%
Impairment of fixed assets	-	2.4	% -	1.2	%
2010					
General and administrative	\$4,384,000	\$ -	\$ -	\$ 4,384,000	
Sales and marketing	1,798,000	-	-	1,798,000	
Research and development	391,000	-	-	391,000	
Percent of net sales					
General and administrative	10.6	% -	-	10.6	%
Sales and marketing	4.4	% -	-	4.4	%
Research and development	0.9	% -	-	0.9	%

**General and Administrative.** Our consolidated general and administrative expenses for the three months ended December 31, 2011 were \$10,589,000, which represents an increase of \$6,205,000, or 141.5%, from general and administrative expenses for the three months ended December 31, 2010 of \$4,384,000. The increase of \$111,000 in general and administrative expenses for our rotating electrical business during the three months ended December 31, 2011 was primarily due to \$624,000 of professional services and travel incurred in connection with our Fenco operations and was partly offset by a gain of \$488,000 recorded due to the changes in the fair value of forward foreign currency exchange contracts, compared to a gain of \$31,000 during the three months ended December 31, 2010.

General and administrative expenses for the under-the-car product line during the three months ended December 31, 2011 were \$6,094,000, and were primarily attributable to (i) \$2,423,000 of employee-related expenses, (ii) \$1,459,000 of professional services fees and other consulting fees, and (iii) \$748,000 of amortization of intangible assets.

**Sales and Marketing.** Our consolidated sales and marketing expenses for the three months ended December 31, 2011 increased \$1,571,000, or 87.4%, to \$3,369,000 from \$1,798,000 for the three months ended December 31, 2010. The increase of \$260,000 for our rotating electrical business was due primarily to (i) increased travel incurred in connection with our Fenco operations, (ii) increased commissions, and (iii) increased employee-related expenses.

Sales and marketing expenses for the under-the-car product line were \$1,311,000 and primarily include (i) \$469,000 of advertising expenses, (ii) \$453,000 of employee-related expenses, (iii) \$276,000 of sales commissions and agent fees, and (iv) \$113,000 of travel expenses.

Research and Development. Our consolidated research and development expenses increased by \$62,000, or 15.9%, to \$453,000 for the three months ended December 31, 2011 from \$391,000 for the three months ended December 31, 2010. The increase in research and development expenses was due primarily to an increase in supplies at our rotating electrical product line as compared to the three months ended December 31, 2010.

Table of Contents

**Impairment of Fixed Assets.** In December 2011 we decided to discontinue the CV axle product line and shut-down the related facility located in Bedford, New Hampshire. As a result we recorded an impairment loss of approximately \$1,031,000 for the three months ended December 31, 2011, which represents the write-off of the carrying amount of fixed assets.

**Interest Expense**

**Interest Expense.** Interest expense incurred by our rotating electrical product line for the three months ended December 31, 2011 was \$1,549,000. This represents an increase of \$552,000 compared to interest expense of \$997,000 during the three months ended December 31, 2010. This increase is primarily attributable to an increase in interest expense resulting from higher average outstanding balances and an increased balance of receivables being discounted under the receivable discount programs.

Interest expense incurred by our under-the-car product line was \$1,713,000 during the three months ended December 31, 2011. This interest expense primarily represents the cost of receivables being discounted under the receivable discount programs and interest expense incurred on the average outstanding balances on our Fenco Revolving Facility and Fenco Term Loan.

**Provision for Income Taxes**

**Income Tax.** We recorded income tax expense for the three months ended December 31, 2011. This is primarily due to not recognizing income tax benefits related to the net losses of the Fenco operations. Income tax expense, excluding the net losses of the Fenco operations, for the three months ended December 31, 2011 reflect income tax rates higher than the federal statutory tax rates primarily due to state income taxes, which were partially offset by the benefit of lower statutory tax rates in other foreign taxing jurisdictions.

In addition, any potential future income tax benefits associated with the net loss we incurred from Fenco operations for the three months ended December 31, 2011, was not recognized due primarily to our assessment of the recoverability of these tax benefits. We have provided a valuation allowance against these net operating loss carryforwards as we determined that it is not more likely than not that the deferred asset will be realized. For the three months ended December 31, 2011, we recorded \$152,000 of income tax expense specifically related to the Fenco subsidiaries located in Mexico, a separate tax jurisdiction.

Table of Contents

## Results of Operations for the Nine Months Ended December 31, 2011 and 2010

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere herein. The acquisition of Fenco on May 6, 2011 has had a significant impact on the comparability of results as discussed below.

The following table summarizes certain key operating data by segment for the periods indicated:

Nine months ended December 31, 2011	Rotating Electrical		Under-the-Car Product Line		Consolidated
Gross profit percentage	31.5	%	(13.5	) %	8.5 %
Cash flow provided by (used in) operations	\$7,124,000		\$ (52,472,000 )		\$ (45,348,000)
Finished goods turnover (annualized) (1)	5.8		3.4		5.5
Annualized return on equity (2)	-		-		(39.8 ) %
2010					
Gross profit percentage	31.6	%	-	%	31.6 %
Cash flow provided by operations	\$7,634,000		\$ -		\$7,634,000
Finished goods turnover (annualized) (1)	5.2		-		5.2
Annualized return on equity (2)	-		-		12.6 %

(1) Annualized finished goods turnover for the rotating electrical segment for the nine months ended December 31, 2011 and 2010 is calculated by multiplying segment cost of sales for each nine month period by 1.33 and dividing the result by the average between beginning and ending segment non-core finished goods inventory values for each nine month period. Annualized finished goods turnover for the under-the-car product line segment for the period subsequent to the acquisition of Fenco is calculated by multiplying segment cost of sales for the period by 1.5 and dividing the result by the average between beginning and ending segment non-core finished goods inventory values for the period. We believe this provides a useful measure of our ability to turn production into revenues.

(2) Annualized return on equity is computed as consolidated net income for the period multiplied by 1.33 and dividing the result by beginning consolidated shareholders' equity. Annualized return on equity measures our ability to invest shareholders' funds profitably.

