

MOTORCAR PARTS AMERICA INC
Form 10-Q
March 07, 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 SEPTEMBER 30, 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 12,533,321 shares of Common Stock outstanding at March 1, 2012.

MOTORCAR PARTS OF AMERICA, INC.

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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.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2011 (Unaudited)	March 31, 2011
ASSETS		
Current assets:		
Cash	\$1,197,000	\$2,477,000
Short-term investments	281,000	304,000
Accounts receivable — net	35,411,000	10,635,000
Inventory— net	116,241,000	29,733,000
Inventory unreturned	13,489,000	5,031,000
Deferred income taxes	5,722,000	5,658,000
Prepaid expenses and other current assets	4,756,000	6,299,000
Total current assets	177,097,000	60,137,000
Plant and equipment — net	15,198,000	11,663,000
Long-term core inventory — net	188,151,000	80,558,000
Long-term core inventory deposit	26,473,000	25,984,000
Long-term deferred income taxes	1,563,000	1,346,000
Long-term note receivable	-	4,863,000
Goodwill	37,337,000	-
Intangible assets — net	45,097,000	5,530,000
Other assets	1,887,000	1,784,000
TOTAL ASSETS	\$492,803,000	\$191,865,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$115,271,000	\$38,973,000
Accrued liabilities	18,931,000	7,318,000
Customer finished goods returns accrual	25,302,000	9,161,000
Revolving loan	37,500,000	-
Other current liabilities	2,494,000	918,000
Current portion of term loan	2,000,000	2,000,000
Current portion of capital lease obligations	644,000	372,000
Total current liabilities	202,142,000	58,742,000
Term loan, less current portion	14,500,000	5,500,000
Revolving loan	47,748,000	-
Deferred core revenue	9,160,000	8,729,000
Customer core returns accrual (see Note 2)	107,399,000	-
Other liabilities	1,296,000	1,255,000
Capital lease obligations, less current portion	307,000	462,000
Total liabilities	382,552,000	74,688,000
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	-	-

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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	121,000
Treasury stock, at cost, 14,400 shares of common stock at September 30, 2011 and March 31, 2011, respectively	(89,000)	(89,000)
Additional paid-in capital	98,580,000	93,140,000
Additional paid-in capital-warrant	1,879,000	1,879,000
Accumulated other comprehensive loss	(821,000)	(349,000)
Retained earnings	10,577,000	22,475,000
Total shareholders' equity	110,251,000	117,177,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$492,803,000	\$191,865,000

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net sales	\$107,616,000	\$40,977,000	\$178,126,000	\$77,211,000
Cost of goods sold	92,344,000	28,295,000	153,526,000	52,984,000
Gross profit	15,272,000	12,682,000	24,600,000	24,227,000
Operating expenses:				
General and administrative	11,771,000	3,571,000	20,377,000	7,595,000
Sales and marketing	3,197,000	1,201,000	5,650,000	2,941,000
Research and development	401,000	396,000	817,000	762,000
Acquisition costs	309,000	-	713,000	-
Total operating expenses	15,678,000	5,168,000	27,557,000	11,298,000
Operating (loss) income	(406,000)	7,514,000	(2,957,000)	12,929,000
Interest expense	3,389,000	1,701,000	5,303,000	3,303,000
(Loss) income before income tax expense	(3,795,000)	5,813,000	(8,260,000)	9,626,000
Income tax expense	1,796,000	2,312,000	3,638,000	3,605,000
Net (loss) income	\$(5,591,000)	\$3,501,000	\$(11,898,000)	\$6,021,000
Basic net (loss) income per share	\$(0.45)	\$0.29	\$(0.96)	\$0.50
Diluted net (loss) income per share	\$(0.45)	\$0.29	\$(0.96)	\$0.49
Weighted average number of shares outstanding:				
Basic	12,451,600	12,038,636	12,367,030	12,043,818
Diluted	12,451,600	12,202,507	12,367,030	12,220,257

