MOTORCAR PARTS AMERICA INC
Form 10-K
June 13, 2011

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

Form 10-K

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

For the fiscal year ended March 31, 2011

OR

£ 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	11-2153962
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2929 California Street, Torrance, California	90503
(Address of principal executive offices)	Zip Code

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

Securities registered pursuant to Section 12(b) of the Act: common stock, $0.01 par value per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes £ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes £ No þ

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 þ 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 þ	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 R

As of September 30, 2010, which was the last business day of the registrant's most recently completed fiscal second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $93,626,542 based on the closing sale price as reported on the NASDAQ Global Market.

There were 12,438,271 shares of common stock outstanding as of June 6, 2011.

DOCUMENTS INCORPORATED BY REFERENCE:

In accordance with General Instruction G(3) of Form 10-K, the information required by Part III hereof will either be incorporated into this Form 10-K by reference to the registrant's Definitive Proxy Statement for the registrant's next Annual Meeting of Stockholders filed within 120 days of March 31, 2011 or will be included in an amendment to this Form 10-K filed within 120 days of March 31, 2011.

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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 alternator or starter which has been used in the operation of a vehicle. Generally, 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. 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 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.

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MOTORCAR PARTS OF AMERICA, INC.

Unless the context otherwise requires, all references in this Annual Report on Form 10-K to "the Company," "we," "us," and "our" refer to Motorcar Parts of America, Inc. and its subsidiaries. This Form 10-K may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks and uncertainties. Our actual results may differ significantly from the results discussed in any forward-looking statements. Discussions containing such forward-looking statements may be found in the material set forth under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as within this Form 10-K generally.

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Our SEC filings are available free of charge to the public over the Internet at the SEC's website at www.sec.gov. Our SEC filings are also available free of charge on our website www.motorcarparts.com. You may also read and copy any document we file with the SEC at its Public Reference Room at 100 F. Street, NE, Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the operation of the Public Reference Room.

PART I

Item 1. Business

General

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

We remanufacture and produce new alternators and starters for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. These products are distributed to both the DIY and DIFM markets. Our products are distributed predominantly throughout the United States and Canada. Our products are sold to the largest auto parts retail chains in the United States and Canada, including Advance, AutoZone, Genuine Parts (NAPA), O'Reilly Automotive and Pep Boys. In addition, our products are sold to various traditional warehouses for the professional installers, and to major automobile manufacturers for both their aftermarket programs and their warranty replacement programs ("OES"). Auto parts retail chains in total, currently account for approximately 36% of the North American after-market for remanufactured alternators and starters.

Demand and replacement rates for after-market remanufactured alternators and starters generally increase with increases in miles driven and the age of vehicles. According to industry statistics, both the average age of vehicles on the road and miles driven in North America have increased during fiscal 2011 as compared to fiscal 2010.

We have coverage for almost every alternator and starter used by any automobile light and heavy duty truck as well as most industrial and agricultural vehicles or equipment. We have warehousing strategically located around North America and in Mexico to allow us to be able to complete distribution to almost any customer in North America.

While we continually seek to diversify our customer base, we currently derive, and have historically derived, a substantial portion of our sales from a small number of large customers. During fiscal 2011, sales to our four largest

customers constituted approximately 81% of our net sales. To mitigate the risk associated with this concentration of sales, we have increasingly sought to enter into longer-term customer agreements with our major customers. These longer-term agreements typically require us to commit a significant amount of our working capital to build inventory and increase production. In addition, they typically include marketing and other allowances that adversely impact near-term revenue. Such agreements with new customers may also require us to incur certain changeover expenses.

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During fiscal 2011, we made secured loans in the approximate aggregate amount of $4,863,000 to Fenwick Automotive Products Limited ("Fenco"), a privately-owned Toronto-based manufacturer, remanufacturer and distributor of new and remanufactured aftermarket auto parts. In connection with these loans, we had an option to acquire a substantial ownership interest in Fenco. In May 2011, pursuant to a purchase agreement with FAPL Holdings Inc. ("FAPL"), Fenco's parent company, and certain other individuals, we acquired all of the outstanding equity of FAPL's subsidiaries. In connection with this acquisition, we advanced an additional $10,000,000 to Fenco. We believe this transaction provides us opportunities to expand beyond our existing product lines of alternators and starters and further enhance our market presence in North America (see Note 3 and Note 22 to the consolidated financial statements).

Company Products

Our total net sales is primarily derived from selling remanufactured alternators and starters for import and domestic cars and light trucks. Alternators and starters are non-elective replacement parts in all makes and models of vehicles because they are required for a vehicle to operate. Currently, approximately 89% of our units are sold for resale under customer private labels. The balance is sold under our Quality-Built®, Talon®, Xtreme®, Reliance™, and other brand names.

Our alternators and starters are produced to meet or exceed original equipment manufacturer specifications. We remanufacture alternators and starters for virtually all import and domestic vehicles sold in the United States and Canada. Remanufacturing generally creates a supply of parts at a lower cost to the end user than newly manufactured parts and makes available automotive parts which are no longer manufactured as new. Our remanufactured parts are sold at competitively lower prices than most new replacement parts.

We recycle nearly all materials in keeping with our focus of positively impacting the environment. Nearly all parts, including metal from the Used Cores, and corrugated packaging are recycled.

The technology and the specifications for the components used in our products, particularly alternators, have become more advanced in response to the installation in vehicles of an increasing number of electrical components such as navigation systems, keyless entry devices, heated rear windows and seats, high-powered stereo systems and DVD players. As a result of this increased electrical demand, alternators require more advanced technology and higher grade components and per unit sales prices of replacement alternators have increased accordingly. The increasing complexity of cars and light trucks and the number of different makes and models of these vehicles have resulted in a significant increase in the number of different alternators and starters required to service import and domestic cars and light trucks. In addition to the over 3,400 stock keeping units ("SKUs") for heavy duty and a variety of agricultural and industrial applications, we carry over 3,900 SKUs which cover applications for most import and domestic cars and light trucks sold in the United States and Canada.

Customers: Customer Concentration

Our products are marketed throughout the United States and Canada. Currently, we serve all of the largest retail automotive chain stores with an aggregate of approximately 12,500 retail outlets as well as a diverse group of automotive warehouse distributors and OES customers.

We are substantially dependent upon sales to our major customers. During fiscal 2011, 2010 and 2009, sales to our four largest customers constituted approximately 81%, 85% and 92%, respectively, of our net sales, and sales to our largest customer AutoZone, constituted 48%, 44% and 49%, respectively, of our net sales. Any meaningful reduction in the level of sales to any of these customers, deterioration of any customer's financial condition or the loss of a customer could have a materially adverse impact upon us.

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Customer Arrangements; Impact on Working Capital

We have or are renegotiating long-term agreements with many of our major customers. Under these agreements, which typically have initial terms of at least four years, we are designated as the exclusive or primary supplier for specified categories of remanufactured alternators and starters. Because of the very competitive nature of the market for remanufactured starters and alternators and the limited number of customers for these products, our customers have sought and obtained price concessions, significant marketing allowances and more favorable delivery and payment terms in consideration for our designation as a customer's exclusive or primary supplier. These incentives differ from contract to contract and can include (i) the issuance of a specified amount of credits against receivables in accordance with a schedule set forth in the relevant contract, (ii) support for a particular customer's research or marketing efforts provided on a scheduled basis, (iii) discounts granted in connection with each individual shipment of product, and (iv) other marketing, research, store expansion or product development support. We have also entered into agreements to purchase certain customers' Remanufactured Core inventory and to issue credits to pay for that inventory according to a schedule set forth in the agreements. These contracts typically require that we meet ongoing standards related to fulfillment, price, and quality. Our contracts with major customers expire at various dates through March 2019.

These longer-term agreements strengthen our customer relationships and business base. The increased demand for product as a result of entering into these longer-term agreements often requires that we increase our inventories, accounts payable and personnel. Customer demands that we purchase their Remanufactured Core inventory have also been a significant and an additional strain on our available working capital. The marketing and other allowances we typically grant our customers in connection with our new or expanded customer relationships adversely impact the near-term revenues, profitability and associated cash flows from these arrangements. However, we believe the investment we make in these new or expanded customer relationships will improve our overall liquidity and cash flow from operations over time.

Competition

The after-market for remanufactured alternators and starters is highly competitive. Our most significant competitors are a division of Remy International, Inc. and BBB Industries. We also compete with several medium-sized remanufacturers and a large number of smaller regional and specialty remanufacturers. Overseas manufacturers, particularly those located in China, are increasing their operations and could become a significant competitive force in the future.

We believe that the reputation for quality and customer service that a supplier enjoys are significant factors in a customer's purchase decision. We believe that these factors favor our company, which provides quality replacement automotive products, rapid and reliable delivery capabilities as well as promotional support. We believe that our ability to provide efficient delivery distinguishes us from many of our competitors and provides a competitive advantage. Price and payment terms are also very important competitive factors.

For the most part, our products have not been patented nor do we believe that our products are patentable. We seek to protect our proprietary processes and other information by relying on trade secret laws and non-disclosure and confidentiality agreements with certain of our employees and other persons who have access to that information.

Company Operations

Production Process. Our remanufacturing process begins with the receipt of used alternators and starters, commonly known as "Used Cores", from our customers or core brokers. The Used Cores are evaluated for inventory control purposes and then sorted by part number. Each Used Core is completely disassembled into its fundamental

components. The components are cleaned in a process that employs customized equipment and cleaning materials in accordance with the required specifications of the particular component. All components known to be subject to major wear and those components determined not to be reusable or repairable are replaced by new components. Non-salvageable components of the Used Core are sold as scrap.

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After the cleaning process is complete, the salvageable components of the Used Core are inspected and tested as prescribed by our ISO TS 16949 approved quality control program, which is implemented throughout the production process. ISO TS 16949 is an internationally recognized, world class, automotive quality system. Upon passage of all tests, which are monitored by designated quality control personnel, all the component parts are assembled in a work cell into a finished product. Inspection and testing are conducted at multiple stages of the remanufacturing process, and each finished product is inspected and tested on equipment designed to simulate performance under operating conditions. Finished products are either stored in our warehouse facility or packaged for immediate shipment. To maximize remanufacturing efficiency, we store component parts ready for assembly in our warehousing facilities. Our management information systems, including hardware and software, facilitate the remanufacturing process from Used Cores to finished products.

Our remanufacturing processes combine product families with similar configurations into dedicated factory work cells. This remanufacturing process, known as “lean manufacturing”, replaced the more traditional assembly line approach we had previously utilized and eliminated a large number of inventory moves and the need to track inventory movement through the remanufacturing process. This lean manufacturing process is used at all of our production facilities. Because of this “lean manufacturing” approach, we significantly reduced the time it takes to produce a finished product. We continue to explore opportunities for improving efficiencies in our remanufacturing process.

Offshore Remanufacturing. The majority of our remanufacturing operations and core sorting functions are now conducted at our facilities in Mexico and Malaysia. We continue to maintain production of remanufactured units that require specialized service and/or rapid turnaround in our U.S. facility. We also operate a shipping and receiving warehouse and testing facility in Singapore. Our foreign operations produced approximately 99% of our total unit production during fiscal 2011 and 2010.

Used Cores and Other Raw Materials. The majority of our Used Cores are obtained from customers using our core exchange program. The core exchange program consists of the following steps:

- Our customers purchase from us a remanufactured unit to be sold to their consumer.
- Our customers offer their consumers a credit to exchange their used unit (Used Core) at the time the consumer purchases a remanufactured unit.
- We, in turn, offer our customers a credit to send us these Used Cores. The credit reduces our accounts receivable.

Our customers are not obligated to send us all the Used Cores exchanged by their consumers. We have historically purchased approximately 15% to 20% of our Used Cores in the open market from core brokers who specialize in buying and selling Used Cores. During fiscal 2011, we purchased approximately 19% of our Used Cores from core brokers. Although the open market is not a primary source of Used Cores, it is a critical source for meeting our raw material demands. Not all Used Cores are reusable. Remanufacturing consumes, on average, more than one Used Core for each remanufactured unit produced. Although the yield rates depend upon both the product and customer specifications, our overall average yield rates are about 83%. We use about 120 Used Cores to provide sufficient salvageable components to complete 100 remanufactured products.

The price of a finished product sold to our customers is generally comprised of an amount for remanufacturing (“unit value”) and an amount separately invoiced for the Remanufactured Core included in the product (“Remanufactured Core charge”). The Remanufactured Core charge is equal to the credit we offer to induce the customer to use our core exchange program and send back the Used Cores to us. In accordance with our net-of-core-value revenue recognition policy, at the time a sale is recorded, we only recognize as revenue the unit value of the finished product. We also

record as long-term core inventory the cost of Remanufactured Cores included in the finished goods that are shipped to customers and that we expect to be sent back to us as part of the core exchange program. During fiscal 2011, approximately 96% of the Remanufactured Cores we shipped as part of finished goods were replaced by similar Used Cores sent back to us under our core exchange program, resulting in the issuance of credits equal to the related Remanufactured Core value.

