

MOTORCAR PARTS AMERICA INC

Form 10-Q

August 11, 2008

**Table of Contents**

**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 JUNE 30, 2008**

**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 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 12,070,555 shares of Common Stock outstanding at August 4, 2008.



**MOTORCAR PARTS OF AMERICA, INC.**  
**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	4
<u>Consolidated Balance Sheets as of June 30, 2008 (unaudited) and March 31, 2008</u>	4
<u>Consolidated Statements of Operations (unaudited) for the three months ended June 30, 2008 and 2007</u>	5
<u>Consolidated Statements of Cash Flows (unaudited) for the three months ended June 30, 2008 and 2007</u>	6
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4. Controls and Procedures</u>	24
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 6. Exhibits</u>	25
<b><u>SIGNATURES</u></b>	26
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 31.3</u>	
<u>EXHIBIT 32.1</u>	

**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 alternator or starter which has been used in the operation of a vehicle. The Used Core is an original equipment ( OE ) alternator or starter 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 alternator or starter. If 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 alternator or starter that has gone through the remanufacturing process and through that process has become part of a newly remanufactured alternator or starter. 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 alternator or starter. 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**

	<b>June 30, 2008</b> <b>(Unaudited)</b>	<b>March 31, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 354,000	\$ 1,935,000
Short-term investments	395,000	373,000
Accounts receivable net	9,396,000	2,789,000
Inventory net	34,455,000	32,707,000
Deferred income taxes	5,738,000	5,657,000
Inventory unreturned	4,270,000	4,124,000
Prepaid expenses and other current assets	1,842,000	1,608,000
Total current assets	56,450,000	49,193,000
Plant and equipment net	16,257,000	15,996,000
Long-term core inventory	54,585,000	50,808,000
Long-term core inventory deposit	22,687,000	22,477,000
Long-term accounts receivable	60,000	767,000
Long-term deferred income taxes	1,345,000	1,357,000
Goodwill	329,000	
Intangible assets net	1,673,000	
Other assets	372,000	810,000
<b>TOTAL ASSETS</b>	<b>\$ 153,758,000</b>	<b>\$ 141,408,000</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 28,934,000	\$ 32,401,000
Accrued liabilities	787,000	2,200,000
Accrued salaries and wages	3,745,000	3,396,000
Accrued workers compensation claims	2,339,000	2,042,000
Income tax payable	2,211,000	392,000
Line of credit	10,745,000	
Deferred compensation	395,000	373,000
Deferred income	133,000	133,000
Other current liabilities	106,000	448,000
Current portion of capital lease obligations	1,723,000	1,711,000
Total current liabilities	51,118,000	43,096,000
Deferred income, less current portion	89,000	122,000
Deferred core revenue	3,706,000	2,927,000
Deferred gain on sale-leaseback	1,210,000	1,340,000
Other liabilities	543,000	265,000
Capitalized lease obligations, less current portion	2,423,000	2,565,000

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

Total liabilities	59,089,000	50,315,000
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; 12,070,555 shares issued and outstanding at June 30, 2008 and March 31, 2008	121,000	121,000
Additional paid-in capital	92,892,000	92,663,000
Additional paid-in capital-warrant	1,879,000	1,879,000
Shareholder note receivable	(682,000)	(682,000)
Accumulated other comprehensive income	675,000	360,000
Accumulated deficit	(216,000)	(3,248,000)
Total shareholders' equity	94,669,000	91,093,000
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 153,758,000</b>	<b>\$ 141,408,000</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)**

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
Net sales	\$ 32,705,000	\$ 35,441,000
Cost of goods sold	21,225,000	25,241,000
Gross profit	11,480,000	10,200,000
Operating expenses:		
General and administrative	4,202,000	4,788,000
Sales and marketing	1,012,000	929,000
Research and development	462,000	275,000
Total operating expenses	5,676,000	5,992,000
Operating income	5,804,000	4,208,000
Other expense (income):		
Interest expense	832,000	1,657,000
Interest income	(14,000)	(14,000)
Income before income tax expense	4,986,000	2,565,000
Income tax expense	1,954,000	973,000
Net income	\$ 3,032,000	\$ 1,592,000
Basic net income per share	\$ 0.25	\$ 0.16
Diluted net income per share	\$ 0.25	\$ 0.16
Weighted average number of shares outstanding:		
Basic	12,070,555	9,904,076
Diluted	12,193,667	10,186,077