## Net Sales and Gross Profit

The following table summarizes net sales and gross profit by segment for the nine months ended December 31, 2011 and 2010:

Nine months ended December 31, 2011	Rotating Electrical		Under-the-Car Product Line		Eliminations	Consolidated
Net sales to external customers	\$126,648,000		\$135,575,000		\$-	\$262,223,000
Intersegment revenue, net of cost	1,853,000		-		(1,853,000)	-
Cost of goods sold	88,018,000		153,816,000		(1,853,000)	239,981,000
Gross profit (loss)	40,483,000		(18,241,000 )		-	22,242,000
Cost of goods sold as a percentage of net sales	68.5	%	113.5	%	-	91.5 %
Gross profit (loss) percentage	31.5	%	(13.5	) %	-	8.5 %

Edgar Filing: MOTORCAR PARTS AMERICA INC - Form 10-Q

2010

Net sales	\$ 118,499,000	\$ -	\$ -	\$ 118,499,000
Cost of goods sold	81,099,000	-	-	81,099,000
Gross profit	37,400,000	-	-	37,400,000
Cost of goods sold as a percentage of net sales	68.4	%	-	68.4 %
Gross profit percentage	31.6	%	-	31.6 %

32

---

Table of Contents

Net Sales. Our consolidated net sales for the nine months ended December 31, 2011 increased by \$143,724,000, or 121.3%, to \$262,223,000 compared to consolidated net sales for the nine months ended December 31, 2010 of \$118,499,000. The increase in consolidated net sales was due primarily to (i) our May 6, 2011 acquisition of Fenco which resulted in additional net sales of \$135,575,000 or 114.4%, and (ii) an increase in sales to customers of \$8,149,000 or 6.9%, primarily to the existing customers in our rotating electrical product line.

Cost of Goods Sold/Gross Profit. Our consolidated cost of goods sold as a percentage of consolidated net sales increased during the nine months ended December 31, 2011 to 91.5% from 68.4% for the nine months ended December 31, 2010, resulting in a corresponding decrease in our consolidated gross profit percentage of 23.1% to 8.5% for the nine months ended December 31, 2011 from 31.6% for the nine months ended December 31, 2010.

• Rotating Electrical product line

The gross profit percentage in our rotating electrical product line decreased to 31.5% from 31.6% during the nine months ended December 31, 2011 due primarily to an increase in the provision for excess and obsolete inventory of \$657,000 partly offset by lower per unit manufacturing costs.

• Under-the-car product line

The gross profit percentage in our under-the-car product line was negative 13.5% for the nine months ended December 31, 2011 representing a negative gross profit of \$18,241,000. This negative gross profit was primarily a result of low sales prices, higher customer allowances being provided and high manufacturing costs due in part to the increase in the under-absorption of overhead on lower production levels. As we integrate the Fenco business, we are addressing future pricing and the efficiency of the manufacturing operations and implementing cost savings initiatives for production, warehousing, and distribution.

In addition to the overall negative contribution on our under-the-car product line sales, our gross profit was also significantly impacted by our decision to discontinue the CV axle product line, which we substantially reduced sales and support for in December 2011. The negative gross profit impact of the discontinued line was \$7,282,000 (of which \$657,000 relates to severance cost) including (i) the negative contribution from the product line in the period of \$2,095,000 and (ii) the recording of the additional reserve of \$4,530,000 for the core and raw material inventory to reduce the cost to net realizable value.

In addition, our gross profit in the nine months ended December 31, 2011, was further impacted by (i) negative contribution of \$1,253,000 related to certain additional product lines we stopped selling and supporting in December 2011, (ii) additional costs of approximately \$917,000 that were incurred in connection with the modification of a product for a new customer program, and (iii) contractual customer penalties of \$1,324,000.

To improve customer service, plant productivity and product quality levels we also incurred additional expenses that impacted our gross profit percentage as follows:

- In order to improve our quality and productivity levels, we replaced and trained a large number of personnel at Fenco's facilities at Monterrey, Mexico at an approximate cost of \$3,011,000
- To expedite improvement of customer service levels, we made certain inventory purchases above our normal cost for \$2,262,000 for inventory that was sold during the nine months ended December 31, 2011, and we incurred increased inbound freight expenses of \$785,000

In connection with the May 6, 2011 Fenco acquisition, \$3,780,000 was charged to cost of goods sold in our under-the-car product line related to the fair value step-up of inventory acquired which was sold during the nine

months ended December 31, 2011. As of December 31, 2011, there was \$467,000 of inventory fair value step-up value remaining to be expensed as the inventory is sold.

Excluding the impact of the above items related to the under-the-car product line, the gross profit margin in the nine months ended December 31, 2011, would have been approximately 1.3% before the impact of the unique customer allowances and rebates. We anticipate that the gross profit will be improved after effective and timely implementation of our planned cost savings initiatives for production, warehousing, and distribution.



Table of Contents

## Operating Expenses

The following table summarizes operating expenses by segment for the nine months ended December 31, 2011 and 2010:

Nine months ended December 31,	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated	
2011					
General and administrative	\$ 16,809,000	\$ 14,157,000	\$ -	\$ 30,966,000	
Sales and marketing	5,789,000	3,230,000	-	9,019,000	
Research and development	1,270,000	-	-	1,270,000	
Impairment of fixed assets	-	1,031,000	-	1,031,000	
Acquisition costs	713,000	-	-	713,000	
Percent of net sales					
General and administrative	13.3	% 10.4	% -	11.8	%
Sales and marketing	4.6	% 2.4	% -	3.4	%
Research and development	1.0	% -	-	0.5	%
Impairment of fixed assets	-	0.8	% -	0.4	%
Acquisition costs	0.6	% -	-	0.3	%
2010					
General and administrative	\$ 11,979,000	\$ -	\$ -	\$ 11,979,000	
Sales and marketing	4,739,000	-	-	4,739,000	
Research and development	1,153,000	-	-	1,153,000	
Acquisition costs	-	-	-	-	
Percent of net sales					
General and administrative	10.1	% -	-	10.1	%
Sales and marketing	4.0	% -	-	4.0	%
Research and development	1.0	% -	-	1.0	%
Acquisition costs	0.0	% -	-	0.0	%

General and Administrative. Our consolidated general and administrative expenses for the nine months ended December 31, 2011 were \$30,966,000, which represents an increase of \$18,987,000, or 158.5%, from general and administrative expenses for the nine months ended December 31, 2010 of \$11,979,000. The increase of \$4,830,000 in general and administrative expenses for our rotating electrical business during the nine months ended December 31, 2011 was primarily due to (i) \$1,780,000 of professional services and travel incurred in connection with our Fenco operations, (ii) a loss of \$1,399,000 recorded due to the changes in the fair value of forward foreign currency exchange contracts, compared to a loss of \$301,000 recorded during the nine months ended December 31, 2010, (iii) \$781,000 of increased professional services, (iv) \$780,000 of incentive payments made to certain employees in connection with our Fenco acquisition, and (v) \$303,000 of decreased amortization of the deferred gain on sale-leaseback transactions.