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

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

	Six Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net (loss) income	\$(11,898,000)	\$6,021,000
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	2,685,000	1,575,000
Amortization of intangible assets	1,711,000	387,000
Amortization of deferred gain on sale-leaseback	-	(262,000)
Amortization of deferred financing costs	43,000	42,000
Provision for inventory reserves	294,000	699,000
Provision for customer payment discrepancies	59,000	152,000
Net provision for (recovery of) doubtful accounts	46,000	(98,000)
Deferred income taxes	(316,000)	173,000
Share-based compensation expense	27,000	29,000
Impact of tax benefit on APIC pool from stock options exercised	67,000	3,000
Gain on redemption of short-term investment	-	(25,000)
Loss on disposal of assets	-	30,000
Changes in current assets and liabilities:		
Accounts receivable	(5,833,000)	5,499,000
Inventory	(20,596,000)	3,442,000
Inventory unreturned	174,000	(442,000)
Prepaid expenses and other current assets	3,770,000	785,000
Other assets	(124,000)	(115,000)
Accounts payable and accrued liabilities	(3,787,000)	(434,000)
Customer finished goods returns accrual	(2,511,000)	(758,000)
Deferred core revenue	431,000	1,677,000
Long-term core inventory	(14,357,000)	(8,704,000)
Long-term core inventory deposits	(489,000)	(216,000)
Customer core returns accrual	4,861,000	-
Other liabilities	509,000	(380,000)
Net cash (used in) provided by operating activities	(45,234,000)	9,080,000
Cash flows from investing activities:		
Purchase of plant and equipment	(678,000)	(540,000)
Purchase of businesses	-	(464,000)
Long-term note receivable	-	(1,894,000)
Change in short term investments	(21,000)	186,000
Net cash used in investing activities	(699,000)	(2,712,000)
Cash flows from financing activities:		
Borrowings under revolving loan	106,694,000	30,700,000
Repayments under revolving loan	(70,990,000)	(30,700,000)
Proceeds from term loan	10,000,000	-
Repayments of term loan	(1,000,000)	(1,000,000)
Deferred financing costs	-	(16,000)
Payments on capital lease obligations	(300,000)	(786,000)
Exercise of stock options	257,000	69,000

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Excess tax benefit from employee stock options exercised	213,000	44,000
Impact of tax benefit on APIC pool from stock options exercised	(67,000)	(3,000)
Repurchase of common stock, including fees	-	(89,000)
Proceeds from issuance of common stock	-	1,000
Net cash provided by (used in) financing activities	44,807,000	(1,780,000)
Effect of exchange rate changes on cash	(154,000)	17,000
Net (decrease) increase in cash	(1,280,000)	4,605,000
Cash — Beginning of period	2,477,000	1,210,000
Cash — End of period	\$ 1,197,000	\$ 5,815,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net	\$ 3,307,000	\$ 3,288,000
Income taxes, net of refunds	1,544,000	3,487,000
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.

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements

September 30, 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 six months ended September 30, 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 “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.

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.

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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 in its first quarter ended June 30, 2011 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, reclassification adjustments, exchange related adjustments, and the subsequent change in valuation estimates made in the second quarter are presented in the following table. These second 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 inventory, including long-term core inventory, inventory reserves, accounts receivable reserves, and the customer core returns accrual. In addition, the functional currency of the acquired company was determined to be the US dollar as of the acquisition date on May 6, 2011.

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US\$						
Consideration						
Stock issued (1)	\$ 4,946,000					
Total	\$ 4,946,000					
	Provisional Estimated Fair Value	Reclassification Adjustments	Subsequent Change in Valuation Estimates	Exchange Related Adjustments	Revised Provisional Estimated Fair Value	Estimated Useful Life
Accounts receivable, net of allowances	\$ 24,729,000		\$ (738,000)	\$ 96,000	\$ 24,087,000	
Inventory	84,117,000	(17,514,000)	(1,375,000)	6,000	65,234,000	
Long-term core inventory	79,163,000	17,514,000	(2,460,000)		94,217,000	
Inventory unreturned	8,631,000				8,631,000	
Prepaid expenses	2,356,000			(24,000)	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	6,643,000			(402,000)	6,241,000	
Revolving loan	(49,458,000)			(86,000)	(49,544,000)	
Accounts payable and accrued liabilities	(96,778,000)	1,462,000	(1,600,000)	(156,000)	(97,072,000)	
Customer core returns accrual (2)	(76,707,000)		(25,831,000)		(102,538,000)	
Income taxes payable	(223,000)				(223,000)	
Customer finished goods returns accrual	(16,857,000)	(1,462,000)	(333,000)		(18,652,000)	
Capital lease obligations	(417,000)				(417,000)	
Debenture loan - due to registrant	(4,891,000)			(32,000)	(4,923,000)	
Term loan	(1,042,000)				(1,042,000)	
Fair value of net assets acquired	544,000	-	(32,337,000)	(598,000)	(32,391,000)	
Goodwill on acquisition	\$ 4,402,000	\$ -	\$ 32,337,000	\$ 598,000	\$ 37,337,000	