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)**

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net income	\$ 3,032,000	\$ 1,592,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	762,000	608,000
Amortization of intangible assets	30,000	
Amortization of deferred gain on sale-leaseback	(130,000)	(130,000)
Provision for inventory reserves	168,000	514,000
Provision for customer payment discrepancies	145,000	235,000
Provision for doubtful accounts	6,000	178,000
Deferred income taxes	(100,000)	(138,000)
Share-based compensation expense	229,000	278,000
Impact of tax benefit on APIC pool		(49,000)
Changes in current assets and liabilities:		
Accounts receivable	(6,979,000)	(4,564,000)
Inventory	(558,000)	4,721,000
Income tax receivable		1,378,000
Inventory unreturned	(146,000)	950,000
Prepaid expenses and other current assets	(221,000)	435,000
Other assets	441,000	(10,000)
Accounts payable and accrued liabilities	(4,529,000)	(17,183,000)
Income tax payable	1,846,000	(182,000)
Deferred compensation	22,000	62,000
Deferred income	(33,000)	(33,000)
Deferred core revenue	779,000	283,000
Long-term accounts receivable	707,000	
Long-term core inventory	(2,283,000)	(523,000)
Long-term core inventory deposits	(210,000)	(183,000)
Other current liabilities	(320,000)	(12,000)
Net cash used in operating activities	(7,342,000)	(11,773,000)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(532,000)	(595,000)
Purchase of business assets, net	(4,164,000)	
Change in short term investments	(12,000)	(27,000)
Net cash used in investing activities	(4,708,000)	(622,000)
Cash flows from financing activities:		
Borrowings under line of credit	14,445,000	14,400,000
Repayments under line of credit	(3,700,000)	(37,200,000)
Net payments on capital lease obligations	(445,000)	(382,000)
Exercise of stock options		37,000
Excess tax benefit from employee stock options exercised		47,000



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

Proceeds from issuance of common stock and warrants		40,061,000
Stock issuance costs		(2,947,000)
Impact of tax benefit on APIC pool		49,000
Net cash provided by financing activities	10,300,000	14,065,000
Effect of exchange rate changes on cash	169,000	30,000
Net (decrease) increase in cash and cash equivalents	(1,581,000)	1,700,000
Cash and cash equivalents Beginning of period	1,935,000	349,000
Cash and cash equivalents End of period	\$ 354,000	\$ 2,049,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 762,000	\$ 1,730,000
Income taxes	129,000	(386,000)
Non-cash investing and financing activities:		
Property acquired under capital lease	\$ 315,000	\$
Holdback on purchase of business assets	500,000	

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**  
**June 30, 2008 and 2007**  
**(Unaudited)**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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 months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2009. 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, 2008, which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on June 16, 2008.

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 B 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, 2008, except as discussed in Note 14 below.

Certain items in the Consolidated Balance Sheet for the fiscal year ended March 31, 2008 have been reclassified to conform to fiscal 2009 classifications.

**1. Company Background and Organization**

Motorcar Parts of America, Inc. and its subsidiaries (the Company or MPA) remanufacture and distribute alternators and starters for imported and domestic cars and light trucks. 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 a major U.S. automobile manufacturer.

The Company obtains used alternators and starters, commonly known as Used Cores, primarily from its customers (retailers) as trade-ins. It also purchases Used Cores from vendors (core brokers). The retailers grant credit to the consumer when the used part is returned to them, and the Company in turn provides a credit to the retailer 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, Singapore and Malaysia. In addition, the Company utilizes third party warehouse distribution centers in Fairfield, New Jersey and Springfield, Oregon.

In September 2007, the Company exercised its right to cancel the lease of its Torrance, California facility with respect to approximately 80,000 square feet currently utilized for core receipt, storage and packing. This cancellation was effective May 31, 2008. The Company transitioned these functions to its facilities in Mexico.

The Company operates in one business segment pursuant to Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of Enterprise and Related Information*.

**2. Acquisition**

On May 16, 2008, the Company completed the acquisition of certain assets of Automotive Importing Manufacturing, Inc. (AIM), specifically its operation which produced new and remanufactured alternators and starters for imported and domestic passenger vehicles. These products are sold under Talon, Xtreme and other brand names. The acquisition was consummated pursuant to a signed definitive purchase agreement, dated April 24, 2008.

The Company believes the acquisition of AIM expands its customer base and product line, including the addition of business in heavy duty alternator and starter applications. Pro forma information is not presented as the assets and results of operations of AIM and the purchase price were not significant to the Company's consolidated financial position or results of operations.