General and administrative expenses for the under-the-car product line during the nine months ended December 31, 2011 were \$14,157,000, and were primarily attributable to (i) \$6,308,000 of employee-related expenses, (ii) \$2,169,000 of professional services fees and other consulting fees, (iii) \$2,072,000 of amortization of intangible assets, (iv) \$325,000 of bank financing charges, and (v) \$97,000 for legal and professional fees incurred in connection with the Fenco Credit Agreement.



## Table of Contents

**Sales and Marketing.** Our consolidated sales and marketing expenses for the nine months ended December 31, 2011 increased \$4,280,000, or 90.3%, to \$9,019,000 from \$4,739,000 for the nine months ended December 31, 2010. The increase of \$1,050,000 from our rotating electrical business was due primarily to (i) the benefit from the reversal of commission expenses during the prior year in connection with our August 2009 acquisition, (ii) increased commissions due to increased sales, (iii) increased employee-related expenses, (iv) increased travel and professional services incurred in connection with our Fenco operations, and (v) increased trade show expense.

Sales and marketing expenses for the under-the-car product line were \$3,230,000 and primarily include (i) \$1,235,000 of employee-related expenses, (ii) \$915,000 of advertising expenses, (iii) \$716,000 of sales commissions and agent fees, and (iv) \$349,000 of travel expenses.

**Research and Development.** Our consolidated research and development expenses increased by \$117,000, or 10.1%, to \$1,270,000 for the nine months ended December 31, 2011 from \$1,153,000 for the nine months ended December 31, 2010. The increase in research and development expenses was due primarily to an increase in (i) supplies expense, (ii) employee-related expenses, and (iii) travel as compared to the nine months ended December 31, 2010.

**Impairment of Fixed Assets.** In December 2011 we decided to discontinue the CV axle product line and shut-down the related facility located in Bedford, New Hampshire. As a result we recorded an impairment loss of approximately \$1,031,000 for the nine months ended December 31, 2011, which represents the write-off of the carrying amount of fixed assets.

**Acquisition Costs.** During the nine months ended December 31, 2011, we incurred \$713,000 of legal and professional fees in connection with the Fenco acquisition.

## Interest Expense

**Interest Expense.** Interest expense incurred by our rotating electrical for the nine months ended December 31, 2011 was \$4,057,000. This represents a decrease of \$242,000 compared to interest expense of \$4,300,000 during the nine months ended December 31, 2010. This decrease is primarily attributable to a lower balance of receivables being discounted under the receivable discount programs and lower discount rates on these balances, partly offset by an increase in interest expense on the Old Parent Company Revolving Loan due to higher average outstanding balances.

Interest expense incurred by our under-the-car product line was \$4,508,000 during the nine months ended December 31, 2011. This interest expense primarily represents the cost of receivables being discounted under the receivable discount programs and interest expense incurred on the average outstanding balances on our Fenco Revolving Facility and Fenco Term Loan.

## Provision for Income Taxes

**Income Tax.** We recorded income tax expense for the nine months ended December 31, 2011. This is primarily due to not recognizing income tax benefits related to the net losses of the Fenco operations. Income tax expense, excluding the net losses of the Fenco operations, for the nine months ended December 31, 2011 reflect income tax rates higher than the federal statutory tax rates primarily due to state income taxes, which were partially offset by the benefit of lower statutory tax rates in other foreign taxing jurisdictions. In addition, our income tax rates for the nine months ended December 31, 2011 were impacted by an additional 1.0% in the period due to certain non-deductible transaction costs incurred in connection with our acquisition of Fenco.

In addition, any potential future income tax benefits associated with the net loss we incurred from Fenco operations for the nine months ended December 31, 2011, was not recognized due primarily to our assessment of the

recoverability of these tax benefits. We have provided a valuation allowance against these net operating loss carryforwards as we determined that it is not more likely than not that the deferred asset will be realized. For the nine months ended December 31, 2011, we recorded \$275,000 of income tax expense specifically related to the Fenco subsidiaries located in Mexico, a separate tax jurisdiction.

## Table of Contents

### Liquidity and Capital Resources

Motorcar Parts of America, Inc. and its subsidiaries (the “Company” or “MPA”) remanufacture, produce, and distribute automobile parts for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. These replacement parts are sold for use on vehicles after initial vehicle purchase. These automotive parts are sold to automotive retail chain stores and warehouse distributors throughout the United States and Canada and to major automobile manufacturers.

### Overview

At December 31, 2011, we had negative working capital of \$53,606,000, a ratio of current assets to current liabilities of 0.8:1, and cash of \$3,133,000, compared to working capital of \$1,395,000, a ratio of current assets to current liabilities of 1:1, and cash of \$2,477,000 at March 31, 2011.