(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 September 30, 2011. The change to original estimates was due to additional third party confirmation of such liabilities for customers

holding unreturned cores. The additional confirmations identified actual product net pricing which is the basis for return credits and inventory turn rates with specific customers, which resulted in a higher estimate of the fair value of customer core return liabilities than had previously been estimated. 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 \$37,337,000 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 September 30, 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.

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.

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	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net sales	\$ 107,616,000	\$ 101,059,000	\$ 204,660,000	\$ 189,280,000
Operating (loss) income	(406,000)	8,942,000	(4,601,000)	11,906,000
(Loss) income before income tax expense	(3,795,000)	4,835,000	(10,697,000)	3,888,000
Net (loss) income	(5,591,000)	2,523,000	(14,542,000)	283,000
Basic net (loss) income per share	\$ (0.45)	\$ 0.20	\$ (1.18)	\$ 0.02
Diluted net (loss) income per share	\$ (0.45)	\$ 0.20	\$ (1.18)	\$ 0.02

3. Intangible Assets

The following is a summary of the Company's intangible assets subject to amortization at September 30, 2011 and March 31, 2011.

	Weighted Average Amortization Period	September 30, 2011		March 31, 2011	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Trademarks	20 years	\$ 20,216,000	\$ 635,000	\$ 553,000	\$ 189,000
Customer relationships	10 years	27,995,000	2,669,000	6,464,000	1,447,000
Non-compete agreements	3 years	341,000	151,000	257,000	108,000
Total	13 years	\$ 48,552,000	\$ 3,455,000	\$ 7,274,000	\$ 1,744,000

Amortization expense for acquired intangible assets for the three and six months ended September 30, 2011 and 2010 is as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Amortization expense	\$ 987,000	\$ 193,000	\$ 1,711,000	\$ 387,000

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

Year Ending March 31,	
2012 - remaining 6 months	\$ 1,976,000
2013	3,952,000
2014	3,878,000
2015	3,807,000
2016	3,485,000
Thereafter	27,999,000

Total	\$ 45,097,000
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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:

	September 30, 2011	March 31, 2011
Accounts receivable — trade	\$ 84,937,000	\$ 33,066,000
Allowance for bad debts	(1,096,000)	(1,026,000)
Customer allowances earned	(18,346,000)	(6,644,000)
Customer payment discrepancies	(250,000)	(648,000)
Customer returns RGA issued	(7,806,000)	(3,719,000)
Customer core returns accruals	(22,028,000)	(10,394,000)
Less: total accounts receivable offset accounts	(49,526,000)	(22,431,000)
Total accounts receivable — net	\$ 35,411,000	\$ 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 September 30, 2011, the warranty return accrual of \$1,842,000 was included under the customer returns RGA issued in the above table and the warranty estimate of \$5,482,000 was included in customer finished goods returns accrual in the consolidated balance sheets.

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

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Balance at beginning of period (1)	\$(7,120,000)	\$(3,594,000)	\$(8,969,000)	\$(3,445,000)
Charged to expense	11,633,000	10,254,000	22,508,000	19,219,000
Amounts processed	(11,429,000)	(10,873,000)	(24,153,000)	(19,689,000)
Balance at end of period	\$(7,324,000)	\$(2,975,000)	\$(7,324,000)	\$(2,975,000)

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.