**Table of Contents****MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES**

The following table reflects the preliminary allocation of the purchase price:

**Consideration and acquisition costs:**

Cash consideration	\$ 3,727,000
Purchase price hold back	500,000
Acquisition costs	437,000
	<b>\$ 4,664,000</b>

**Purchase Price Allocation:**

Accounts receivable, net of allowances	\$ (221,000)
Inventory	2,853,000
Trademarks	212,000
Customer relationships	1,441,000
Non-compete agreements	50,000
Goodwill	329,000
	<b>\$ 4,664,000</b>

Total purchase price

The definitive purchase agreement was amended on May 16, 2008. The amendment provided for an additional contingent consideration of up to \$400,000 to AIM if the net sales to certain customers exceed an agreed upon dollar threshold during the period June 1, 2008 to May 31, 2009. Any subsequent payment under this arrangement would increase the total purchase price and would be allocated to goodwill.

The results of operations of the certain assets acquired from AIM are included in the Consolidated Statement of Operations from the date of acquisition.

**3. Goodwill and Intangible Assets**

The Company accounts for goodwill under the guidance set forth in SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS No. 142 ), which specifies that goodwill and indefinite-lived intangibles should not be amortized. The Company evaluates goodwill for impairment on an annual basis or more frequently if events or circumstances occur that would indicate a reduction in fair value of the Company. The Company's intangible assets other than goodwill are finite-lived and amortized on a straight-line basis over their respective useful lives and are analyzed for impairment under the guidance set forth in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* ( SFAS No. 144 ) when and if indicators of impairment exist. The following is a summary of the Company's intangible assets as of June 30, 2008 which resulted from the acquisition of AIM during the period. The Company had no goodwill or intangible assets at March 31, 2008.

		<b>June 30, 2008</b>	
	<b>Amortization Period</b>	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>
<b>Intangible assets subject to amortization</b>			
Trademarks	7 years	\$ 212,000	\$ 4,000
Customer relationships	7 years	1,441,000	25,000
Non-compete agreements	5 years	50,000	1,000
Total		<b>\$ 1,703,000</b>	<b>\$ 30,000</b>

**Intangible assets not subject to amortization**

Goodwill		\$ 329,000	\$
----------	--	------------	----

---

**Table of Contents****MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES**

Amortization expense related to intangible assets was \$30,000 during the three months ended June 30, 2008. The aggregate estimated amortization expense for intangible assets is as follows:

**Year ending March 31,**

2009 remaining nine months	\$ 185,000
2010	246,000
2011	246,000
2012	246,000
2013	246,000
Thereafter	504,000
<b>Total</b>	<b>\$ 1,673,000</b>

**4. Accounts Receivable Net**

Included in Accounts receivable net are significant offset accounts related to customer allowances earned, customer payment discrepancies, in-transit and estimated future 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:

	<b>June 30, 2008</b>	<b>March 31, 2008</b>
Accounts receivable trade	\$ 34,778,000	\$ 25,740,000
Allowance for bad debts	(24,000)	(18,000)
Customer allowances earned	(2,945,000)	(2,178,000)
Customer payment discrepancies	(497,000)	(492,000)
Customer finished goods returns accruals	(8,813,000)	(7,977,000)
Customer core returns accruals	(13,103,000)	(12,286,000)
<b>Less: total accounts receivable offset accounts</b>	<b>(25,382,000)</b>	<b>(22,951,000)</b>
<b>Total accounts receivable net</b>	<b>\$ 9,396,000</b>	<b>\$ 2,789,000</b>

**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 units sales. The warranty return accrual is included under the customer finished goods returns accruals in the above table.

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

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ (2,824,000)	\$ (3,455,000)
Charged to expenses	7,963,000	5,837,000
Amounts processed	(7,478,000)	(7,043,000)

Balance at end of period	\$ (3,309,000)	\$ (2,249,000)
--------------------------	----------------	----------------

**Table of Contents****MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES****5. Inventory**

Non-core inventory, Inventory unreturned, Long-term core inventory, Long-term core inventory deposit is comprised of the following:

	<b>June 30, 2008</b>	<b>March 31, 2008</b>
<b>Non-core inventory</b>		
Raw materials	\$ 10,878,000	\$ 11,406,000
Work-in-process	97,000	155,000
Finished goods	25,710,000	23,206,000
	36,685,000	34,767,000
Less allowance for excess and obsolete inventory	(2,230,000)	(2,060,000)
Total	\$ 34,455,000	\$ 32,707,000
<b>Inventory unreturned</b>	\$ 4,270,000	\$ 4,124,000
<b>Long-term core inventory</b>		
Used cores held at company's facilities	\$ 10,886,000	\$ 12,630,000
Used cores expected to be returned by customers	3,507,000	2,255,000
Remanufactured goods held in finished goods	17,662,000	15,407,000
Remanufactured cores held at customers locations	23,230,000	21,218,000
	55,285,000	51,510,000
Less allowance for excess and obsolete inventory	(700,000)	(702,000)
Total	\$ 54,585,000	\$ 50,808,000
<b>Long-term core inventory deposit</b>	\$ 22,687,000	\$ 22,477,000