In accordance with our core accounting policies, we classify all of our core inventories as long-term assets and the portion of core liability related to the core inventory purchased and on the shelves of our customers, are recorded as long-term liabilities. These accounts are therefore excluded from the working capital and current ratio calculations. We do not recognize revenue or the related cost of sales from the sale of remanufactured cores, however, we do invoice and collect for the core value. These accounts receivable amounts are classified as short-term assets. In addition, upon the sale of a remanufactured core, a core liability is created to record the obligation to provide our customer with a credit upon the return of a like core by the customer. Since the return of a core is based on the sale of a remanufactured automobile part to an end user of our customer, the offset to this core liability generated by its return to us by our customer is usually followed by the sale of a replacement remanufactured auto part, and thus a portion of the core liability is continually outstanding and is recorded as long-term. The long term core inventory as of December 31, 2011 was \$187,475,000 compared to \$80,558,000 at March 31, 2011. The long-term core liability as of December 31, 2011 was \$103,079,000. There was no long-term core liability balance at March 31, 2011.

During the nine months ended December 31, 2011, we used cash generated by our rotating electrical segment, from our use of receivable discount programs with certain of our major customers, and our revolving loans as our primary sources of liquidity. These sources were primarily used to make the quarterly principal payment on the Old Parent Company Term Loan.

In January 2012, we replaced the Old Parent Company Credit Agreement by entering into a new parent company financing agreement (the “New Parent Company Financing Agreement”) with a syndicate of lenders. The New Parent Company Financing Agreement consists of: (i) term loans aggregating \$75,000,000 and (ii) revolving loans up to \$20,000,000, subject to borrowing base restrictions and a \$10,000,000 sublimit for letters of credit. A portion of the proceeds from the New Parent Company Term Loans was used to repay all amounts outstanding under the Old Parent Company Credit Facility, which included the balance outstanding under the Old Parent Company Revolving Loan of \$40,500,000 which was shown as a current liability at December 31, 2011, and the Old Parent Company Credit Agreement was terminated. As permitted by the New Parent Company Financing Agreement, we subsequently raised \$15,000,000 of capital. The New Parent Company Financing Agreement permits us to invest up to \$20,000,000 in Fenco.

In April 2012, we entered into a Subscription Agreement (“Subscription Agreement”) and a Registration Rights Agreement (“Registration Rights Agreement”) to raise approximately \$15,000,000 in gross proceeds through a private placement of our common stock. Pursuant to the terms of the Subscription Agreement, certain accredited investors agreed to purchase an aggregate of 1,936,000 shares of common stock in a private placement exempt from registration under the Securities Act in reliance upon Rule 506 of Regulation D, for a purchase price of \$7.75 per share (“Private Placement”). We plan to use the proceeds to enhance the integration of our Fenco acquisition and for general corporate

purposes.

We believe our use of receivable discount programs with certain of our major customers, amounts available under our New Parent Company Loans, the proceeds from our Private Placement, the Fenco Revolving Facility, and our cash and short term investments on hand are sufficient to satisfy our expected future working capital needs, capital lease commitments, repayment of the current portion of our New Parent Company Term Loans, and capital expenditure obligations over the next twelve months. However, our ability to continue to meet such liquidity needs is subject to and will be affected by cash utilized in operations, including our under-the-car product line turnaround plan, continued general economic conditions, uncertain industry conditions, the financial condition of our customers and suppliers, our ability to renegotiate the Fenco Credit Agreement or obtain alternative financing for our under-the-car business and other related factors.

36

---

## Table of Contents

### Cash Flows

Net cash used in operating activities was \$45,348,000 for the nine months ended December 31, 2011 compared to net cash provided by operating activities of \$7,634,000 for the nine months ended December 31, 2010. The rotating electrical segment provided cash from operations of \$7,124,000 and \$7,634,000 for the nine months ended December 31, 2011 and 2010, respectively. The changes in operating activities for the rotating electrical segment were due primarily to an increase in accounts payable and accrued liabilities in connection with the inventory consigned to Fenco, and increases in non-core inventory and accounts receivable. The most significant changes in our under-the-car product line segment subsequent to our acquisition of Fenco on May 6, 2011, was the \$52,472,000 that was used in our under-the-car product line segment due primarily to (i) the net loss incurred by this segment of \$43,227,000 adjusted for non-cash charges, (ii) an increase of \$20,410,000 in inventory balances in order to improve customer service levels, and (iii) an increase in accounts payable and accrued liabilities of \$6,078,000.

Net cash used in investing activities was \$1,097,000 and \$6,268,000 during the nine months ended December 31, 2011 and 2010, respectively. Our capital expenditures for our rotating electrical segment for the nine months ended December 31, 2011 and 2010 was \$746,000 and \$1,119,000, respectively, primarily related to the purchase of equipment for our manufacturing facilities. In addition, net cash used in investing activities during the nine months ended December 31, 2010 included the secured loan made to Fenco of \$4,863,000 prior to the acquisition in May 2011, and the payment of the purchase price holdback of \$464,000 in connection with our acquisition of Automotive Importing Manufacturing, Inc.

Net cash provided by financing activities was \$47,209,000 for the nine months ended December 31, 2011 compared to net cash used in financing activities of \$1,978,000 during the nine months ended December 31, 2010. The rotating electrical segment provided cash from financing activities of \$39,209,000 during the nine months ended December 31, 2011, compared to the net cash used in financing activities of \$1,978,000 during the nine months ended December 31, 2010. The cash provided from financing activities was used primarily to finance Fenco. In addition, Fenco increased their credit facility by \$10,000,000 which was used for working capital.

### Capital Resources

#### Debt

We have two outstanding credit agreements as described below.

#### Parent Company Credit Agreement

Our revolving credit and term loan agreement, as amended, (the “Old Parent Company Credit Agreement”), with Union Bank, N.A. and Branch Banking & Trust Company, allowed us to borrow up to a total of \$60,000,000 (the “Old Parent Company Credit Facility”). The Old Parent Company Credit Facility was comprised of (i) a revolving facility with a \$7,000,000 letter of credit sub-facility and (ii) a term loan. We were able to borrow on a revolving basis up to an amount equal to \$50,000,000 minus all outstanding letter of credit obligations (the “Old Parent Company Revolving Loan”). The term loan was in the principal amount of \$10,000,000 (the “Old Parent Company Term Loan”).

The Old Parent Company Term Loan was scheduled to mature in October 2014 and required principal payments of \$500,000 on a quarterly basis. The Old Parent Company Revolving Loan was scheduled to expire in October 2012 and provided us the option to request up to two one-year extensions.