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5. Inventory

Inventory is comprised of the following:

	September 30, 2011	March 31, 2011
Non-core inventory		
Raw materials	\$ 39,995,000	\$ 11,805,000
Work-in-process	145,000	104,000
Finished goods	83,412,000	19,579,000
	123,552,000	31,488,000
Less allowance for excess and obsolete inventory	(7,311,000)	(1,755,000)
Total	\$ 116,241,000	\$ 29,733,000
Inventory unreturned	\$ 13,489,000	\$ 5,031,000
Long-term core inventory		
Used cores held at the Company's facilities	\$ 47,295,000	\$ 22,112,000
Used cores expected to be returned by customers	4,212,000	3,467,000
Remanufactured cores held in finished goods	31,708,000	13,994,000
Remanufactured cores held at customers' locations	110,411,000	41,829,000
	193,626,000	81,402,000
Less allowance for excess and obsolete inventory	(5,475,000)	(844,000)
Total	\$ 188,151,000	\$ 80,558,000
Long-term core inventory deposit	\$ 26,473,000	\$ 25,984,000

6. Major Customers

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

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Customer A	43%	48%	40%	48%
Customer B	7%	21%	8%	19%
Customer C	4%	6%	4%	8%
Customer D	15%	4%	13%	4%

	September 30, 2011		March 31, 2011	
Accounts receivable - trade				
Customer A	30	%	26	%
Customer B	10	%	13	%
Customer C	8	%	17	%
Customer D	14	%	2	%

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

Significant supplier purchases	Three Months Ended				Six Months Ended			
	September 30,		2010		September 30,		2010	
	2011	%	2010	%	2011	%	2010	%
Supplier A	2	%	15	%	3	%	18	%
Supplier B	11	%	-		13	%	-	

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 \$37,500,000 at September 30, 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 \$4,731,000 for commercial letters of credit as of September 30, 2011. As of September 30, 2011, \$6,643,000 was available under the Old Parent Company Revolving Loan.

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.

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 September 30, 2011, approximately \$2,581,000 was available under the Fenco Revolving Facility.

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As of September 30, 2011, \$47,748,000 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.

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 September 30, 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 September 30, 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 March 5, 2012, the Fenco Borrowers obtained a waiver for non-compliance with these covenants which also extended the delivery date to submit the December 31, 2011 financial statements to March 31, 2012.

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:

	Six Months Ended September 30,			
	2011		2010	
Receivables discounted	\$	133,222,000	\$	70,950,000
Weighted average days		312		325
Annualized weighted average discount rate		2.9	%	4.5
Amount of discount as interest expense	\$	3,363,000	\$	2,855,000

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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 September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net (loss) income	\$(5,591,000)	\$3,501,000	\$(11,898,000)	\$6,021,000
Basic shares	12,451,600	12,038,636	12,367,030	12,043,818
Effect of dilutive stock options and warrants	-	163,871	-	176,439
Diluted shares	12,451,600	12,202,507	12,367,030	12,220,257
Net (loss) income per share:				
Basic	\$(0.45)	\$0.29	\$(0.96)	\$0.50
Diluted	\$(0.45)	\$0.29	\$(0.96)	\$0.49

The effect of dilutive options and warrants excludes 1,506,534 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 six months ended September 30, 2011— all of which were anti-dilutive. The effect of dilutive options and warrants excludes 1,144,984 shares subject to options and 546,283 shares subject to warrants with exercise prices ranging from \$7.27 to \$15.00 per share for the three and six months ended September 30, 2010, respectively — all of which were anti-dilutive.

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 September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net (loss) income	\$ (5,591,000)	\$ 3,501,000	\$ (11,898,000)	\$ 6,021,000
Unrealized (loss) gain on short-term investments	(26,000)	13,000	(26,000)	(14,000)
Foreign currency translation	(731,000)	428,000	(446,000)	459,000
Comprehensive net (loss) income	\$ (6,348,000)	\$ 3,942,000	\$ (12,370,000)	\$ 6,466,000

11. Income Taxes

The Company recorded income tax expenses for the six months ended September 30, 2011. This is primarily due to not recognizing income tax benefits related to the net losses of the Fenco operations for the six months ended September 30, 2011 due primarily to the recoverability of these tax benefits not being deemed by the Company to be more likely than not to be realized. For the six months ended September 30, 2011, the Company recorded \$123,000 of income tax expense specifically related to the Fenco subsidiaries located in Mexico, a separate tax jurisdiction.