**6. Major Customers**

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

	<b>Three Months Ended June 30,</b>	
<b>Sales</b>	<b>2008</b>	<b>2007</b>
Customer A	46%	57%
Customer B	15%	6%
Customer C	12%	8%
Customer D	11%	13%
Customer E	11%	11%
<b>Accounts Receivable</b>	<b>June 30,</b>	<b>March 31, 2008</b>

	<b>2008</b>	
Customer A	16%	19%
Customer B	25%	24%
Customer C	31%	31%
Customer D	13%	5%
Customer E	7%	11%

For the three months ended June 30, 2008, one supplier provided approximately 23% of the raw materials purchased.

For the three months ended June 30, 2007, two suppliers provided approximately 18% and 17% of the



**Table of Contents****MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES**

raw materials purchased, respectively. No other supplier accounted for more than 10% of the Company's raw materials purchases for the three months ended June 30, 2008 or 2007.

**7. Line of Credit; Factoring Agreements**

On October 24, 2007, the Company entered into an amended and restated credit agreement (the "Credit Agreement") with its bank. Under the Credit Agreement, the bank continues to provide the Company with a revolving loan (the "Revolving Loan") of up to \$35,000,000, including obligations under outstanding letters of credit, which may not exceed \$7,000,000. In January 2008, the Company entered into an amendment to the Credit Agreement with its bank. This amendment extended the expiration date of the credit facility to October 1, 2009.

In May 2008, the Company's Credit Agreement was further amended to allow the Company, among other things, to borrow up to \$15,000,000 under the Revolving Loan for the purpose of consummating certain permitted acquisitions. The aggregate consideration paid for any single permitted acquisition may not exceed \$7,500,000, and the aggregate consideration paid for all permitted acquisitions made during the term of the Credit Agreement may not exceed \$20,000,000. Pursuant to the terms of this amendment, the Company may continue to use the entire available amount under the Revolving Loan for working capital and general corporate purposes.

The bank holds a security interest in substantially all of the Company's assets. At June 30, 2008, the balance of the Revolving Loan was \$10,745,000. There was no outstanding balance on the Revolving Loan at March 31, 2008. Additionally, the Company had reserved \$3,001,000 of the Revolving Loan for standby letters of credit for worker's compensation insurance as of June 30, 2008. As of June 30, 2008, \$21,254,000 was available under the Revolving Loan.

The Credit Agreement, among other things, continues to require the Company to maintain certain financial covenants, including cash flow, fixed charge coverage ratio and leverage ratio and a number of restrictive covenants, including limits on capital expenditures and operating leases, prohibitions against additional indebtedness, payment of dividends, pledge of assets and loans to officers and/or affiliates. In addition, it is an event of default under the loan agreement if Selwyn Joffe is no longer the Company's CEO.

The Company was in compliance with all financial covenants under the Credit Agreement as of June 30, 2008. Under two separate agreements executed on July 30, 2004 and August 21, 2003 with two customers and their respective banks, 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 have allowed the Company to accelerate collection of customer receivables aggregating \$16,406,000 and \$21,397,000 for the three months ended June 30, 2008 and 2007, respectively, by an average of 310 days and 281 days, respectively. On an annualized basis, the weighted average discount rate on the receivables sold to the banks during the three months ended June 30, 2008 and 2007 was 4.5% and 6.5%, respectively. The amount of the discount on these receivables, \$609,000 and \$1,184,000 for the three months ended June 30, 2008 and 2007, respectively, was recorded as interest expense. In May 2008, one of these customers elected to suspend the use of its receivable discount program, but has advised the Company that it may be in a position to re-open the use of this program sometime in the future.

**8. Stock Options and Share-Based Payments**

The Company adopted FAS No. 123(R), effective April 1, 2006, using the modified prospective adoption method. The Company did not modify the terms of any previously granted options in anticipation of the adoption of FAS No. 123(R). The Company recognized stock-based compensation expense of \$229,000 and \$278,000 for the three months ended June 30, 2008 and 2007, respectively. The Company granted 50,000 stock options during the three months ended June 30, 2008. No stock options were granted during the three months ended June 30, 2007.

At June 30, 2008, there was \$399,000 of total unrecognized compensation expense from stock-based compensation granted under the plans, which is related to non-vested shares. The compensation expense is expected to be recognized over a weighted average vesting period of 1.1 years.

**Table of Contents**

**MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES**

**9. Net Income Per Share**

Basic net 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 income per share.

	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Net income	\$ 3,032,000	\$ 1,592,000