Table of Contents

The balance outstanding under the Old Parent Company Revolving Loan was \$40,500,000 at December 31, 2011. There was no outstanding balance on the Old Parent Company Revolving Loan at March 31, 2011. We had reserved \$1,126,000 of the Old Parent Company Revolving Loan for standby letters of credit for workers' compensation insurance and \$4,406,000 for commercial letters of credit as of December 31, 2011. As of December 31, 2011, \$3,968,000 was available under the Old Parent Company Revolving Loan.

In January 2012, we replaced the Old Parent Company Credit Agreement by entering into a new parent company financing agreement with a syndicate of lenders, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent (the "New Parent Company Loans"). The New Parent Company Loans consist of: (i) term loans aggregating \$75,000,000 (the "New Parent Company Term Loans") and (ii) revolving loans of up to \$20,000,000, subject to borrowing base restrictions and a \$10,000,000 sublimit for letters of credit (the "New Parent Company Revolving Loans,"). The lenders hold a security interest in substantially all of the assets of our rotating electrical segment. As permitted by the New Parent Company Financing Agreement, we subsequently raised \$15,000,000 of capital. The New Parent Company Financing Agreement permits us to invest up to \$20,000,000 in Fenco.

A portion of the proceeds from the New Parent Company Term Loans was used to repay all amounts outstanding under the Old Parent Company Credit Facility and the Old Parent Company Credit Agreement was terminated.

Fenco Credit Agreement

In connection with the acquisition of Fenco, our now wholly-owned subsidiaries, FAPL and Introcan, as borrowers (the "Fenco Borrowers"), entered into an amended and restated credit agreement, dated May 6, 2011 (the "Fenco Credit Agreement") with Manufacturers and Traders Trust Company as lead arranger, M&T Bank as lender and administrative agent and the other lenders from time to time party thereto (the "Fenco Lenders"). Pursuant to the Fenco Credit Agreement, the Fenco Lenders have made available to the Fenco Borrowers a revolving credit facility in the maximum principal amount of \$50,000,000 (the "Fenco Revolving Facility") and a term loan in the principal amount of \$10,000,000 (the "Fenco Term Loan"). The availability of the Fenco Revolving Facility is subject to a borrowing base calculation consisting of eligible accounts receivable and eligible inventory. At December 31, 2011, approximately \$1,128,000 was available under the Fenco Revolving Facility.

As of December 31, 2011, \$47,713,000 of the Fenco Revolving Facility was outstanding, \$712,000 was reserved for standby commercial letters of credit and \$372,000 was reserved for certain expenses. In addition, \$1,000,000 of this Fenco Revolving Facility was reserved for Canadian operations use. The Fenco Lenders hold a security interest in substantially all of the assets of the under-the-car product line segment.

The Fenco Borrowers may receive advances under the Fenco Revolving Facility by any one or more of the following options: (i) swingline advances in Canadian or US dollars; (ii) Canadian dollar prime-based loans; (iii) US dollar base rate loans; (iv) LIBOR loans; or (v) letters of credits.

The Fenco Term Loan bears interest at the LIBO rate plus an applicable margin. Outstanding advances under the Revolving Facility bear interest as follows:

- (i) in respect of swingline advances in Canadian dollars and Canadian dollar prime-based loans, at the reference rate announced by the Royal Bank of Canada plus an applicable margin;
- (ii) in respect of swingline advances in US dollars and US dollar base rate loans, at a base rate (which shall be equal to the highest of (x) M&T Bank's prime rate, (y) the Federal Funds Rate plus ½ of 1%, or (z) the one month LIBO rate) plus an applicable margin;
- (iii) in respect of LIBOR loans, at the LIBO rate plus an applicable margin.

We have classified the Fenco Revolving Facility as long-term as of December 31, 2011 as we have the ability and intent to hold the balance outstanding for an uninterrupted period extending beyond one year from the balance sheet date. The Fenco Credit Agreement, among other things, requires the Fenco Borrowers to maintain certain financial covenants. As of December 31, 2011, the Fenco Borrowers were not in compliance with the minimum EBITDA covenant and the requirement to submit the most recent interim financial statements within time frames specified by the Fenco Credit Agreement. On May 11, 2012, the Fenco Borrowers obtained a waiver for non-compliance with these covenants.

Table of Contents

The Fenco Revolving Facility and the Fenco Term Loan mature on October 6, 2012, but may be accelerated upon the occurrence of an insolvency event or event of default under the Fenco Credit Agreement. On May 11, 2012, the maturity date of the Fenco Revolving Facility and the Fenco Term Loan was extended to May 13, 2013.

Our ability to comply in future periods with the financial covenants in the New Parent Company Loans and Fenco Credit Agreement, will depend on our ongoing financial and operating performance, which, in turn, will be subject to economic conditions and to financial, business and other factors, many of which are beyond our control and will be substantially dependent on the selling prices and demand for our products, customer demands for marketing allowances and other concessions, raw material costs, and our ability to successfully implement our overall business strategy, including the integration of our Fenco acquisition. If a violation of any of the covenants occurs in the future, we would attempt to obtain a waiver or an amendment from our lenders or the Fenco Lenders, as applicable. No assurance can be given that we would be successful in this regard.

## Receivable Discount Programs

Both our segments use receivable discount programs with certain customers and their respective banks. Under these programs, we have options to sell those customers' receivables to those banks at a discount to be agreed upon at the time the receivables are sold. These discount arrangements allows us to accelerate collection of customers' receivables. While these arrangements have reduced our working capital needs, there can be no assurance that these programs will continue in the future. Interest expense resulting from these programs would increase if interest rates rise, if utilization of these discounting arrangements expands or if the discount period is extended to reflect more favorable payment terms to customers.

The following is a summary of the receivable discount programs:

	Nine Months Ended December 31,			
	2011		2010	
Receivables discounted	\$	197,019,000	\$	100,857,000
Weighted average days		314		328
Annualized weighted average discount rate		2.9 %		4.1 %
Amount of discount as interest expense	\$	4,984,000	\$	3,755,000

## Off-Balance Sheet Arrangements

At December 31, 2011, we had no off-balance sheet financing or other arrangements with unconsolidated entities or financial partnerships (such as entities often referred to as structured finance or special purpose entities) established for purposes of facilitating off-balance sheet financing or other debt arrangements or for other contractually narrow or limited purposes.