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The income tax expenses reflect income tax rates of 38.7%, 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 foreign taxing jurisdictions. In addition, the Company's income tax rates for the six months ended September 30, 2011 were impacted by an additional 1.4% 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.

The Company had forward foreign currency exchange contracts with a U.S. dollar equivalent notional value of \$16,230,000 and \$9,356,000 at September 30, 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 September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
	\$ 1,799,000	\$ (139,000)	\$ 1,887,000	\$ 332,000

Forward foreign currency exchange
contracts

The fair value of the forward foreign currency exchange contracts of \$1,532,000 is included in other current liabilities in the consolidated balance sheet at September 30, 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.

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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 September 30, 2011 and March 31, 2011:

	September 30, 2011 Fair Value Measurements Using Inputs Considered as				March 31, 2011 Fair Value Measurements Using Inputs Considered as			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets								
Short-term investments								
Mutual funds	\$ 281,000	\$ 281,000	-	-	\$ 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								
	281,000	281,000	-	-	304,000	304,000	-	-
Forward foreign currency exchange contracts								
	1,532,000	-	\$ 1,532,000	-	-	-	-	-

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 September 30, 2011 and 2010, a loss of \$1,799,000 and a gain of \$139,000, respectively, were 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 six months ended September 30, 2011 and 2010, a loss of \$1,887,000 and \$332,000, respectively, were 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 three and six months ended September 30, 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. 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.

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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:

Selected income statement data	Three months ended September 30, 2011			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net sales to external customers	\$ 45,737,000	\$ 61,879,000	\$ -	\$ 107,616,000
Intersegment revenue, net of cost	836,000	-	(836,000)	-
Gross profit (loss)	15,091,000	(45,000)	226,000	15,272,000
Operating income (loss)	5,480,000	(6,112,000)	226,000	(406,000)
Net income (loss)	3,026,000	(8,843,000)	226,000	(5,591,000)

Selected income statement data	Three months ended September 30, 2010			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net sales to external customers	\$ 40,977,000	\$ -	\$ -	\$ 40,977,000
Gross profit	12,682,000	-	-	12,682,000
Operating income	7,514,000	-	-	7,514,000
Net income	3,501,000	-	-	3,501,000

Selected income statement data	Six months ended September 30, 2011			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net sales to external customers	\$84,753,000	\$ 93,373,000	\$-	\$ 178,126,000
Intersegment revenue, net of cost	1,612,000	-	(1,612,000)	-
Gross profit.	27,847,000	(3,247,000)	-	24,600,000
Operating income (loss)	10,272,000	(13,229,000)	-	(2,957,000)
Net income (loss)	5,252,000	(17,150,000)	-	(11,898,000)

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Six months ended September 30, 2010

Selected income statement data	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net sales to external customers	\$ 77,211,000	\$ -	\$ -	\$ 77,211,000
Gross profit	24,227,000	-	-	24,227,000
Operating income	12,929,000	-	-	12,929,000
Net income	6,021,000	-	-	6,021,000

September 30, 2011

Selected balance sheet data	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Current assets	\$ 87,991,000	\$ 114,680,000	\$ (25,574,000)	\$ 177,097,000
Non-current assets	164,422,000	182,097,000	(30,813,000)	315,706,000
Total assets	\$ 252,413,000	\$ 296,777,000	\$ (56,387,000)	\$ 492,803,000
Current liabilities	\$ 110,350,000	\$ 117,350,000	\$ (25,558,000)	\$ 202,142,000
Non-current liabilities	14,646,000	191,630,000	(25,866,000)	180,410,000
Total liabilities	124,996,000	308,980,000	(51,424,000)	382,552,000
Equity (deficit)	127,417,000	(12,203,000)	(4,963,000)	110,251,000
Total liabilities and equity	\$ 252,413,000	\$ 296,777,000	\$ (56,387,000)	\$ 492,803,000