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Other materials and components used in remanufacturing are purchased in the open market. During fiscal 2011, 2010 and 2009, our main supplier provided approximately 13%, 29% and 25%, respectively, of our raw materials purchased, and we rely on that supplier's ability to provide us with raw materials in a timely and cost effective manner; however, that supplier is not our sole supplier of raw materials. No other supplier provided more than 10% of our raw material needs during these periods.

The ability to obtain Used Cores, materials and components of the types and quantities we need is essential to our ability to meet demand.

Return Rights. Under our customer agreements and general industry practice, our customers are allowed stock adjustments when their inventory of certain product lines exceeds the inventory necessary to support sales to end-user consumers. Customers have various contractual rights for stock adjustments which range from 3%-5% of total units sold. In some instances, we allow a higher level of returns in connection with a significant update order. In addition, we allow customers to return goods to us that their end-user consumers have returned to them. This general right of return is allowed regardless of whether the returned item is defective. We seek to limit the aggregate of stock adjustment and other customer returns to less than 20% of unit sales. Stock adjustment returns do not occur at any specific time during the year.

As is standard in the industry, we only accept returns from on-going customers. If a customer ceases doing business with us, we have no further obligation to accept additional product returns from that customer. Similarly, we accept product returns and grant appropriate credits from new customers from the time the new customer relationship is established. This obligation to accept returns from new customers does not result in decreased liquidity or increased expenses since we only accept one returned product for each unit sold to the new customer. In each case, the return must be received by us in the original box of the unit sold.

We provide for the anticipated returns of inventory by reducing revenue and cost of sales for the unit value of goods sold based on a historical return analysis and information obtained from customers about current stock levels and anticipated stock adjustment returns.

Sales, Marketing and Distribution. We have one of the widest varieties of alternator and starter lines available to the market, and we market and distribute our products throughout the United States and Canada. Our products for the automotive retail chain market are primarily sold under our customers' private labels. Since fiscal 2004, we have expanded our sales efforts beyond automotive retail chains to include warehouse distribution centers serving professional installers. Our products are also sold under our own Quality-Built®, Talon®, Xtreme®, Reliance™, and other brand names. We ship our products from facilities in Torrance, California, and Tijuana, Mexico, and from fee warehouse facilities in Edison, New Jersey and Springfield, Oregon. In addition, we also use a fee warehouse distribution facility in Berlin, Connecticut.

We publish, for print and electronic distribution, a catalog with part numbers and applications for our alternators and starters along with a detailed technical glossary and informational database. We believe that we maintain one of the most extensive catalog and product identification systems available to the market.

Employees. As of March 31, 2011, we had 243 employees in the United States, as compared to 247 at March 31, 2010, substantially all of whom were located in Torrance, California. Of our U.S.-based employees, 100 are administrative personnel of which 21 are sales personnel. In addition, at March 31, 2011, we had 258 employees in Singapore and Malaysia, as compared to 320 employees at March 31, 2010, and 1,188 employees at our facility located in Mexico, as compared to 1,195 employees at March 31, 2010. A union represents all hourly employees at our Mexico facility. All other employees, including our employees in Torrance, California, are non-union. We consider our relations with our employees to be satisfactory.

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Seasonality of Business

Due to their nature and design, as well as the limits of technology, alternators and starters traditionally have failed when operating in extreme conditions. During the summer months, when the temperature typically increases over a sustained period of time, alternators were more likely to fail. Similarly, during winter months when extreme cold conditions are experienced over a sustained period, starters were more likely to fail. This seasonality impact has been diminished by the improvement in the quality of alternators and starters and does not currently have a material impact on our net sales.

Governmental Regulation

Our operations are subject to federal, state and local laws and regulations governing, among other things, emissions to air, discharge to waters, and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. We believe that our businesses, operations and facilities have been and are being operated in compliance in all material respects with applicable environmental and health and safety laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. Potentially significant expenditures, however, could be required in order to comply with evolving environmental and health and safety laws, regulations or requirements that may be adopted or imposed in the future.

Evaluation of Strategic Options

We are continuing to evaluate strategic options that we might pursue to enhance shareholder value. These could include an acquisition of another company or a sale of our company to a third party. There is no assurance, however, that we will enter into any transaction as a result of our efforts in this regard.

During fiscal 2011, we made secured loans in the approximate aggregate amount of $4,863,000 to Fenco. These loans provided an option to acquire a substantial ownership interest in Fenco. In May 2011, we acquired all of the outstanding equity of FAPL's subsidiaries. In connection with this acquisition, we advanced an additional $10,000,000 to Fenco. We believe this transaction provides us opportunities to expand beyond our existing product lines of alternators and starters and further enhance our market presence in North America (see Note 3 and Note 22 to the consolidated financial statements).

Additionally, to further enhance shareholder value, in March 2010, our Board of Directors authorized a share repurchase program of up to $5,000,000 of our outstanding common stock from time to time in the open market and in private transactions at prices deemed appropriate by management. There is no expiration date governing the period over which we can repurchase shares under this program. During fiscal 2011, we repurchased 14,400 shares at a total cost of approximately $89,000.

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Item 1A. Risk Factors

While we believe the risk factors described below are all the material risks currently facing our business, additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. Our financial condition or results of operations could be materially and adversely impacted by these risks, and the trading price of our common stock could be adversely impacted by any of these risks. In assessing these risks, you should also refer to the other information included in or incorporated by reference into this Form 10-K, including our consolidated financial statements and related notes thereto appearing elsewhere or incorporated by reference in this Form 10-K.

We rely on a few major customers for a significant majority of our business, and the loss of any of these customers, significant changes in the prices, marketing allowances or other important terms provided to any of our major customers or adverse developments with respect to the financial condition of any of our major customers would reduce our net income and operating results.

Our net sales are concentrated among a small number of large customers. During fiscal 2011, sales to our four largest customers constituted approximately 81% of our net sales, and sales to our largest customer constituted approximately 48% of our net sales. Because our sales are concentrated, and the market in which we operate is very competitive, we are under ongoing pressure from our customers to offer lower prices, extended payment terms, increased marketing allowances and other terms more favorable to these customers. These customer demands have put continued pressure on our operating margins and profitability, resulted in periodic contract renegotiation to provide more favorable prices and terms to these customers and significantly increased our working capital needs. In addition, this customer concentration leaves us vulnerable to any adverse change in the financial condition of any of our major customers. The loss or significant decline of sales to any of our major customers would reduce our net income and adversely affect our operating results.

Our offshore remanufacturing and logistic activities expose us to increased political and economic risks and place a greater burden on management to achieve quality standards.

Our overseas operations, especially our operations in Tijuana, Mexico, increase our exposure to political, criminal or economic instability in the host countries and to currency fluctuations.

The complexity associated with the accounting for our operating results may continue to cause fluctuations in our reported operating results.

Because we receive most Used Cores, a critical remanufacturing component, through the core exchange program with our customers and we offer marketing allowances and other incentives that impact revenue recognition, the accounting for our operations is more complex than for many businesses the same size or larger.

Interruptions or delays in obtaining component parts could impair our business and adversely affect our operating results.

In our remanufacturing processes, we obtain Used Cores, primarily through the core exchange program with our customers, and component parts from third-party manufacturers. Historically, the level of Used Core returns from customers together with purchases from core brokers have provided us with an adequate supply of this key component. If there was a significant disruption in the supply of Used Cores, whether as a result of increased Used Core acquisitions by existing or new competitors or otherwise, our operating activities would be materially and adversely impacted. In addition, a number of the other components used in the remanufacturing process are available from a very limited number of suppliers. During fiscal 2011, we purchased 13% of our raw materials from a single

supplier. We are, as a result, vulnerable to any disruption in component supply, and any meaningful disruption in this supply would materially and adversely impact our operating results.

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Increases in the market prices of key component raw materials could negatively impact our profitability.

In light of the long-term, continuous pressure on pricing which we have experienced from our major customers, we may not be able to recoup the higher prices which raw materials, particularly aluminum and copper, may command in the market-place. We believe the impact of higher raw material prices, which is outside our control, is mitigated to some extent because we recover a substantial portion of our raw materials from Used Cores returned to us by our customers through the core exchange program. However, we are unable to determine what adverse impact, if any, sustained raw material price increases may have on our profitability.

Substantial and potentially increasing competition could reduce our market share and significantly harm our financial performance.

While we believe we are well-positioned in the market for remanufactured alternators and starters, this market is very competitive. In addition, other overseas manufacturers, particularly those located in China, are increasing their operations and could become a significant competitive force in the future. We may not be successful competing against other companies, some of which are larger than us and have greater financial and other resources at their disposal. Increased competition could put additional pressure on us to reduce prices or take other actions which may have an adverse effect on our operating results.

Our financial results are affected by alternator and starter failure rates that are outside our control.

Our operating results are affected by alternator and starter failure rates. These failure rates are impacted by a number of factors outside our control, including alternator and starter designs that have resulted in greater reliability, consumers driving fewer miles as a result of both high gasoline prices and the slowdown in the U.S. economy, and the average age of vehicles on the road. A reduction in the failure rates of alternators or starters would adversely affect our sales and profitability.

Our operating results may continue to fluctuate significantly.

We have experienced significant variations in our annual and quarterly results of operations. These fluctuations have resulted from many factors, including shifts in the demand and pricing for our products and general economic conditions, including changes in prevailing interest rates. Our gross profit percentage fluctuates due to numerous factors, some of which are outside our control. These factors include the timing and level of marketing allowances provided to our customers, differences between the level of projected sales to a particular customer and the actual sales during the relevant period, pricing strategies, the mix of products sold during a reporting period, fluctuations in the level of Used Core returns during the period, and general market and competitive conditions.

Our bank may not waive future defaults under our credit agreement.

Over the past several years, we have violated a number of the financial and other covenants contained in our bank credit agreement. To this point, the bank has been willing to waive these covenant defaults and to do so without imposing any significant cost or penalty on us. If we fail to meet the financial covenants or the other obligations set forth in our bank credit agreement in the future, there is no assurance that the bank will waive any such defaults.

Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

Our indebtedness may increase substantially from time to time for various reasons, including fluctuations in operating results, marketing allowances provided to customers, capital expenditures and possible acquisitions. Our indebtedness could materially affect our business because (i) a portion of our cash flow must be used to service debt rather than

finance our operations, (ii) it may eventually impair our ability to obtain financing in the future, and (iii) it may reduce our flexibility to respond to changes in business and economic conditions or take advantage of business opportunities that may arise.

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Our largest shareholder has the ability to influence all matters requiring the approval of our Board of Directors and our shareholders.

As of June 6, 2011, Mel Marks, our founder and member of our Board of Directors, beneficially owned 8.9% of our outstanding common stock. As a result of his holdings, Mel Marks has the ability to exercise substantial influence over us and his interests may conflict with the interests of other shareholders.

Our stock price may be volatile and could decline substantially.

Our stock price may decline substantially as a result of the volatile nature of the stock market and other factors beyond our control. The stock market has, from time to time, experienced extreme price and volume fluctuations. Many factors may cause the market price for our common stock to decline, including (i) our operating results failing to meet the expectations of securities analysts or investors in any quarter, (ii) downward revisions in securities analysts' estimates, (iii) market perceptions concerning our future earnings prospects, (iv) public sales of a substantial number of shares of our common stock, and (v) adverse changes in general market conditions or economic trends.

Our failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and the price of our common stock.

Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX") requires our management to assess the effectiveness of our internal control over financial reporting at the end of each fiscal year and certify whether or not internal control over financial reporting is effective. Our independent accountants are also required to express an opinion with respect to the effectiveness of our internal controls. We expect our SOX compliance work will continue to require significant commitment of management time and the incurrence of significant general and administrative expenses.

Unfavorable currency exchange rate fluctuations could adversely affect us.

We are exposed to market risk from material movements in foreign exchange rates between the U.S. dollar and the currencies of the foreign countries in which we operate. As a result of our extensive operations in Mexico, our primary risk relates to changes in the rates between the U.S. dollar and the Mexican peso. To mitigate this currency risk, we enter into forward foreign exchange contracts to exchange U.S. dollars for Mexican pesos. The extent to which we use forward foreign exchange contracts is periodically reviewed in light of our estimate of market conditions and the terms and length of anticipated requirements. The use of derivative financial instruments allows us to reduce our exposure to the risk that the eventual net cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in the exchange rates. We do not engage in currency speculation or hold or issue financial instruments for trading purposes. These contracts expire in a year or less. Any change in the fair value of foreign exchange contracts is accounted for as an increase or decrease to general and administrative expenses in current period earnings.