## Table of Contents

### Capital Expenditures and Commitments

#### Capital Expenditures

Our capital expenditures were \$1,068,000 for the nine months ended December 31, 2011 and primarily related to the purchase of equipment for our manufacturing facilities. We expect our fiscal year 2012 capital expenditures to be approximately \$2 million combined for both segments. We expect to use our working capital and incur additional capital lease obligations to finance these capital expenditures.

#### Related Party Transactions

Our related party transactions primarily consist of employment and director agreements and stock option agreements. Our related party transactions have not changed since March 31, 2011.

#### Subsequent Events

#### New Parent Company Financing Agreement

In January 2012, we replaced the Old Parent Company Credit Agreement by entering into a new parent company financing agreement with a syndicate of lenders, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent (the "New Parent Company Loans"). The New Parent Company Loans consists of: (i) term loans aggregating \$75,000,000 (the "New Parent Company Term Loans") and (ii) revolving loans of up to \$20,000,000, subject to borrowing base restrictions and a \$10,000,000 sublimit for letters of credit (the "New Parent Company Revolving Loans,"). The lenders hold a security interest in substantially all of the assets of our rotating electrical segment. As permitted by the New Parent Company Financing Agreement, we subsequently raised \$15,000,000 of capital. The New Parent Company Financing Agreement permits us to invest up to \$20,000,000 in Fenco.

The New Parent Company Term Loans require quarterly principal payments of \$250,000 beginning on October 1, 2012 through July 1, 2013, and quarterly principal payments of \$1,000,000 beginning on October 1, 2013. The New Parent Company Loans mature on January 17, 2017.

The New Parent Company Loans bear interest, at the reference rate, plus an applicable margin, or at the Eurodollar rate, plus an applicable per annum margin, as selected by us. The applicable per annum margins for the New Revolving Loans are 2.5% for reference rate loans and 3.0% for Eurodollar rate loans. The applicable per annum margins for the New Term Loans are 7.0% for reference rate loans and 8.0% for Eurodollar rate loans. Additionally, we are subject to a 0.5% per annum fee on the unused portions of the New Revolving Loans.

The New Parent Company Loans, among other things, require us to maintain certain financial covenants including a maximum senior leverage ratio, a minimum fixed charge coverage ratio, and a minimum consolidated earnings before interest, income tax, depreciation and amortization ("EBITDA").

A portion of the proceeds from the New Parent Company Term Loans was used to repay all amounts outstanding under the Old Parent Company Credit Facility, and the Old Parent Company Credit Agreement was terminated.

#### Equity Transaction

In April 2012, we entered into a Subscription Agreement and a Registration Rights Agreement to raise approximately \$15,000,000 in gross proceeds through a private placement of our common stock. Pursuant to the terms of the

Subscription Agreement, certain accredited investors purchased an aggregate of 1,936,000 shares of common stock in a private placement exempt from registration under the Securities Act in reliance upon Rule 506 of Regulation D, for a purchase price of \$7.75 per share. We plan to use the proceeds to enhance the integration of our Fenco acquisition and for general corporate purposes.

## Table of Contents

### Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates that are presented in our Annual Report on Form 10-K for the year ended March 31, 2011, which was filed on June 13, 2011, except as discussed below.

### New Accounting Pronouncements

#### Fair Value Measurements and Disclosures

In January 2010, the FASB issued an update which requires new disclosures for transfers in and out of Level 1 and Level 2 of the fair value hierarchy and expanded disclosures for activity in Level 3 of the fair value hierarchy. The update also clarifies existing disclosures regarding the level of disaggregation for disclosure and disclosures about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this update on January 1, 2010 did not have any impact on our consolidated financial position and results of operations. The disclosures regarding certain Level 3 activity are effective for fiscal years beginning after December 15, 2010. The adoption of this guidance on April 1, 2011 did not have any impact on our consolidated financial position and results of operations.

#### When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts

In December 2010, the FASB issued guidance which modifies step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units with a carrying amount equal to or less than zero for which qualitative factors indicate that it is more likely than not that a goodwill impairment exists, step 2 of the goodwill impairment test will need to be performed. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption of this update is prohibited. The adoption of this guidance on April 1, 2011 did not have any impact on our consolidated financial position and the results of operations.

#### Disclosure of Supplementary Pro Forma Information for Business Combinations

In December 2010, the FASB issued guidance which specifies that if comparative financial statements are presented, disclosure of revenue and earnings of a combined entity should be made as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance is effective for business combinations consummated in fiscal years beginning on or after December 15, 2010. The adoption of this guidance on April 1, 2011 did not have any impact on our consolidated financial position and the results of operations.

#### Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued an update which clarifies some existing concepts, eliminates wording differences between U.S. GAAP and International Financial Reporting Standards (“IFRS”), and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. The update results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS, and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The amendments in this update are effective for interim and annual reporting periods beginning after December 15, 2011. Early application of this update by public entities is prohibited. We do not expect the adoption of this guidance on January 1, 2012 to have any impact on our consolidated financial position and the results of

operations.

41

---

## Table of Contents

### Comprehensive Income

In June 2011, the FASB issued guidance which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This guidance eliminates the option to present components of other comprehensive income as a part of the statement of equity. This guidance should be applied, retrospectively, for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Other than the change in presentation, we have determined the changes from the adoption of this guidance on April 1, 2012 will not have an impact on our consolidated financial position and the results of operations.

### Testing Goodwill for Impairment

In September 2011, the FASB issued an amendment which gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the first step of the two-step goodwill impairment test. If the carrying value of the reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of this guidance on April 1, 2012 is not expected to have any impact on our consolidated financial position and the results of operations.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K as of March 31, 2011, which was filed on June 13, 2011.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, we have conducted an evaluation of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-5(e). Based on this evaluation, our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2011.