March 31, 2011

Selected balance sheet data	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

Six months ended September 30, 2011

Selected cash flow data	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 4,076,000	\$ (49,310,000)	\$ -	\$ (45,234,000)
Net cash used in investing activities	(625,000)	(74,000)	-	(699,000)
Net cash provided by financing activities	36,708,000	8,099,000	-	44,807,000
Effect of exchange rate changes on cash	(154,000)	-	-	(154,000)
Cash — Beginning of period	2,477,000	-	-	2,477,000
Cash — End of period	857,000	340,000	-	1,197,000
Additional selected financial data				
Depreciation and amortization	\$ 1,777,000	\$ 2,619,000	\$ -	\$ 4,396,000
Capital expenditures	604,000	74,000	-	678,000

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Selected cash flow data	Six months ended September 30, 2010			
	Rotating Electrical	Under-the-Car Product Line	Eliminations	Consolidated
Net cash provided by operating activities.	\$ 9,080,000	\$ -	\$ -	\$ 9,080,000
Net cash used in investing activities	(2,712,000)	-	-	(2,712,000)
Net cash used in financing activities	(1,780,000)	-	-	(1,780,000)
Effect of exchange rate changes on cash	17,000	-	-	17,000
Cash — Beginning of period	1,210,000	-	-	1,210,000
Cash — End of period	5,815,000	-	-	5,815,000
Additional selected financial data				
Depreciation and amortization	\$ 1,962,000	\$ -	\$ -	\$ 1,962,000
Capital expenditures	540,000	-	-	540,000

15. 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 in its first quarter ended June 30, 2011 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. These second quarter adjustments to the provisional amounts previously recorded were made retrospectively to the acquisition date and adjustments were primarily related to valuation of inventory, including long-term core inventory, inventory reserves, accounts receivable reserves, and the customer core returns accrual.

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The consolidated results of operations for the three months ended June 30, 2011 as previously reported, the retrospective impact of the above adjustments, and the restated consolidated results of operations for the three months ended June 30, 2011 are presented in the table below:

	As Previously Reported	Three Months Ended June 30, 2011 (Unaudited) Adjustments	As Restated
Net sales	\$ 71,262,000	\$ (752,000) (1)	\$ 70,510,000
Cost of goods sold	58,136,000	3,046,000 (2)	61,182,000
Gross profit	13,126,000	(3,798,000)	9,328,000
Operating expenses:			
General and administrative	8,510,000	96,000	8,606,000
Sales and marketing	2,398,000	55,000	2,453,000
Research and development	416,000	-	416,000
Acquisition costs	404,000	-	404,000
Total operating expenses	11,728,000	151,000	11,879,000
Operating income	1,398,000	(3,949,000)	(2,551,000)
Interest expense	1,932,000	(18,000)	1,914,000
Loss before income tax expense	(534,000)	(3,931,000)	(4,465,000)
Income tax expense	1,842,000	-	1,842,000
Net loss	\$ (2,376,000)	\$ (3,931,000)	\$ (6,307,000)
Basic net loss per share.	\$ (0.19)		\$ (0.51)
Diluted net loss per share	\$ (0.19)		\$ (0.51)
Weighted average number of shares outstanding:			
Basic	12,281,530		12,281,530
Diluted	12,281,530		12,281,530

1) Represents the amounts of certain customer allowances and warranty accruals which were previously recorded in net sales during the first quarter ended June 30, 2011 that have now been recorded in the revised provisional estimates of fair value as of the acquisition date.

2) Primarily due to the revised fair value of the May 6, 2011 finished good inventory to include all the appropriate core material, labor, and overhead costs per unit which increased the cost of goods sold recorded during the first quarter ended June 30, 2011 from what was previously recorded.