We may continue to make strategic acquisitions of other companies or businesses and these acquisitions introduce significant risks and uncertainties, including risks related to integrating the acquired businesses and achieving benefits from the acquisitions.

In order to position ourselves to take advantage of growth opportunities, we have made, and may continue to make, strategic acquisitions that involve significant risks and uncertainties. These risks and uncertainties include: (i) the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner, (ii) the challenges in achieving strategic objectives, cost savings and other benefits from acquisitions, (iii) the potential loss of key employees of the acquired businesses, (iv) the risk of diverting the attention of senior management from our operations, (v) risks associated with integrating financial reporting and internal control systems, (vi) difficulties in

expanding information technology systems and other business processes to accommodate the acquired businesses, and (vii) future impairments of goodwill of an acquired business.

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Deteriorating conditions in the global credit markets and macroeconomic factors could adversely affect our financial condition and results of operations.

The significant deterioration in the financial condition of financial institutions has resulted in a severe loss of liquidity and availability in global credit markets and in higher short-term borrowing costs, and more stringent borrowing terms. Recessionary conditions in the global economy threaten to cause further tightening of the credit markets, more stringent lending standards and terms, and higher volatility in interest rates. The persistence of these conditions could have a material adverse effect on our borrowings and the availability, terms and cost of such borrowings. In addition, further deterioration in the U.S. economy could adversely affect our corporate results, which could adversely affect our operating results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease all of the real property used in our operations. We presently lease approximately 147,000 square feet of warehouse, production and administrative space in Torrance, California. The present term of the lease expires March 31, 2012 and we have the option to extend the lease for an additional five years beginning April 1, 2012. We also lease approximately 4,005 square feet adjacent to our main Torrance facility that is used as additional office and record storage space. The lease on this second building has terms which coincide with the lease on the main Torrance building.

On October 28, 2004, we entered into a build-to-suit lease covering approximately 125,000 square feet of industrial premises in Tijuana, Mexico. The lease has a term of 10 years from the date the facility was available for occupancy, and we have an option to extend the lease term for two additional 5-year periods. In May 2005, we took possession of these premises. In April 2006, we leased an additional 61,000 square feet adjoining our existing space. On October 18, 2006, we entered into an amendment to lease an adjacent 125,000 square feet. This space was occupied in January 2007 and is used for core receiving, sorting and storage related functions. All amendments have the same essential terms as the original lease.

In addition, we occupy approximately 53,000 square feet of leased remanufacturing, warehousing, and office space facilities under six separate leases, which expire on various dates through October 31, 2013, in Singapore and Malaysia.

We also lease 2,067 square feet of office space in Nashville, Tennessee under a lease that expires on May 31, 2012.

In June 2010, we entered into a lease covering approximately 1,875 square feet of warehousing facility in Berlin, Connecticut that expires on May 31, 2012. This lease agreement provides us with an option to terminate this lease anytime with three months written notice to the landlord.

We believe the above mentioned facilities are sufficient to satisfy our foreseeable warehousing, production, distribution and administrative office space requirements for our current operations.

Item 3. Legal Proceedings

We are subject to various legal proceedings arising in the normal course of conducting business. Management does not believe that the outcome of these matters will have a material adverse impact on its financial position or future

results of operations.

Item 4. Reserved

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the National Association of Securities Dealers Automated Quotation ("NASDAQ") Global Select Market under the trading symbol MPAA. The following table sets forth the high and low sale prices for our common stock during fiscal 2011 and 2010.

	Fiscal 2011		Fiscal 2010	
	High	Low	High	Low
1st Quarter	$7.48	$5.75	$4.95	$3.54
2nd Quarter	$9.00	$6.01	$5.51	$3.89
3rd Quarter	$13.15	$8.72	$5.51	$4.54
4th Quarter	$15.10	$12.35	$6.69	$4.89

As of June 6, 2011, there were 12,438,271 shares of common stock outstanding held by 31 holders of record. We have never declared or paid dividends on our common stock. The declaration of any prospective dividends is at the discretion of the Board of Directors and will be dependent upon sufficient earnings, capital requirements and financial position, general economic conditions, state law requirements and other relevant factors. Additionally, our agreement with our lenders prohibit the payment of dividends, except stock dividends, without the lenders' prior consent.

Share Repurchase Program

In March 2010, our Board of Directors authorized a share repurchase program of up to $5,000,000 of our outstanding common stock from time to time in the open market and in private transactions at prices deemed appropriate by management. There is no expiration date governing the period over which we can repurchase shares under this program. During fiscal 2011, we repurchased 14,400 shares at a total cost of approximately $89,000.

Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of March 31, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
Equity compensation plans approved by securities holders	1,591,084	(1)	$ 8.61	837,000	(2)
Equity compensation plans not approved by security holders	N/A		N/A	N/A	
Total	1,591,084		$ 8.61	837,000	

(1) Consists of options issued pursuant to our 1994 Employee Stock Option Plan, 1996 Employee Stock Option Plan, 1994 Non-Employee Director Stock Option Plan, 2003 Long-Term Incentive Plan and 2004 Non-Employee Director Stock Option Plan.
(2) Consists of options available for issuance under our 2010 Incentive Award Plan and 2004 Non-Employee Director Stock Option Plan.

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Performance Graph

The following graph compares the cumulative return to holders of our common stock for the five years ending March 31, 2011 with the NASDAQ Composite Index and the Zacks Retail and Wholesale Auto Parts Index. We previously compared our cumulative returns to those of a peer group comprised of other automotive after-market companies selected by us. Due to trading information for some of these peer companies no longer being available, we have selected the Zacks Retail and Wholesale Auto Parts Index for comparison purposes in our performance graph. The comparison assumes $100 was invested at the close of business on March 31, 2006 in our common stock and in each of the comparison groups, and assumes reinvestment of dividends.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
March 2011

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Item 6. Selected Financial Data

The following selected historical consolidated financial information as of and for each of the fiscal years ended March 31, 2011, 2010, 2009, 2008 and 2007, has been derived from and should be read in conjunction with our consolidated financial statements and related notes thereto.

	Fiscal Years Ended March 31,				
Income Statement Data	2011	2010	2009	2008	2007
Net sales	$161,285,000	$147,225,000	$134,866,000	$133,337,000	$136,323,000
Operating income (loss)	25,384,000	18,307,000	10,642,000	12,751,000	(2,475,000)
Net income (loss)	12,220,000	9,646,000	3,857,000	4,607,000	(4,956,000)
Basic net income (loss) per share	$1.01	$0.80	$0.32	$0.40	$(0.59)
Diluted net income (loss) per share	$0.99	$0.80	$0.32	$0.39	$(0.59)

	March 31,				
Balance Sheet Data	2011	2010	2009	2008	2007
Total assets	$191,865,000	$163,480,000	$159,588,000	$141,408,000	$131,986,000
Working capital	1,395,000	3,399,000	(3,569,000)	6,097,000	(26,746,000)
Revolving loan	-	-	21,600,000	-	22,800,000
Term loan	7,500,000	9,500,000	-	-	-
Capital lease obligations	834,000	1,398,000	3,022,000	4,276,000	5,197,000
Other long term liabilities	9,984,000	7,056,000	7,364,000	4,654,000	3,859,000
Shareholders' equity	$117,177,000	$103,620,000	$93,083,000	$91,093,000	$47,828,000

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Disclosure Regarding Private Securities Litigation Reform Act of 1995

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

Management Overview

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

We remanufacture and produce new alternators and starters for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. These products are distributed to both the DIY and DIFM markets. Our products are distributed predominantly throughout the United States and Canada. Our products are sold to the largest auto parts retail chains in the United States and Canada, including Advance, AutoZone, Genuine Parts (NAPA), O'Reilly Automotive and Pep Boys. In addition, our products are sold to various traditional warehouses for the professional installers, and to major automobile manufacturers for both their aftermarket programs and their warranty replacement programs ("OES"). Auto parts retail chains in total, currently account for approximately 36% of the North American after-market for remanufactured alternators and starters.

Demand and replacement rates for after-market remanufactured alternators and starters generally increase with increases in miles driven and the age of vehicles. According to industry statistics, both the average age of vehicles on the road and miles driven in North America have increased during fiscal 2011 as compared to fiscal 2010.

We have coverage for almost every alternator and starter used by any automobile light and heavy duty truck as well as most industrial and agricultural vehicles or equipment. We have warehousing strategically located around North America and in Mexico to allow us to be able to complete distribution to almost any customer in North America.

While we continually seek to diversify our customer base, we currently derive, and have historically derived, a substantial portion of our sales from a small number of large customers. During fiscal 2011, sales to our four largest customers constituted approximately 81% of our net sales. To mitigate the risk associated with this concentration of sales, we have increasingly sought to enter into longer-term customer agreements with our major customers. These longer-term agreements typically require us to commit a significant amount of our working capital to build inventory and increase production. In addition, they typically include marketing and other allowances that adversely impact near-term revenue. Such agreements with new customers may also require us to incur certain changeover expenses.

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During fiscal 2011, we made secured loans in the approximate aggregate amount of $4,863,000 to Fenwick Automotive Products Limited ("Fenco"), a privately-owned Toronto-based manufacturer, remanufacturer and distributor of new and remanufactured aftermarket auto parts. In connection with these loans, we had an option to acquire a substantial ownership interest in Fenco. In May 2011, pursuant to a purchase agreement with FAPL Holdings Inc. ("FAPL"), Fenco's parent company, and certain other individuals, we acquired all of the outstanding equity of FAPL's subsidiaries. In connection with this acquisition, we advanced an additional $10,000,000 to Fenco. We believe this transaction provides us opportunities to expand beyond our existing product lines of alternators and starters and further enhance our market presence in North America (see Note 3 and Note 22 to the consolidated financial statements).

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with generally accepted accounting principles, or GAAP, in the United States. Our significant accounting policies are discussed in detail below and in Note 2 in the notes to consolidated financial statements.

In preparing our consolidated financial statements, we use estimates and assumptions for matters that are inherently uncertain. We base our estimates on historical experiences and reasonable assumptions. Our use of estimates and assumptions affects the reported amounts of assets, liabilities and the amount and timing of revenues and expenses we recognize for and during the reporting period. Actual results may differ from our estimates.

Our remanufacturing operations require that we acquire Used Cores, a necessary raw material, from our customers and offer our customers marketing and other allowances that impact revenue recognition. These elements of our business give rise to accounting issues that are more complex than many businesses our size or larger. In addition, the relevant accounting standards and issues continue to evolve.

Segment Reporting

We currently operate in one business segment pursuant to the guidance provided under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Inventory

Non-core Inventory

Non-core inventory is comprised of non-core raw materials, the non-core value of work in process and the non-core value of finished goods. Used Cores, the Used Core value of work in process and the Remanufactured Core portion of finished goods are classified as long-term core inventory as described below under the caption "Long-term Core Inventory."

Non-core inventory is stated at the lower of cost or market. The cost of non-core inventory approximates average historical purchase prices paid, and is based upon the direct costs of material and an allocation of labor and variable and fixed overhead costs. The cost of non-core inventory is evaluated at least quarterly during the fiscal year and adjusted as necessary to reflect current lower of cost or market levels. These adjustments are determined for individual items of inventory within each of the three classifications of non-core inventory as follows:

- Non-core raw materials are recorded at average cost, which is based on the actual purchase price of raw materials on hand. The average cost is updated quarterly. This average cost is used in the inventory costing process and is the basis for allocation of materials to finished goods during the production process.

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- Non-core work in process is in various stages of production, is on average 50% complete and is valued at 50% of the cost of a finished good. Non-core work in process inventory historically comprises less than 3% of the total non-core inventory balance.

- Finished goods cost includes the average cost of non-core raw materials and allocations of labor and variable and fixed overhead. The allocations of labor and variable and fixed overhead costs are determined based on the average actual use of the production facilities over the prior twelve months which approximates normal capacity. This method prevents the distortion in allocated labor and overhead costs that would occur during short periods of abnormally low or high production. In addition, we exclude certain unallocated overhead such as severance costs, duplicative facility overhead costs, and spoilage from the calculation and expense them as period costs. For the fiscal years ended March 31, 2011, 2010, and 2009, costs of approximately $1,378,000, $1,314,000, and $2,019,000, respectively, were considered abnormal and thus excluded from the finished goods cost calculation and charged directly to cost of sales.