#### Changes in Internal Control over Financial Reporting

There were no changes in MPA's internal control over financial reporting during the quarter ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

On May 6, 2011, MPA acquired Fenco, a privately-owned Toronto-based manufacturer, remanufacturer and distributor of new and remanufactured aftermarket auto parts. For additional information regarding the acquisition,



refer to Note 2 of the Condensed Notes to Consolidated Financial Statements and, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 2 of this Quarterly Report. As permitted by SEC guidance, which allows for a one-year integration period, management has excluded the operations related to Fenco from its assessment of MPA internal control over financial reporting as of December 31, 2011.

Table of Contents

Since the acquisition of Fenco we have been unable to timely file our Quarterly Reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the second and third quarters of our fiscal 2012. As a result, management has concluded that our disclosure controls and procedures were not effective because of the existence of a material weakness in our internal control over financial reporting at Fenco. Specifically, systems required to segregate and account for core and other transactions accurately were inadequate. Also, the financial policies and procedures existing at Fenco did not provide for effective oversight and review of the reconciliation of accounts at month or quarter ends. In addition, the overall accounting skill set was inadequate to diligently and consistently perform key accounting controls. As a result, Fenco was unable to complete the financial closing process on a timely and accurate basis.

As a result of the material weakness, we have commenced a review of the internal controls over financial reporting at Fenco and began putting in place appropriate oversight and controls. From our fiscal 2012 second quarter filing, we integrated the core receiving and return transactions into our financial reporting process and implemented additional core tracking procedures. We have also added additional personnel to review core and other transactions.

In preparing our fiscal 2012 third quarter filing, direct oversight by MPA management of Fenco accounting personnel has substantially increased. Additional key personnel added in the third and fourth quarters improved the overall accounting skill set. However, additional accounting resources may be required to support the consistent performance of accounting internal controls.

Integration activities, including documenting and assessing Fenco internal controls over financial reporting, are currently in process. Additionally, the Company has ongoing initiatives to standardize the Fenco financial, information technology, and operating systems. Fenco business applications are scheduled for conversion to the MPA business applications from June 2012 through November 2012. The initial annual assessment of internal controls over financial reporting for the acquired business will be conducted over the course of the fiscal year 2013.

Table of Contents

PART II — OTHER INFORMATION

Item 1A. Risk Factors

Other than the additional risk factor set forth below, there have been no material changes to the risk factors set forth in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended March 31, 2011, filed on June 13, 2011.

Our reliance on foreign suppliers for our under-the-car segment poses various risks.

A significant portion of our products in our under-the-car segment are imported from suppliers located outside the U.S., including various countries in Asia. As a result, we are subject to various risks of doing business in foreign markets and importing products from abroad, such as:

- significant delays in the delivery of cargo due to port security considerations;
- imposition of duties, taxes, tariffs or other charges on imports;
- imposition of new legislation relating to import quotas or other restrictions that may limit the quantity of our product that may be imported into the United States from countries or regions where we do business;
- financial or political instability in any of the countries in which our product is manufactured;
- potential recalls or cancellations of orders for any product that does not meet our quality standards;
- disruption of imports by labor disputes and local business practices;
- political or military conflict involving the United States, which could cause a delay in the transportation of our products and an increase in transportation costs;
- heightened terrorism security concerns, which could subject imported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods;
- natural disasters, disease epidemics and health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas;
- inability of our non-U.S. suppliers to obtain adequate credit or access liquidity to finance their operations; and
- our ability to enforce any agreements with our foreign suppliers.

Any of the foregoing factors, or a combination of them, could increase the cost or reduce the supply of products available to us and adversely affect our business, financial condition, results of operations or liquidity.

In addition, because we depend on independent third parties to manufacture a significant portion of our products in our under-the-car segment, we cannot be certain that we will not experience operational difficulties with such manufacturers, such as reductions in the availability of production capacity, errors in complying with merchandise specifications, insufficient quality controls and failure to meet production deadlines or increases in manufacturing costs.

We have had a material weakness in our internal control over financial reporting at Fenco and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effective on our stock price.

Management has identified a material weakness in our internal control over financial reporting at Fenco that affected our financial statements for the quarterly periods ended September 30, 2011 and December 31, 2011. See “Item 4. Controls and Procedures.”



Table of Contents

The material weakness in our internal control over financial reporting at Fenco related to the following factors: the inadequacy of systems required to segregate and account for core and other transactions accurately; the failure of financial policies and procedures at Fenco to provide for effective oversight and review of the reconciliation of accounts at month or quarter ends; and the inadequacy of the overall accounting skill set at Fenco for diligent and consistent performance of key accounting controls. These factors resulted in Fenco's inability to complete the financial closing process on a timely and accurate basis.

We cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations (which may result in our failure to maintain the listing standards for our common stock) or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations (which may result in our failure to maintain the listing standards for our common stock) and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

The Fenco Borrowers have incurred substantial indebtedness, which could restrict the business activities of our under-the-car product line.

As of December 31, 2011, \$47,713,000 was outstanding under the Fenco Revolving Facility and \$10,000,000 was outstanding under the Fenco Term Loan. Industry conditions continue to evolve, and we are unable to predict the actions that we may be required to take in order to successfully implement our under-the-car product line turnaround plan and maintain the Fenco Borrowers' access to liquidity in response to these conditions. The inability of our under-the-car business to generate sufficient cash flow to satisfy the Fenco Borrowers' obligations or to refinance the Fenco Borrowers' debt obligations on commercially reasonable terms would have a material adverse effect on our business, financial condition and results of operations.

The substantial indebtedness of the Fenco Borrowers could:

- increase the vulnerability of our under-the-car business to general adverse economic and industry conditions;
- limit our ability to respond to business opportunities otherwise available for our under-the-car business;
- subject the Fenco Borrowers to additional financial and other restrictive covenants, the failure of which to satisfy could result in default under the Fenco Borrowers' indebtedness; and
- make it difficult for the Fenco Borrowers to satisfy their obligations under their indebtedness.

Table of Contents

Impairment of charges relating to goodwill and long-lived assets may have a material adverse effect on our earnings and results of operations.