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The consolidated balance sheet as of June 30, 2011 as previously reported, the retrospective impact of the above adjustments, and the restated consolidated balance sheet as of June 30, 2011 are presented in the table below:

	June 30, 2011 (Unaudited)		Change in	Impact		
	As Previously	Reclassification	Opening	ofChange in	Foreign	
	Reported	Adjustments	Valuation	Opening	Currency	As Restated
			Estimates	Valuation	Adjustments (1)	
ASSETS						
Current assets:						
Cash	\$ 1,275,000	\$-	\$-	\$-	\$-	\$ 1,275,000
Short-term investments	311,000	-	-	-	-	311,000
Accounts receivable — net	34,963,000	10,277,000	(738,000)	(15,585,000)	-	28,917,000
Inventory— net	108,540,000	-	(1,375,000)	(268,000)	-	106,897,000
Inventory unreturned	12,149,000	-	-	108,000	-	12,257,000
Deferred income taxes	5,715,000	-	-	-	-	5,715,000
Prepaid expenses and other current assets	5,216,000	-	-	137,000	-	5,353,000
Total current assets	168,169,000	10,277,000	(2,113,000)	(15,608,000)	-	160,725,000
Plant and equipment — net	17,149,000	-	-	10,000	-	17,159,000
Long-term core inventory — net	184,138,000	-	(2,460,000)	(4,339,000)	-	177,339,000
Long-term core inventory deposit	26,248,000	-	-	-	-	26,248,000
Long-term deferred income taxes	1,368,000	-	-	-	-	1,368,000
Goodwill	4,214,000	-	32,337,000	-	786,000	37,337,000
Intangible assets — net	45,983,000	-	-	(2,000)	103,000	46,084,000
Other assets	1,839,000	-	-	-	-	1,839,000
TOTAL ASSETS	\$449,108,000	\$ 10,277,000	\$27,764,000	\$(19,939,000)	\$ 889,000	\$ 468,099,000
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	\$99,620,000	\$-	\$ 1,600,000	\$(2,497,000)	\$-	\$98,723,000
Accrued liabilities	110,504,000	(76,516,000)	-	772,000	-	34,760,000
Customer finished goods returns accrual	24,533,000	-	333,000	327,000	-	25,193,000
Revolving loan	18,500,000	-	-	-	-	18,500,000
Other current liabilities	774,000	-	-	140,000	-	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	256,680,000	(76,516,000)	1,933,000	(1,258,000)	-	180,839,000
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)	-	86,793,000	25,831,000	(15,145,000)	-	97,479,000
Other liabilities	1,690,000	-	-	2,000	-	1,692,000

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Capital lease obligations, less current portion	372,000	-	-	-	-	372,000
Total liabilities	330,302,000	10,277,000	27,764,000	(16,401,000)	-	351,942,000
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	(1,346,000)	-	-	393,000	889,000	(64,000)
Retained earnings	20,099,000	-	-	(3,931,000)	-	16,168,000
Total shareholders' equity	118,806,000	-	-	(3,538,000)	889,000	116,157,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 449,108,000	\$ 10,277,000	\$ 27,764,000	\$ (19,939,000)	\$ 889,000	\$ 468,099,000

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

The condensed consolidated statement of cash flows for the three months ended June 30, 2011 as previously reported, the retrospective impact of the above adjustments, and the restated condensed consolidated statement of cash flows for the three months ended June 30, 2011 are presented in the table below:

	Three Months Ended June 30, 2011 (Unaudited)		
	As Previously Reported	Adjustments	As Restated
Net loss	\$ (2,376,000)	\$ (3,931,000)	\$ (6,307,000)
Net cash used in operating activities	(26,404,000)	(433,000)	(26,837,000)
	(365,000)	-	(365,000)

Net cash used in investing activities			
Net cash provided by financing activities	25,604,000	385,000	25,989,000

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16. 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.

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.

Discontinued Product Line

In December 2011, the Company announced the discontinuation of the constant velocity (“CV”) axle product line and the shut-down of its related facility located in Bedford, New Hampshire. The Company recorded net sales and gross profit (loss) of \$3,327,000 and (\$1,816,000), respectively, in the six months ended September 30, 2011 in connection with this product line.

17. 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.

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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 is currently evaluating the impact the adoption of this guidance on January 1, 2012 will have 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.

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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.

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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.