We record an allowance for potentially excess and obsolete inventory based upon recent sales history, the quantity of inventory on-hand, and a forecast of potential use of the inventory. We review inventory on a monthly basis to identify excess quantities and part numbers that are experiencing a reduction in demand. In general, part numbers with quantities representing a one to three-year supply are partially reserved for at rates based upon management’s judgment and consistent with historical rates. Any part numbers with quantities representing more than a three-year supply are reserved for at a rate that considers possible scrap and liquidation values and may be as high as 100% of cost if no liquidation market exists for the part.

The quantity thresholds and reserve rates are subjective and are based on management’s judgment and knowledge of current and projected industry demand. The reserve estimates may, therefore, be revised if there are changes in the overall market for our products or market changes that in management’s judgment, impact our ability to sell or liquidate potentially excess or obsolete inventory.

We record vendor discounts as a reduction of inventories that are recognized as a reduction to cost of sales as the inventories are sold.

Inventory Unreturned

Inventory unreturned represents our estimate, based on historical data and prospective information provided directly by the customer, of finished goods shipped to customers that we expect to be returned, under our general right of return policy, after the balance sheet date. Because all cores are classified separately as long term assets, the inventory unreturned balance includes only the added unit value of a finished good. The return rate is calculated based on expected returns within the normal operating cycle of one year. As such, the related amounts are classified in current assets.

Inventory unreturned is valued in the same manner as our finished goods inventory.

Long-term Core Inventory

Long-term core inventory consists of:

- Used Cores purchased from core brokers and held in inventory at our facilities,

- Used Cores returned by our customers and held in inventory at our facilities,

- Used Cores returned by end-users to customers but not yet returned to us are classified as Remanufactured Cores until they are physically received by us,

- Remanufactured Cores held in finished goods inventory at our facilities; and

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- Remanufactured Cores held at customer locations as a part of the finished goods sold to the customer. For these Remanufactured Cores, we expect the finished good containing the Remanufactured Core to be returned under our general right of return policy or a similar Used Core to be returned to us by the customer, in each case, for credit.

Long-term core inventory is recorded at average historical purchase prices determined based on actual purchases of inventory on hand. The cost and market value of Used Cores for which sufficient recent purchases have occurred are deemed the same as the purchase price for purchases that are made in arms length transactions.

Long-term core inventory recorded at average historical purchase prices is primarily made up of Used Cores for newer products related to more recent automobile models or products for which there is a less liquid market. We must purchase these Used Cores from core brokers because our customers do not have a sufficient supply of these newer Used Cores available for the core exchange program.

Approximately 15% to 20% of Used Cores are obtained in core broker transactions and are valued based on average purchase price. The average purchase price of Used Cores for more recent automobile models is retained as the cost for these Used Cores in subsequent periods even as the source of these Used Cores shifts to our core exchange program.

Long-term core inventory is recorded at the lower of cost or market value. In the absence of sufficient recent purchases, we use core broker price lists to assess whether Used Core cost exceeds Used Core market value on an item by item basis. The primary reason for the insufficient recent purchases is that we obtain most of our Used Core inventory from the customer core exchange program.

We classify all of our core inventories as long-term assets. The determination of the long-term classification is based on our view that the value of the cores is not consumed or realized in cash during our normal operating cycle, which is one year for most of the cores recorded in inventory. According to guidance provided under the FASB ASC, current assets are defined as “assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business.” We do not believe that core inventories, which we classify as long-term, are consumed because the credits issued upon the return of Used Cores offset the amounts invoiced when the Remanufactured Cores included in finished goods were sold. We do not expect the core inventories to be consumed, and thus we do not expect to realize cash, until our relationship with a customer ends, a possibility that we consider remote based on existing long-term customer agreements and historical experience.

However, historically for approximately 4.5% of finished goods sold, our customer will not send us a Used Core to obtain the credit we offer under our core exchange program. Therefore, based on our historical estimate, we derecognize the core value for these finished goods upon sale, as we believe they have been consumed and we have realized cash.

We realize cash for only the core exchange program shortfall of approximately 4.5%. This shortfall represents the historical difference between the number of finished goods shipped to customers and the number of Used Cores returned to us by customers. We do not realize cash for the remaining portion of the cores because the credits issued upon the return of Used Cores offset the amounts invoiced when the Remanufactured Cores included in finished goods were sold. We do not expect to realize cash for the remaining portion of these cores until our relationship with a customer ends, a possibility that we consider remote based on existing long-term customer agreements and historical experience.

For these reasons, we concluded that it is more appropriate to classify core inventory as long-term assets.

Long-term Core Inventory Deposit

The long-term core inventory deposit account represents the value of Remanufactured Cores we have purchased from customers, which are held by the customers and remain on the customers' premises. The purchase is made through the issuance of credits against that customer's receivables either on a one time basis or over an agreed-upon period. The credits against the customer's receivable are based upon the Remanufactured Core purchase price previously established with the customer. At the same time, we record the long-term core inventory deposit for the Remanufactured Cores purchased at its cost, determined as noted under Long-term Core Inventory. The long-term core inventory deposit is stated at the lower of cost or market. The cost is established at the time of the transaction based on the then current cost, determined as noted under Long-term Core Inventory. The difference between the credit granted and the cost of the long-term core inventory deposit is treated as a sales allowance reducing revenue. When the purchases are made over an agreed-upon period, the long-term core inventory deposit is recorded at the same time the credit is issued to the customer for the purchase of the Remanufactured Cores.

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At least annually, and as often as quarterly, reconciliations and confirmations are performed to determine that the number of Remanufactured Cores purchased, but retained at the customer locations, remains sufficient to support the amounts recorded in the long-term core inventory deposit account. At the same time, the mix of Remanufactured Cores is reviewed to determine that the aggregate value of Remanufactured Cores in the account has not changed during the reporting period. We evaluate the cost of Remanufactured Cores supporting the aggregate long-term core inventory deposit account each quarter. If we identify any permanent reduction in either the number or the aggregate value of the Remanufactured Core inventory mix held at the customer location, we will record a reduction in the long-term core inventory deposit account during that period.

Revenue Recognition

We recognize revenue when our performance is complete, and all of the following criteria have been met:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred or services have been rendered,
- The seller’s price to the buyer is fixed or determinable, and
- Collectibility is reasonably assured.

For products shipped free-on-board (“FOB”) shipping point, revenue is recognized on the date of shipment. For products shipped FOB destination, revenues are recognized on the estimated or actual date of delivery. We include shipping and handling charges in the gross invoice price to customers and classify the total amount as revenue. Shipping and handling costs are recorded in cost of sales.

Revenue Recognition; Net-of-Core-Value Basis

The price of a finished product sold to customers is generally comprised of separately invoiced amounts for the Remanufactured Core included in the product (“Remanufactured Core value”) and for the value added by remanufacturing (“unit value”). The unit value is recorded as revenue based on our then current price list, net of applicable discounts and allowances. Based on our experience, contractual arrangements with customers and inventory management practices, approximately 96% of the remanufactured alternators and starters we sell to customers are replaced by similar Used Cores sent back for credit by customers under our core exchange program. In accordance with our net-of-core-value revenue recognition policy, we do not recognize the Remanufactured Core value as revenue when the finished products are sold. We generally limit the number of Used Cores sent back under the core exchange program to the number of similar Remanufactured Cores previously shipped to each customer.

Revenue Recognition and Deferral — Core Revenue

Full price Remanufactured Cores: When we ship a product, we invoice certain customers for the Remanufactured Core value portion of the product at full Remanufactured Core sales price but do not recognize revenue for the Remanufactured Core value at that time. For these Remanufactured Cores, we recognize core revenue based upon an estimate of the rate at which our customers will pay cash for Remanufactured Cores in lieu of sending back similar Used Cores for credits under our core exchange program.

Nominal price Remanufactured Cores: We invoice other customers for the Remanufactured Core value portion of product shipped at a nominal Remanufactured Core price. Unlike the full price Remanufactured Cores, we only recognize revenue from nominal Remanufactured Cores not expected to be replaced by a similar Used Core sent back under the core exchange program when we believe that we have met all of the following criteria:

- We have a signed agreement with the customer covering the nominally priced Remanufactured Cores not expected to be sent back under the core exchange program, and the agreement must specify the number of Remanufactured Cores our customer will pay cash for in lieu of sending back a similar Used Core under our core exchange program and the basis on which the nominally priced Remanufactured Cores are to be valued (normally the average price per Remanufactured Core stipulated in the agreement).

- The contractual date for reconciling our records and customer's records of the number of nominally priced Remanufactured Cores not expected to be replaced by similar Used Cores sent back under our core exchange program must be in the current or a prior period.

- The reconciliation must be completed and agreed to by the customer.

- The amount must be billed to the customer.

Deferral of Core Revenue. As noted previously, we have in the past and may in the future agree to buy back Remanufactured Cores from certain customers. The difference between the credit granted and the cost of the Remanufactured Cores bought back is treated as a sales allowance reducing revenue. As a result of the ongoing Remanufactured Core buybacks, we have now deferred core revenue from these customers until there is no expectation that sales allowances associated with Remanufactured Core buybacks from these customers will offset core revenues that would otherwise be recognized once the criteria noted above have been met. At March 31, 2011 and 2010, Remanufactured Core revenue of $8,729,000 and $6,061,000, respectively, was deferred.

Revenue Recognition; General Right of Return

We allow our customers to return goods to us that their end-user customers have returned to them, whether the returned item is or is not defective (warranty returns). In addition, under the terms of certain agreements with our customers and industry practice, our customers from time to time are allowed stock adjustments when their inventory of certain product lines exceeds the anticipated sales to end-user customers (stock adjustment returns). We seek to limit the aggregate of customer returns, including warranty and stock adjustment returns, to less than 20% of unit sales. In some instances, we allow a higher level of returns in connection with a significant update order.

We provide for such anticipated returns of inventory by reducing revenue and the related cost of sales for the units estimated to be returned.

Our allowance for warranty returns is established based on a historical analysis of the level of this type of return as a percentage of total unit sales. Stock adjustment returns do not occur at any specific time during the year, and the expected level of these returns cannot be reasonably estimated based on a historical analysis. Our allowance for stock adjustment returns is based on specific customer inventory levels, inventory movements and information on the estimated timing of stock adjustment returns provided by our customers.

Sales Incentives

We provide various marketing allowances to our customers, including sales incentives and concessions. Marketing allowances related to a single exchange of product are recorded as a reduction of revenues at the time the related

revenues are recorded or when such incentives are offered. Other marketing allowances, which may only be applied against future purchases, are recorded as a reduction to revenues in accordance with a schedule set forth in the relevant contract. Sales incentive amounts are recorded based on the value of the incentive provided.

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Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. We do not amortize goodwill but we evaluate 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. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments, or a significant decline in the market price of our common stock. We did not have any goodwill at March 31, 2011 or 2010.

Income Taxes

We account for income taxes using the liability method, which measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The resulting asset or liability is adjusted to reflect changes in the tax laws as they occur. A valuation allowance is provided to reduce deferred tax assets when it is more likely than not that a portion of the deferred tax asset will not be realized.

The primary components of our income tax provision (benefit) are (i) the current liability or refund due for federal, state and foreign income taxes and (ii) the change in the amount of the net deferred income tax asset, including the effect of any change in the valuation allowance.

Realization of deferred tax assets is dependent upon our ability to generate sufficient future taxable income. In evaluating this ability, management considers long-term agreements and Remanufactured Core purchase obligations with our major customers that expire at various dates through March 2019. Based on our forecast of our future operating results, we believe that it is more likely than not that future taxable income will be sufficient to realize the recorded deferred tax assets. We periodically compare our forecasts to actual results, and there can be no assurance that the forecasted results will be achieved.

Financial Risk Management and Derivatives

We are exposed to market risk from material movements in foreign exchange rates between the U.S. dollar and the currencies of the foreign countries in which we operate. As a result of our significant operations in Mexico, our primary risk relates to changes in the rates between the U.S. dollar and the Mexican peso. To mitigate this currency risk, we enter into forward foreign exchange contracts to exchange U.S. dollars for Mexican pesos. The extent to which we use forward foreign exchange contracts is periodically reviewed in light of our estimate of market conditions and the terms and length of anticipated requirements. During fiscal 2011, we also entered 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 purchases we make from Chinese vendors. The use of derivative financial instruments allows us to reduce our exposure to the risk that the eventual net cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in the exchange rates. We do not engage in currency speculation or hold or issue financial instruments for trading purposes. We had foreign exchange contracts with an aggregate U.S. dollar equivalent notional value (and materially the same nominal fair value) of $9,356,000 and $6,159,000 at March 31, 2011 and 2010, respectively. These contracts generally expire in a year or less. Any changes in the fair value of foreign exchange contracts are accounted for as an increase or decrease to general and administrative expenses in current period earnings. During fiscal 2011 and 2010, a loss of $162,000 and a gain of $1,565,000, 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.