We regularly monitor our goodwill and long-lived assets for impairment indicators. In conducting our goodwill impairment testing, we compare the fair value of each our business segments to the related net book value. In conducting our impairment analysis of long-lived assets, we compare the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. Changes in economic or operating conditions impacting our estimates and assumptions could result in the impairment of our goodwill or long-lived assets. In the event that we determine our goodwill or long-lived assets are impaired, we may be required to record a significant charge to earnings in our financial statements that could have a material adverse effect on our results of operations.

Our failure to execute our under-the-car product line turnaround plan would negatively impact our under-the-car business.

Our financial performance and profitability depend in part on our ability to successfully execute our under-the-car product line turnaround plan. Various factors, including the substantial indebtedness of the Fenco Borrowers, adverse industry conditions and the other matters discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," could adversely impact our ability to execute our under-the-car product line turnaround plan. There also can be no assurance that, even if implemented, our under-the-car product line turnaround plan will be successful.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Limitation on Payment of Dividends—The Parent Company Credit Agreement prohibits the declaration or payment of any dividends by us other than dividends payable in our capital stock.

Equity Transaction

In April 2012, we entered into a Subscription Agreement and a Registration Rights Agreement to raise approximately \$15,000,000 in gross proceeds through a private placement of its common stock. Pursuant to the terms of the Subscription Agreement, 17 accredited investors purchased an aggregate of 1,936,000 shares of common stock in a private placement exempt from registration under the Securities Act in reliance upon Rule 506 of Regulation D, for a purchase price of \$7.75 per share. We plan to use the proceeds to enhance the integration of our Fenco acquisition and for general corporate purposes.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

Number	Description of Exhibit	Method of Filing
3.1	Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 declared effective on March 22, 1994 (the "1994 Registration Statement").

Edgar Filing: MOTORCAR PARTS AMERICA INC - Form 10-Q

3.2	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-97498) declared effective on November 14, 1995.
3.3	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997.
3.4	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1998 (the "1998 Form 10-K").

Table of Contents

3.5	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit C to the Company's proxy statement on Schedule 14A filed with the SEC on November 25, 2003.
3.6	Amended and Restated By-Laws of Motorcar Parts of America, Inc.	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed on August 24, 2010.
4.1	Specimen Certificate of the Company's common stock	Incorporated by reference to Exhibit 4.1 to the 1994 Registration Statement.
4.2	Form of Underwriter's common stock purchase warrant	Incorporated by reference to Exhibit 4.2 to the 1994 Registration Statement.
4.3	1994 Stock Option Plan	Incorporated by reference to Exhibit 4.3 to the 1994 Registration Statement.
4.4	Form of Incentive Stock Option Agreement	Incorporated by reference to Exhibit 4.4 to the 1994 Registration Statement.
4.5	1994 Non-Employee Director Stock Option Plan	Incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995.
4.6	1996 Stock Option Plan	Incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-2 (No. 333-37977) declared effective on November 18, 1997.



Table of Contents

Number	Description of Exhibit	Method of Filing
4.8	2004 Non-Employee Director Stock Option Plan	Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A for the 2004 Annual Shareholders Meeting.
4.9	Registration Rights Agreement among the Company and the investors identified on the signature pages thereto, dated as of May 18, 2007	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on May 18, 2007.
4.10	Form of Warrant to be issued by the Company to investors in connection with the May 2007 Private Placement	Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed on May 18, 2007.
4.11	2010 Incentive Award Plan	Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed on December 15, 2010.
10.1	Core Amendment No. 3 to Vendor Agreement, dated as of May 31, 2011, by and between Motorcar Parts of America, Inc. and AutoZone Parts, Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on June 16, 2011.
10.2	Core Amendment No. 4 to Vendor Agreement, dated as of May 31, 2011, by and between Motorcar Parts of America, Inc. and AutoZone Parts, Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on June 16, 2011.
10.3	Addendum No. 2 to Amendment No. 1 to Vendor Agreement, dated as of May 31, 2011, by and between Motorcar Parts of America, Inc. and AutoZone Parts, Inc.	Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed on June 16, 2011.
10.4	Fifth Amendment to the Revolving Credit and Term Loan Agreement, dated as of July 5, 2011, by and among Motorcar Parts of America, Inc., Union Bank, N.A., and Branch Banking & Trust Company	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on July 13, 2011.
10.5	Purchase Agreement, dated May 6, 2011, by and among Motorcar Parts of America, Inc., FAPL Holdings Inc., Jack Shuster, Gordon Fenwick, Paul Fenwick and Joel Fenwick	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 12, 2011.
10.6	Hold Agreement, dated May 6, 2011, between Motorcar Parts of America, Inc. and FAPL Holdings Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on May 12, 2011.
10.7	Escrow Agreement, dated May 6, 2011, by and among Motorcar Parts of America, Inc., FAPL Holdings Inc., Jack Shuster, Gordon Fenwick, Paul Fenwick, Joel Fenwick and Stikeman Elliott LLP	Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed on May 12, 2011.

10.8 Amended and Restated Credit Agreement, dated May 6, 2011, by and among Fenwick Automotive Products Limited, Introcan Inc., Manufacturers and Traders Trust Company, M&T Bank and such other lenders from time to time as may become a party thereto Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed on May 12, 2011.

Table of Contents

Number	Description of Exhibit	Method of Filing
10.10	Financing Agreement, dated as of January 18, 2012, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on January 24, 2012.
10.11	Subscription Agreement, dated April 20, 2012	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on April 23, 2012.
10.12	Registration Rights Agreement, dated April 20, 2012	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on April 23, 2012.
<u>31.1</u>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
<u>31.2</u>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
<u>31.3</u>	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
<u>32.1</u>	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Filed herewith.
101.1	The following financial information from Motorcar Parts of America, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in Extensible Business Reporting Language ("XBRL") and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and (iv) the Condensed Notes to Consolidated Financial Statements, tagged as blocks of text	Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOTORCAR PARTS OF AMERICA, INC

Dated: May 14, 2012

By: /s/ David Lee  
David Lee  
Chief Financial Officer

Dated: May 14, 2012

By: /s/ Kevin Daly  
Kevin Daly  
Chief Accounting Officer