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Share-based Payments

In accounting for share-based compensation awards, we follow the accounting guidance for equity-based compensation, which requires that we measure the cost of employee services received in exchange for an award of equity instuments based on the grant-date fair value of the award. The cost associated with stock options is estimated using the Black-Scholes option-pricing model. The cost of equity instruments is recognized in the consolidated statement of income on a straight-line basis (net of estimated forefeitures) over the period during which an employee is required to provide service in exchange for the award. Also, excess tax benefits realized are reported as a financing cash inflow.

Fair Value Measurements

We adopted the guidance on fair value measurements and disclosures for all financial assets and liabilities on April 1, 2008. This guidance defined fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also established a framework for measuring fair value in accordance with GAAP and expanded the disclosures required for fair value measurements. On April 1, 2009, we adopted the new fair value accounting principles for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, which did not have any material impact on our financial condition, results of operations or cash flows.

New Accounting Pronouncements

Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board (the “FASB”) issued new guidance on the treatment of transfers of financial assets which eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity’s continuing involvement in and exposure to the risks related to transferred financial assets. This new guidance was effective as of the beginning of an entity’s first fiscal year that began after November 15, 2009. The adoption of this guidance on April 1, 2010 did not have any impact on our consolidated financial position and results of operations.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued new guidance which amends the consolidation guidance applicable to variable interest entities and was effective as of the beginning of an entity’s first fiscal year that began after November 15, 2009. The adoption of this guidance on April 1, 2010 did not have any impact on our consolidated financial position and results of operations.

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 were effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this update on January 1, 2010 did not have any impact on our consolidated financial position and results of operations. The disclosures regarding certain Level 3 activity are effective for fiscal years beginning after December 15, 2010. We do not expect

the adoption of this guidance on April 1, 2011 to have any material impact on our consolidated financial position and results of operations.

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Disclosure Requirements Related to Financing Receivables

In July 2010, the FASB issued an update which requires enhanced disclosures about the credit quality of financing receivables and the related allowance for credit losses. Trade accounts receivable with maturities of one year or less are excluded from the disclosure requirements. Disclosures required as of the end of a reporting period were effective for interim and annual periods ending on or after December 15, 2010. The adoption of this guidance on December 31, 2010 did not have any impact on our consolidated financial position and results of operations. The disclosures required about activity that occurs during a reporting period are effective for interim and annual periods beginning on or after December 15, 2010. The adoption of this guidance on January 1, 2011 did not have any impact on our consolidated financial position and the results of operations.

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

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

Disclosure of Supplementary Pro Forma Information for Business Combinations

In December 2010, the FASB issued guidance which specifies that if comparative financial statements are presented, disclosure of revenue and earnings of a combined entity should be made as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance is effective for business combinations consummated in fiscal years beginning on or after December 15, 2010. We are currently evaluating the impact the adoption of this guidance on April 1, 2011 will have on our consolidated financial position and the results of operations.

Subsequent Event

During fiscal 2011, we made secured loans in the approximate aggregate amount of $4,863,000 to Fenco, a privately-owned Toronto-based manufacturer, remanufacturer and distributor of new and remanufactured aftermarket auto parts. In connection with these loans, we had an option to acquire a substantial ownership interest in Fenco. On May 6, 2011, we entered into and consummated the transactions pursuant to a purchase agreement (the “Purchase Agreement”) with FAPL Holdings Inc. (“FAPL”) and certain individuals. In connection with this acquisition, we advanced an additional $10,000,000 to Fenco. Pursuant to the Purchase Agreement, we purchased (i) all of the outstanding equity of Fenco, a corporation incorporated under the laws of Ontario, (ii) all of the outstanding equity of Introcan, Inc. (“Introcan”), a Delaware corporation, and (iii) 1% of the outstanding equity of Fapco S.A. de C.V. (“Fapco”), a Mexican variable capital company. Since Fenco owned 99% of Fapco, we now own 100% of Fapco.

In consideration for the acquisition, we issued to FAPL 360,000 shares of our 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 us and FAPL, 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 FAPL, Stikeman Elliott LLP, certain individuals, and us, dated May 6, 2011 (the “Escrow Agreement”).

In connection with the acquisition and the secured loans made to Fenco, we have incurred expenses of $879,000 related to legal, accounting, and valuation services during fiscal 2011, which are reflected in operating expenses. Additional fees in connection with the closing of the transaction will be recorded as expenses in the first quarter of fiscal 2012 as incurred.

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In connection with the acquisition, our now wholly-owned subsidiaries, Fenco 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 other lenders from time to time party thereto (the "Lenders"). Pursuant to the Fenco Credit Agreement, the Lenders have made available to the Fenco Borrowers a revolving credit facility in the maximum principal amount of $50,000,000 (the "Revolving Facility") and a term loan in the principal amount of $10,000,000 (the "Term Loan"). The availability of the Revolving Facility is subject to a borrowing base calculation consisting of eligible accounts receivable and eligible inventory.

The Fenco Borrowers may receive advances under the 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 credit.

The 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 Fenco Credit Agreement, among other things, requires the Fenco Borrowers to maintain certain financial covenants.

The Revolving Facility and the 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.

In connection with the Fenco Credit Agreement, we loaned Fenco an additional $10,000,000 bringing the aggregate amount of indebtedness owed by Fenco to us to $14,863,000.

Results of Operations

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

	Fiscal Years Ended March 31,		
	2011	2010	2009
Gross profit	31.9 %	28.1 %	29.3 %
Cash flow provided by (used in) operations	$10,735,000	$18,347,000	$(11,078,000)
Finished goods inventory turnover (1)	5.2	5.0	4.4
Return on equity (2)	11.8 %	10.4 %	4.2 %

(1) Finished goods inventory turnover is calculated by dividing the cost of goods sold for the year by the average between beginning and ending non-core finished goods inventory values, for each fiscal year. We believe that this provides a useful measure of our ability to turn production into revenues.

(2)

Return on equity is computed as net income for the fiscal year divided by shareholders' equity at the beginning of the fiscal year and measures our ability to invest shareholders' funds profitably.

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Following is our results of operation, reflected as a percentage of net sales:

	Fiscal Years Ended March 31,		
	2011	2010	2009
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold	68.1	71.9	70.7
Gross profit	31.9	28.1	29.3
Operating expenses:			
General and administrative	10.6	10.5	14.4
Sales and marketing	4.1	4.1	3.9
Research and development	1.0	1.0	1.5
Acquisition costs	0.5	0.1	-
Impairment of goodwill	-	-	1.6
Operating income	15.7	12.4	7.9
Gain on acquisition	-	(0.9)	-
Interest expense — net of interest income	3.3	3.2	3.1
Income tax expense	4.8	3.6	1.9
Net income	7.6	6.5	2.9

Fiscal 2011 Compared to Fiscal 2010

Net Sales. Net sales during fiscal 2011 increased by $14,060,000, or 9.6%, to $161,285,000 compared to net sales during fiscal 2010 of $147,225,000. The increase in our net sales was primarily due to increased sales to our existing and several new customers we acquired during fiscal 2011. In addition, our fiscal 2011 net sales reflect the full year impact of net sales to customers we acquired as a result of our August 2009 acquistion. Also, we recorded revenue, net of cost, of $378,000 in connection with our Consignment Agreement.

Cost of Goods Sold/Gross Profit. Cost of goods sold as a percentage of net sales decreased during fiscal 2011 to 68.1% from 71.9% in fiscal 2010, resulting in a corresponding increase in our gross profit percentage of 3.8% to 31.9% during fiscal 2011 from 28.1% during fiscal 2010. The increase in the gross profit percentage was primarily due to lower per unit manufacturing costs during fiscal 2011 as compared to fiscal 2010.

General and Administrative. Our general and administrative expenses during fiscal 2011 were $17,033,000, which represents an increase of $1,644,000, or 10.7%, from general and administrative expenses during fiscal 2010 of $15,389,000. This increase in general and administrative expenses was primarily due to the following: (i) a loss of $162,000 recorded due to the changes in the fair value of foreign exchange contracts compared to a gain of $1,565,000 during fiscal 2010, (ii) $259,000 of increased general and administrative expenses at our offshore manufacturing facilities due primarily to increased professional services fees and other consulting fees, (iii) $217,000 of decreased amortization of the gain on the sale-leaseback transaction, and (iv) $152,000 of increased expenses which primarily related to travel in connection with our Fenco acquisition. These increases were partly offset by a decrease in bad debt expense as we recorded a provision for bad debt expense of $898,000 in the prior year compared to a recovery of $38,000 in the current year.

Sales and Marketing. Our sales and marketing expenses during fiscal 2011 increased $518,000, or 8.6%, to $6,537,000 from $6,019,000 during fiscal 2010. This increase was due primarily to (i) increased travel expense, (ii) the full year impact of the compensation for the employees as a result of our August 2009 acquisition, (iii) increased trade show expense, and (iv) increased advertising expense during fiscal 2011. These increases in sales and marketing expenses were partially offset by decreased catalog expenses during fiscal 2011.

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Research and Development. Our research and development expenses increased by $128,000, or 9.0%, to $1,549,000 during fiscal 2011 from $1,421,000 during fiscal 2010. The increase in research and development expenses was due primarily to increased employee-related expenses and fees for consulting services during fiscal 2011.

Acquisition costs. Our acquisition costs were $879,000 during fiscal 2011 compared to $191,000 during fiscal 2010. Our fiscal 2011 acquisition costs were incurred in connection with our secured loans in the approximate aggregate amount of $4,863,000 to Fenco and the acquisition of Fenco on May 6, 2011.

Gain on acquisition. During fiscal 2010, we recorded a gain of $1,331,000 in connection with the acquisition of certain assets of Reliance as the estimated fair value of the net assets acquired exceeded the fair value of the consideration transferred.

Interest Expense. Our interest expense, net of interest income of $240,000, during fiscal 2011 was $5,355,000. This represents an increase of $645,000 over interest expense of $4,710,000 during fiscal 2010. This increase was primarily attributable to a higher balance of receivables being discounted under the receivable discount programs during fiscal 2011 compared to fiscal 2010. This increase in net interest expense was partly offset by a decrease in interest expense incurred on the lower average outstanding balances on our revolving loan and capital lease obligations during fiscal 2011.

Income Tax. In fiscal 2011, we recorded income tax expense of $7,809,000 compared to income tax expense of $5,282,000 in fiscal 2010, an effective rate of 39.0% and 35.4% for fiscal 2011 and 2010, respectively. The primary reason for the increase in the effective tax rate was because the benefit of lower statutory tax rates in foreign taxing jurisdictions was not as significant in fiscal 2011 when compared to the prior year. Offsetting the increase in the effective rate was an increase in the income apportioned to states with lower tax rates, which decreased our domestic effective rate. As a result of the decrease in the domestic effective tax rate, we revalued our deferred tax assets to reflect the lower value of deductions taken for book purposes, but not yet allowed for tax purposes. The change in the deferred tax rate resulted in a reduction of the net deferred tax assets of $558,000. This amount was charged to income tax expense in fiscal 2011.

Fiscal 2010 Compared to Fiscal 2009

Net Sales. Net sales during fiscal 2010 increased by $12,359,000, or 9.2%, to $147,225,000 compared to net sales during fiscal 2009 of $134,866,000. This increase was due to sales to new customers acquired as a result of our acquisitions and an increase in sales to our other existing customers. Our net sales during the first two months of fiscal 2010 were negatively impacted by an inventory reduction program initiated by one of our largest customers, and an understanding with another customer to delay shipments because of its then uncertain financial future. In addition, our net sales during fiscal 2010 were positively impacted by the recognition of $845,000 of previously deferred core revenue. We have recognized this revenue because we do not expect to incur any additional sales incentive allowances associated with Remanufactured Core buybacks from a certain customer.

Cost of Goods Sold/Gross Profit. Cost of goods sold as a percentage of net sales increased during fiscal 2010 to 71.9% from 70.7% in fiscal 2009, resulting in a corresponding decrease in our gross profit percentage of 1.2% to 28.1% during fiscal 2010 from 29.3% during fiscal 2009. This decrease in our gross profit percentage was primarily due to: (i) the reversal of a $1,307,000 accrual related to the customs duties claims during fiscal 2009 which enhanced margins in fiscal 2009, (ii) an increase in packaging costs of $1,090,000 reflecting increased sales to new customers and improved and more costly packaging materials compared to fiscal 2009, and (iii) an increase in the provision for excess and obsolete inventory of $842,000 compared to fiscal 2009. These decreases in gross profit were partially offset by the lower per unit manufacturing costs during fiscal 2010 compared to fiscal 2009. In addition, our gross profit in the prior year was positively impacted by acceleration of $2,300,000 of promotional allowances earned

during the fourth quarter of fiscal 2008, which otherwise would have been earned by one of our customers during the fourth quarter of fiscal 2008 through the first four months of fiscal 2009.

General and Administrative. Our general and administrative expenses during fiscal 2010 were $15,389,000, which represents a decrease of $4,090,000, or 21.0%, from general and administrative expenses during fiscal 2009 of $19,479,000. This decrease in general and administrative expenses was primarily due to the following: (i) a gain of $1,565,000 recorded due to the changes in the fair value of foreign exchange contracts compared to a loss of $1,194,000 during fiscal 2009, (ii) $1,323,000 of decreased professional services fees, and (iii) $372,000 of decreased stock-based compensation. These decreases in general and administrative expenses were partially offset by $673,000 of increased provision for bad debt expense during fiscal 2010.

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Sales and Marketing. Our sales and marketing expenses during fiscal 2010 increased $777,000, or 14.8%, to $6,019,000 from $5,242,000 during fiscal 2009. This increase was due primarily to the addition of employees as a result of our acquisitions, and increased commission expenses due to higher net sales. These increases in sales and marketing expenses were partially offset by decreased professional services and consulting fees, and travel expenses during fiscal 2010.

Research and Development. Our research and development expenses decreased by $572,000, or 28.7%, to $1,421,000 during fiscal 2010 from $1,993,000 during fiscal 2009. The decrease in research and development expenses was due primarily to lower compensation expenses resulting from a reduction in workforce and consulting fees.

Impairment of Goodwill. During fiscal 2009, we recorded a non-cash pre-tax impairment charge of $2,191,000. After recording the impairment charge, we had no goodwill remaining on our consolidated balance sheet as of March 31, 2009.

Gain on acquisition. During fiscal 2010, we recorded a gain of $1,331,000 in connection with the acquisition of certain assets of Reliance as the estimated fair value of the net assets acquired exceeded the fair value of the consideration transferred.

Interest Expense. Our interest expense, net of interest income, during fiscal 2010 was $4,710,000. This represents an increase of $514,000 over interest expense, net of interest income, of $4,196,000 during fiscal 2009. This increase was primarily attributable to a higher balance of receivables being discounted under the receivable discount programs during fiscal 2010 compared to fiscal 2009. During fiscal 2010, interest expense incurred on the higher average outstanding balances on our revolving loan was offset by lower interest rates.

Income Tax. In fiscal 2010, we recorded income tax expense of $5,282,000 compared to income tax expense of $2,589,000 in fiscal 2009. This increase was primarily due to higher pre-tax income partly offset by the benefit of lower statutory tax rates in foreign taxing jurisdictions in fiscal 2010 compared to the prior year.

Liquidity and Capital Resources

Overview

At March 31, 2011, we had working capital of $1,395,000, a ratio of current assets to current liabilities of 1:1, and cash of $2,477,000, compared to working capital of $3,399,000, a ratio of current assets to current liabilities of 1.1:1, and cash of $1,210,000 at March 31, 2010. The decrease in working capital from March 31, 2010 primarily resulted from the increase in accounts payable balances due to (i) purchases of inventory from Fenco's vendors in connection with our Consignment Agreement, (ii) our continued effort to make purchases from vendors with longer payment terms, and (iii) the timing of payments made at fiscal year-end. These decreases in working capital were partly offset by an increase in accounts receivable due to (i) a reduction in the future credits to be provided for Used Cores returned by our customers and (ii) increased net sales during fiscal 2011. In addition, our accounts receivable at March 31, 2011, include $4,160,000 of accounts receivable from Fenco pursuant to the Consignment Agreement.

During fiscal 2011, we used cash generated by operations, from our use of receivable discount programs with certain of our major customers, and our revolving loan as our primary sources of liquidity. These sources were primarily used to make secured loans in the approximate aggregate amount of $4,863,000 to Fenco, to make the quarterly principal payment on the term loan, pay for capital expenditure obligations, and pay the purchase price holdback in connection with our May 2008 acquisition.

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We believe our cash generated by operations, amounts available under our credit agreement, and our cash and short term investments on hand are sufficient to satisfy our expected future working capital needs, capital lease commitments, repayment of the current portion of our term loan, and capital expenditure obligations over the next twelve months for our current operations. However, due to our acquisition of Fenco, we may require additional capital and we cannot predict or assure that additional funds from existing sources will be sufficient.

Cash Flows

Net cash provided by operating activities was $10,735,000 and $18,347,000 during fiscal 2011 and 2010, respectively. The most significant changes in operating activities during fiscal 2011 compared to fiscal 2010 were due primarily to increases in our accounts receivable and long-term core inventory levels. Our accounts receivable, net increased during fiscal 2011 due to (i) a reduction in the future credits to be provided for Used Cores returned, (ii) account receivables recorded in connection with the Consignment Agreement, and (iii) the reduction in the prior year accounts receivable due to the reinstatement of a receivable discount program with one of our major customers in September 2009. Our long-term core inventory levels increased due primarily to an increase in Used Cores held at our facilities and Remanufactured Cores held at customers' locations due to higher sales. These changes in operating activities were partly offset by a decrease in our non-core inventory levels during fiscal 2011 compared to an increase in our non-core inventory levels during fiscal 2010.

Net cash used in investing activities was $6,723,000 and $3,666,000 during fiscal 2011 and 2010, respectively. The increase in net cash used in investing activities was primarily a result of the secured loans in the approximate aggregate amount of $4,863,000 made to Fenco during fiscal 2011. This increase in net cash used in investing activities was partly offset by the payment of the purchase price holdback of $464,000 in connection with our May 2008 acquisition compared to the payment of $2,622,000 during fiscal 2010 for our acquisitions. Capital expenditures for fiscal 2011 primarily related to the purchase of equipment for our manufacturing facilities and improvements to our California facility compared to purchases in the same period of the prior year primarily related to purchases of equipment for our manufacturing facilities.

Net cash used in financing activities was $2,790,000 and $13,947,000 during fiscal 2011 and 2010, respectively. This change was primarily due to repayments of our previous revolving loan, in part by the use of the proceeds from our term loan, during fiscal 2010. Additionally, during fiscal 2011, we repurchased 14,400 shares at a total cost of $89,000 pursuant to a share repurchase program authorized by our Board of Directors in March 2010.

Capital Resources

Debt

In October 2009, we entered into a revolving credit and term loan agreement (the "Credit Agreement") with our bank and one additional lender (the "Lenders"), which permits us to borrow up to a total of $45,000,000 (the "Credit Facility"). The Credit Facility is comprised of (i) a revolving facility with a $7,000,000 letter of credit sub-facility and (ii) a term loan. We may borrow on a revolving basis up to an amount equal to $35,000,000 minus all outstanding letter of credit obligations minus a borrowing reserve of $7,500,000 (the "Revolving Loan"). The borrowing reserve remains in effect only if we are party to a receivable discount program pursuant to which our accounts receivable owed to us by our largest customer are being discounted. The term loan is in the principal amount of $10,000,000 (the "Term Loan"). The Lenders hold a security interest in substantially all of our assets.

The Credit Agreement, among other things, requires us to maintain certain financial covenants, including tangible net worth, fixed charge coverage ratio and leverage ratio covenants. We were in compliance with all financial covenants under the Credit Agreement as of March 31, 2011.

The Term Loan matures in October 2014 and requires principal payments of $500,000 on a quarterly basis. The Revolving Loan expires in October 2011 and provides us the option to request up to three one-year extensions.

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In May 2010, we entered into a first amendment to the Credit Agreement with our Lenders. This amendment provides, among other things, that the borrowing reserve against our Revolving Loan commitment amount be increased from $7,500,000 to $10,000,000.

In November 2010, we entered into a second amendment to the Credit Agreement with our Lenders. This amendment, among other things, (i) extended the expiration date of the Revolving Loan to October 2012 and (ii) lowered the applicable margins on our borrowings to the levels described below.

In December 2010, we entered into a third amendment to the Credit Agreement with our Lenders. This amendment, among other things, eliminated the minimum London Interbank Offered Rate ("LIBOR") lending rate with respect to the Term Loan.

In April 2011, we entered into a fourth amendment to the Credit Agreement, effective March 31, 2011, with our Lenders. This amendment, among other things, (i) increased the amount we may borrow on a revolving basis from $35,000,000 to $50,000,000 and (ii) amended the definition of permitted acquisitions under the Credit Agreement.

There was no outstanding balance on the Revolving Loan at March 31, 2011 and 2010, respectively. Additionally, we had reserved $1,126,000 of the Revolving Loan for standby letters of credit for workers' compensation insurance and $3,536,000 for commercial letters of credit as of March 31, 2011. As of March 31, 2011, $45,338,000 was available under the Revolving Loan, and of this, $10,000,000 was reserved for use in the event our largest customer discontinued its current practice of having our receivables discounted.

The Revolving Loan and the Term Loan bear interest at either our bank's reference rate plus an applicable margin or a LIBOR rate plus an applicable margin, as selected by us in accordance with the Credit Agreement. The reference rate is, as further described in the Credit Agreement, the higher of our bank's announced base rate and the Federal funds rate plus 1/2 percent. The applicable margins are determined quarterly on a prospective basis as set forth below:

Leverage Ratio	Applicable LIBOR Margin	Applicable Reference Rate Margin
Less than 1.0:1.0	250 basis points	125 basis points
Greater than or equal to 1.0:1.0, but less than 1.5:1.0	275 basis points	150 basis points
Greater than or equal to 1.5:1.0	300 basis points	175 basis points

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

Receivable Discount Programs

Our liquidity has been positively impacted by receivable discount programs we have established with certain customers and their respective banks. Under these programs, we have the option to sell those customers' receivables to those banks at a discount to be agreed upon at the time the receivables are sold. The weighted average discount under this program was 3.9% during fiscal 2011 and has allowed us to accelerate collection of receivables aggregating $134,867,000 by a weighted average of 330 days. While these arrangements have reduced our working capital needs, there can be no assurance that these programs will continue in the future. These programs resulted in interest expense

of $4,768,000 during fiscal 2011. Interest expense resulting from these programs would increase if interest rates rise, if utilization of these discounting arrangements expands or if the discount period is extended to reflect more favorable payment terms to customers.

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Off-Balance Sheet Arrangements

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

Multi-year Customer Agreements

We have or are renegotiating long-term agreements with many of our major customers. Under these agreements, which typically have initial terms of at least four years, we are designated as the exclusive or primary supplier for specified categories of remanufactured alternators and starters. In consideration for our designation as a customer's exclusive or primary supplier, we typically provide the customer with a package of marketing incentives. These incentives differ from contract to contract and can include (i) the issuance of a specified amount of credits against receivables in accordance with a schedule set forth in the relevant contract, (ii) support for a particular customer's research or marketing efforts provided on a scheduled basis, (iii) discounts granted in connection with each individual shipment of product, and (iv) other marketing, research, store expansion or product development support. These contracts typically require that we meet ongoing standards related to fulfillment, price, and quality. Our contracts with major customers expire at various dates through March 2019.

The longer-term agreements both reflect and strengthen our customer relationships and business base. However, they also result in a continuing concentration of our revenue sources among a few key customers and require a significant increase in our use of working capital to build inventory and increase production. This increased production causes significant increases in our inventories, accounts payable and employee base, and customer demands that we purchase their Remanufactured Core inventory can be a significant strain on our available capital. In addition, the marketing and other allowances that we typically grant to our customers in connection with these new or expanded relationships adversely impact the near-term revenues and associated cash flows from these arrangements. However, we believe this incremental business will improve our overall liquidity and cash flow from operations over time.

Consignment Agreement

In March 2011, in order to maintain the service levels for Fenco's customers, we entered into a consignment agreement (the "Consignment Agreement") with Rafko Logistics Inc. (the "Consignee"), a subsidiary of FAPL. Pursuant to this agreement, we obtained an assignment of certain of the Consignee's purchase orders with Consignee's vendors and consigned to Consignee the goods purchased by us pursuant to such assigned purchase orders. All liabilities arising from this agreement have been guaranteed by FAPL.

During fiscal 2011, we recorded revenue, net of costs, of $378,000 from this agreement. At March 31, 2011, under this agreement, $4,160,000 was included in accounts receivable — net in the accompanying consolidated balance sheets representing the sale of the consigned goods. Additonally, $1,249,000 of finished goods inventory remained at Consignee's location in connection with this agreement at March 31, 2011. Also, included in accounts payable at March 31, 2011, is approximately $4,312,000 payable to Consignee's vendors for inventory purchased under this agreement.

As a result of the acquisition of Fenco in May 2011, the Consignment Agreement became an intercompany agreement.

Share Repurchase Program

In March 2010, the Company’s Board of Directors authorized a share repurchase program of up to $5,000,000 of the Company’s outstanding common stock from time to time in the open market and in private transactions at prices deemed appropriate by management. There is no expiration date governing the period over which the Company can repurchase shares under this program. During July 2010, the Company repurchased 14,400 shares at a total cost of approximately $89,000.

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Capital Expenditures and Commitments

Our capital expenditures were $1,566,000 during fiscal 2011. A significant portion of these expenditures relate to the purchase of equipment for our manufacturing facilities and improvements to our California facility. We expect our fiscal 2012 capital expenditure for our current operations to be approximately $2,400,000. We expect to use our working capital and incur additional capital lease obligations to finance these capital expenditures.

Contractual Obligations

The following summarizes our contractual obligations and other commitments as of March 31, 2011, and the effect such obligations could have on our cash flow in future periods:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	2 to 3 years	4 to 5 years	More than 5 years
Capital Lease Obligations (1)	$875,000	$398,000	$477,000	$-	$-
Operating Lease Obligations (2)	9,320,000	2,788,000	3,374,000	2,657,000	501,000
Term Loan	7,500,000	2,000,000	4,000,000	1,500,000	-
Unrecognized Tax Benefits (3)	-	-	-	-	-
Other Long-Term Obligations (4)	33,373,000	11,799,000	8,857,000	6,257,000	6,460,000
Total	$51,068,000	$16,985,000	$16,708,000	$10,414,000	$6,961,000

(1) Capital Lease Obligations represent amounts due under capital leases for various types of machinery and computer equipment.

(2) Operating Lease Obligations represent amounts due for rent under our leases for office and warehouse facilities in California, Tennessee, Connecticut, Malaysia, Singapore and Mexico, and for our Company automobile.

(3) We are unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, $530,000 of income taxes payable has been excluded from the table above. However, future tax payment accruals related to uncertain tax positions are included in our balance sheets, reduced by the associated federal deduction for state taxes.

(4) Other Long-Term Obligations represent commitments we have with certain customers to provide marketing allowances in consideration for long-term agreements to provide products over a defined period. We are not obligated to provide these marketing allowances should our business relationships end with these customers.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk relates to changes in interest rates and foreign currency exchange rates. Market risk is the potential loss arising from adverse changes in market prices and rates, including interest rates and foreign currency exchange rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes. As our overseas operations expand, our exposure to the risks associated with foreign currency fluctuations will continue to increase.

Our primary interest rate exposure relates to balances outstanding under our Credit Facility and receivable discount programs, which have interest costs that vary with interest rate movements. Our Credit Facility bears interest at variable base rates equal to the LIBOR rate or the bank’s reference rate, at our option, plus a margin rate dependent

upon our most recently reported leverage ratio. This obligation is the only variable rate facility we have outstanding at March 31, 2011. At March 31, 2011, we had no amounts outstanding under our Revolving Loan. Based upon the $7,500,000 balance of our Term Loan at March 31, 2011, an increase in interest rates of 1%, would have increased our annual net interest expense by $75,000. In addition, for each $10,000,000 of accounts receivable we discount over a period of 180 days, a 1% increase in interest rates would decrease our operating results by $50,000.

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We are exposed to foreign currency exchange risk inherent in our anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. We transact business in three foreign currencies which affect our operations: the Malaysian ringit, the Singapore dollar, and the Mexican peso. Our total foreign assets were $7,508,000 and $7,133,000 as of March 31, 2011 and 2010, respectively. In addition, as of March 31, 2011 and 2010, we had $2,594,000 and $369,000, respectively, due to our foreign subsidiaries. While these amounts are eliminated in consolidation, they impact our foreign currency translation gains and losses.

During fiscal 2011 and 2010, we experienced immaterial gains relative to our transactions involving the Malaysian ringit and the Singapore dollar. Based upon our current operations related to these two currencies, a change of 10% in exchange rates would result in an immaterial change in the amount reported in our financial statements.

Our exposure to currency risks has increased since the expansion of our remanufacturing operations in Mexico. Since these operations will be accounted for primarily in Mexican pesos, fluctuations in the value of the Mexican peso are expected to have a significant impact on our reported results. To mitigate the risk of currency fluctuation between the U.S. dollar and the Mexican peso, in August 2005 we began to enter into forward foreign currency exchange contracts to exchange U.S. dollars for Mexican pesos. The extent to which we use forward foreign currency exchange contracts is periodically reviewed in light of our estimate of market conditions and the terms and length of anticipated requirements. The use of derivative financial instruments allows us to reduce our exposure to the risk that the eventual net cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in exchange rates. In addition, during fiscal 2011, we began to enter 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 purchases from Chinese vendors. These contracts generally expire in a year or less. Any changes in the fair values of our forward foreign currency exchange contracts are reflected in current period earnings. Based upon our forward foreign currency exchange contracts related to these currencies, an increase of 10% in exchange rates at March 31, 2011 would have increased our general and administrative expenses by approximately $883,000. During fiscal 2011 and 2010, a loss of $162,000 and a gain of $1,565,000, 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.

Item 8. Financial Statements and Supplementary Data

The information required by this item is set forth in the consolidated financial statements, commencing on page F-1 included herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and that such information is accumulated and made known to the officers who certify the Company’s financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosures.

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

Inherent Limitations Over Internal Controls

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control may not prevent misstatements. Further, an evaluation of the effectiveness of internal control may not detect misstatements.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of March 31, 2011.

The effectiveness of our internal control over financial reporting as of March 31, 2011 has been audited by the Company's independent registered public accounting firm, Ernst & Young LLP. Their assessment is included in the accompanying Report of Independent Registered Public Accounting Firm on internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

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

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to the Proxy Statement.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners And Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the Proxy Statement.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

a. Documents filed as part of this report:

(1) Index to Consolidated Financial Statements:

Reports of Independent Registered Public Accounting Firm	45
Consolidated Balance Sheets	F-1
Consolidated Statements of Income	F-2
Consolidated Statement of Shareholders' Equity	F-3
Consolidated Statements of Cash Flows	F-4
Notes to Consolidated Financial Statements	F-5

(2) Schedules.

Schedule II — Valuation and Qualifying Accounts	S-1

(3) Exhibits:

Number	Description of Exhibit	Method of Filing
3.1	Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 declared effective on March 22, 1994 (the "1994 Registration Statement").
3.2	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-97498) declared effective on November 14, 1995 (the "1995 Registration Statement").
3.3	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997 (the "1997 Form 10-K").
3.4	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1998 (the "1998 Form 10-K").
3.5	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit C to the Company's proxy statement on Schedule 14A filed with the SEC on November 25, 2003.
3.6	Amended and Restated By-Laws of the Company	Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on August 24, 2010.
4.1		

	Specimen Certificate of the Company's common stock	Incorporated by reference to Exhibit 4.1 to the 1994 Registration Statement.
4.2	Form of Underwriter's common stock purchase warrant	Incorporated by reference to Exhibit 4.2 to the 1994 Registration Statement.
4.3	1994 Stock Option Plan	Incorporated by reference to Exhibit 4.3 to the 1994 Registration Statement.
4.4	Form of Incentive Stock Option Agreement	Incorporated by reference to Exhibit 4.4 to the 1994 Registration Statement.

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Number	Description of Exhibit	Method of Filing
4.5	1994 Non-Employee Director Stock Option Plan	Incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995.
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4.6	1996 Stock Option Plan	Incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-2 (No. 333-37977) declared effective on November 18, 1997 (the "1997 Registration Statement").
4.7	2003 Long Term Incentive Plan	Incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed with the SEC on April 2, 2004.
4.8	2004 Non-Employee Director Stock Option Plan	Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A for the 2004 Annual Shareholders Meeting.
4.9	Registration Rights Agreement among the Company and the investors identified on the signature pages thereto, dated as of May 18, 2007	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on May 18, 2007.
4.10	Form of Warrant to be issued by the Company to investors in connection with the May 2007 Private Placement	Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed on May 18, 2007.
4.11	2010 Incentive Award Plan	Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed on December 15, 2010.
10.1	Amendment to Lease, dated October 3, 1996, by and between the Company and Golkar Enterprises, Ltd. relating to additional property in Torrance, California	Incorporated by reference to Exhibit 10.17 to the December 31, 1996 Form 10-Q.
10.2	Lease Agreement, dated September 19, 1995, by and between Golkar Enterprises, Ltd. and the Company relating to the Company's facility located in Torrance, California	Incorporated by reference to Exhibit 10.18 to the 1995 Registration Statement.
10.3	Agreement and Plan of Reorganization, dated as of April 1, 1997, by and among the Company, Mel Marks, Richard Marks and Vincent Quek relating to the acquisition of MVR and Unijoh	Incorporated by reference to Exhibit 10.22 to the 1997 Form 10-K.

10.4	Form of Indemnification Agreement for officers and directors	Incorporated by reference to Exhibit 10.25 to the 1997 Registration Statement.
10.5	Second Amendment to Lease, dated March 15, 2002, between Golkar Enterprises, Ltd. and the Company relating to property in Torrance, California	Incorporated by reference to Exhibit 10.44 to the 2003 10-K.
10.6*	Addendum to Vendor Agreement, dated May 8, 2004, between AutoZone Parts, Inc. and the Company	Incorporated by reference to Exhibit 10.15 to the 2004 10-K.

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Number	Description of Exhibit	Method of Filing
10.7	Form of Orbian Discount Agreement between the Company and Orbian Corp.	Incorporated by reference to Exhibit 10.17 to the 2004 10-K.
10.8	Form of Standard Industrial/Commercial Multi-Tenant Lease, dated May 25, 2004, between the Company and Golkar Enterprises, Ltd for property located at 530 Maple Avenue, Torrance, California	Incorporated by reference to Exhibit 10.18 to the 2004 10-K.
10.9	Build to Suit Lease Agreement, dated October 28, 2004, among Motorcar Parts de Mexico, S.A. de CV, the Company and Beatrix Flourie Geoffroy	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on November 2, 2004.
10.10	Amendment No. 3 to Pay-On-Scan Addendum, dated August 22, 2006, between AutoZone Parts, Inc. and the Company	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on August 30, 2006.
10.11*	Amendment No. 1 to Vendor Agreement, dated August 22, 2006, between AutoZone Parts, Inc. and Motorcar Parts of America, Inc.	Incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K filed on August 30, 2006.
10.12	Lease Agreement Amendment, dated October 12, 2006, between the Company and Beatrix Flourie Geffroy	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on October 20, 2006.
10.13	Third Amendment to Lease Agreement, dated as of November 20, 2006, between Motorcar Parts of America, Inc. and Golkar Enterprises, Ltd.	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on November 27, 2006.
10.14	Securities Purchase Agreement among the Company and the investors identified on the signature pages thereto, dated as of May 18, 2007	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 18, 2007.
10.15	Amended and Restated Employment Agreement, dated as of December 31, 2008, by and between the Company and Selwyn Joffe	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 7, 2009.
10.16*	Vendor Agreement dated as of March 31, 2009, between the Company and AutoZone Parts, Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 5, 2009.

10.17*	Core Amendment to Vendor Agreement, dated as of March 31, 2009, between the Company and AutoZone Parts, Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed May 5, 2009.

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Number	Description of Exhibit	Method of Filing
10.18	Revolving Credit and Term Loan Agreement, dated as of October 29, 2009, between the Company and Union Bank, N.A. and Branch Banking & Trust Company	Incorporated by reference to Exhibit 10.3 to Quarterly Current Report on Form 10-Q filed November 9, 2009.
10.19 *	Vendor Agreement Addendum, dated as of March 31, 2009, between the Company and AutoZone Parts, Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K/A filed on December 23, 2009.
10.20 *	Core Amendment to Vendor Agreement Addendum, dated as of March 31, 2009, between the Company and AutoZone Parts, Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K/A filed on December 23, 2009.
10.21 *	Master Vendor Agreement, dated as of April 1, 2009, between the Company and O'Reilly Automotive, Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on January 13, 2010.
10.22 *	Letter Agreement, dated as of April 1, 2009, between the Company and O'Reilly Automotive, Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on January 13, 2010.
10.23 *	Vendor Agreement Addendum, dated as of April 1, 2009 between the Company and O'Reilly Automotive, Inc.	Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed on January 13, 2010.
10.24	First Amendment to the Revolving Credit and Term Loan Agreement, dated as of May 12, 2010, between the Company and Union Bank, N.A. and Branch Banking & Trust Company	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 13, 2010.
10.25	Debenture, dated August 24, 2010, issued by Fenwick Automotive Products Limited to Motorcar Parts of America, Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on August 30, 2010.
10.26	Addendum to Unanimous Shareholders Agreement, dated August 24, 2010, between Motorcar Parts of America, Inc., Fenwick Enterprises Inc., Escal Holdings Inc., Fencity Holdings Inc., Jofen Holdings Inc., Gordon Fenwick, Paul Fenwick, Joel Fenwick, Stanley Fenwick, Karen Fenwick, Jack Shuster and FAPL Holdings Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on August 30, 2010.

10.27	Second Amendment to Revolving Credit and Term Loan Agreement, dated as of November 3, 2010, between the Company and Union Bank, N.A. and Branch Banking & Trust Company	Incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q filed on November 8, 2010.

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Number	Description of Exhibit	Method of Filing
10.28	Third Amendment to Revolving Credit and Term Loan Agreement, dated as of December 6, 2010, between the Company and Union Bank, N.A. and Branch Banking & Trust Company	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 13, 2010.
10.29	Amended and Restated Debenture, dated December 15, 2010, issued by Fenwick Automotive Products Limited to Motorcar Parts of America, Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 21, 2010.
10.30	Amended and Restated Addendum to Unanimous Shareholders Agreement, dated December 15, 2010, between Motorcar Parts of America, Inc., Fenwick Enterprises Inc., Jack Shuster, Gordon Fenwick, Paul Fenwick, Joel Fenwick, FAPL, Fenwick Automotive Products Limited, Introcan Inc., Escal Holdings Inc., Fencity Holdings Inc. and Jofen Holdings Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on December 21, 2010.
10.31*	Consignment Agreement, dated as of March 1, 2011, among Motorcar Parts of America, Inc., Rafko Logistics Inc., Fenwick Automotive Products Limited and FAPL Holdings Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on March 7, 2011.
10.32	Fourth Amendment to the Revolving Credit and Term Loan Agreement, dated as of March 31, 2011, by and among Motorcar Parts of America, Inc., Union Bank, N.A., and Branch Banking & Trust Company	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on April 7, 2011.
10.33	Revolving Note, dated as of March 31, 2011, executed by Motorcar Parts of America, Inc. in favor of Union Bank, N.A.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on April 7, 2011.
10.34	Revolving Note, dated as of March 31, 2011, executed by Motorcar Parts of America, Inc. in favor of Branch Banking & Trust Company	Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed on April 7, 2011.
10.35	Purchase Agreement, dated May 6, 2011, by and among Motorcar Parts of	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 12, 2011.

	America, Inc., FAPL Holdings Inc., Jack Shuster, Gordon Fenwick, Paul Fenwick and Joel Fenwick.	
10.36	Hold Agreement, dated May 6, 2011, between Motorcar Parts of America, Inc. and FAPL Holdings Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on May 12, 2011.

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Number	Description of Exhibit	Method of Filing
10.37	Escrow Agreement, dated May 6, 2011, by and among Motorcar parts of America, Inc., FAPL Holdings Inc., Jack Shuster, Gordon Fenwick, Paul Fenwick, Joel Fenwick and Strikeman Elliott LLP	Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed on May 12, 2011.
10.38	Amended and Restated Credit Agreement, dated May 6, 2011, by and among Fenwick Automotive Products Limited, Introcan Inc., Manufactures and Traders Trust Company, M&T Bank and such other lenders from time to time as may become a party thereto	Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed on May 12, 2011.
14.1	Code of Business Conduct and Ethics	Incorporated by reference to Exhibit 10.48 to the 2003 Form 10-K.
21.1	List of Subsidiaries	Filed herewith.
23.0	Consent of Independent Registered Public Accounting Firm Ernst & Young LLP	Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
31.3	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Filed herewith.

* Portions of this exhibit have been granted confidential treatment by the SEC.

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SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOTORCAR PARTS OF AMERICA, INC.

Dated: June 13, 2011	By:	/s/ David Lee David Lee Chief Financial Officer
Dated: June 13, 2011	By:	/s/ Kevin Daly Kevin Daly Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

/s/ Selwyn Joffe Selwyn Joffe	Chief Executive Officer and Director (Principal Executive Officer)	June 13, 2011
/s/ David Lee David Lee	Chief Financial Officer (Principal Financial Officer)	June 13, 2011
/s/ Kevin Daly Kevin Daly	Chief Accounting Officer (Principal Accounting Officer)	June 13, 2011
/s/ Mel Marks Mel Marks	Director	June 13, 2011
/s/ Scott Adelson Scott Adelson	Director	June 13, 2011
/s/ Rudolph Borneo Rudolph Borneo	Director	June 13, 2011
/s/ Philip Gay Philip Gay	Director	June 13, 2011
/s/ Duane Miller Duane Miller	Director	June 13, 2011
/s/ Jeffrey Mirvis Jeffrey Mirvis	Director	June 13, 2011

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MOTORCAR PARTS OF AMERICA, INC.
AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Motorcar Parts of America, Inc.

We have audited Motorcar Parts of America, Inc. and subsidiaries' internal control over financial reporting as of March 31, 2011 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Motorcar Parts of America, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Motorcar Parts of America, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Motorcar Parts of America, Inc. and subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2011 of Motorcar Parts of America, Inc. and subsidiaries and our report dated June 13, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
June 13, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Motorcar Parts of America, Inc.

We have audited the accompanying consolidated balance sheets of Motorcar Parts of America, Inc. and subsidiaries (the “Company”) as of March 31, 2011 and 2010 and the related consolidated statements of income, shareholders’ equity, and cash flows for the each of the three years in the period ended March 31, 2011. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Motorcar Parts of America, Inc. and subsidiaries at March 31, 2011 and 2010 and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Motorcar Parts of America, Inc.’s internal control over financial reporting as of March 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 13, 2011, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
June 13, 2011

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
March 31,

	2011	2010
ASSETS		
Current assets:		
Cash	$2,477,000	$1,210,000
Short-term investments	304,000	451,000
Accounts receivable — net	10,635,000	5,553,000
Inventory— net	29,733,000	31,547,000
Inventory unreturned	5,031,000	3,924,000
Deferred income taxes	5,658,000	8,391,000
Prepaid expenses and other current assets	6,299,000	2,735,000
Total current assets	60,137,000	53,811,000
Plant and equipment — net	11,663,000	12,693,000
Long-term core inventory — net	80,558,000	67,957,000
Long-term core inventory deposit	25,984,000	25,768,000
Long-term deferred income taxes	1,346,000	951,000
Long-term note receivable	4,863,000	-
Intangible assets — net	5,530,000	6,304,000
Other assets	1,784,000	1,549,000
TOTAL ASSETS	$191,865,000	$169,033,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$38,973,000	$31,603,000
Accrued liabilities	2,181,000	1,863,000
Accrued salaries and wages	3,993,000	3,590,000
Accrued workers' compensation claims	1,144,000	1,574,000
Customer finished goods returns accrual	9,161,000	7,454,000
Income tax payable	322,000	678,000
Deferred income taxes	136,000	-
Other current liabilities	460,000	697,000
Current portion of term loan	2,000,000	2,000,000
Current portion of capital lease obligations	372,000	953,000
Total current liabilities	58,742,000	50,412,000
Term loan, less current portion	5,500,000	7,500,000
Deferred core revenue	8,729,000	6,061,000
Other liabilities	1,255,000	995,000
Capital lease obligations, less current portion	462,000	445,000
Total liabilities	74,688,000	65,413,000
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; 12,078,271 and 12,026,021 shares issued; 12,063,871 and 12,026,021 outstanding at March 31, 2011 and 2010, respectively	121,000	120,000

Treasury stock, at cost, 14,400 shares of common stock at March 31, 2011 and none at March 31, 2010	(89,000)	-
Additional paid-in capital	93,140,000	92,792,000
Additional paid-in capital-warrant	1,879,000	1,879,000
Accumulated other comprehensive loss	(349,000)	(1,426,000)
Retained earnings	22,475,000	10,255,000
Total shareholders' equity	117,177,000	103,620,000
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$191,865,000	$169,033,000

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended March 31,

	2011	2010	2009
Net sales	$161,285,000	$147,225,000	$134,866,000
Cost of goods sold	109,903,000	105,898,000	95,319,000
Gross profit	51,382,000	41,327,000	39,547,000
Operating expenses:			
General and administrative	17,033,000	15,389,000	19,479,000
Sales and marketing	6,537,000	6,019,000	5,242,000
Research and development	1,549,000	1,421,000	1,993,000
Acquisition costs	879,000	191,000	-
Impairment of goodwill	-	-	2,191,000
Total operating expenses	25,998,000	23,020,000	28,905,000
Operating income	25,384,000	18,307,000	10,642,000
Other expense (income):			
Gain on acquisition	-	(1,331,000)	-
Interest expense	5,595,000	4,710,000	4,215,000
Interest income	(240,000)	-	(19,000)
Income before income tax expense	20,029,000	14,928,000	6,446,000
Income tax expense	7,809,000	5,282,000	2,589,000
Net income	$12,220,000	$9,646,000	$3,857,000
Basic net income per share	$1.01	$0.80	$0.32
Diluted net income per share	$0.99	$0.80	$0.32
Weighted average number of shares outstanding:			
Basic	12,042,428	11,988,692	11,995,622
Diluted	12,334,331	12,116,615	12,086,126

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Statement of Shareholders' Equity
For the Years Ended March 31,

	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital Common Stock	Additional Paid-in Capital Warrants	Shareholder Note Receivable	Accumulated Other Comprehensive Income (Loss)	Retai Earni (Accum Defi
Balance at March 31, 2008	12,070,555	121,000	-	-	92,663,000	1,879,000	(682,000)	360,000	(3,248
Compensation recognized under employee stock plans	-	-	-	-	508,000	-	-	-	-
Retirement of common stock in satisfaction of shareholder note receivable	(108,534)	(1,000)	-	-	(712,000)	-	682,000	-	-
Unrealized loss on investments, net of tax	-	-	-	-	-	-	-	(64,000)	-
Foreign currency translation	-	-	-	-	-	-	-	(2,280,000)	-
Net income	-	-	-	-	-	-	-	-	3,857
Comprehensive Income									
Balance at March 31, 2009	11,962,021	120,000	-	-	92,459,000	1,879,000	-	(1,984,000)	609,0
Compensation recognized under employee stock plans	-	-	-	-	136,000	-	-	-	-
Exercise of options	64,000	-	-	-	152,000	-	-	-	-
Tax benefit from employee stock options exercised	-	-	-	-	69,000	-	-	-	-

Impact of tax benefit on APIC pool	-	-	-	-	(24,000)	-	-	-	-
Unrealized gain on investments, net of tax	-	-	-	-	-	-	-	80,000	-
Foreign currency translation	-	-	-	-	-	-	-	478,000	-
Net income	-	-	-	-	-	-	-	-	9,646
Comprehensive Income									
Balance at March 31, 2010	12,026,021	120,000	-	-	92,792,000	1,879,000	-	(1,426,000)	10,25
Compensation recognized under employee stock plans	-	-	-	-	59,000	-	-	-	-
Exercise of options	52,250	1,000		-	199,000	-	-	-	-
Tax benefit from employee stock options exercised	-	-	-	-	123,000	-	-	-	-
Impact of tax benefit on APIC pool	-	-	-	-	(33,000)	-	-	-	-
Repurchase of common stock including fees	-	-	(14,400)	(89,000)	-	-	-	-	-
Unrealized gain on investments, net of tax	-	-	-	-	-	-	-	(3,000)	-
Foreign currency translation	-	-	-	-	-	-	-	1,080,000	-
Net income	-	-	-	-	-	-	-	-	12,22
Comprehensive Income									
Balance at March 31, 2011	12,078,271	$121,000	(14,400)	$(89,000)	$93,140,000	$1,879,000	$-	$(349,000)	$22,47

The accompanying 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
Years Ended March 31,

	2011	2010	2009
Cash flows from operating activities:			
Net income	$12,220,000	$9,646,000	$3,857,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	3,126,000	3,238,000	3,136,000
Amortization of intangible assets	774,000	644,000	326,000
Amortization of deferred gain on sale-leaseback	(307,000)	(524,000)	(521,000)
Amortization of deferred financing costs	86,000	35,000	-
Provision for inventory reserves	1,804,000	878,000	36,000
Provision for customer payment discrepencies	850,000	182,000	915,000
Net (recovery of) provision for doubtful accounts	(38,000)	898,000	225,000
Deferred income taxes	2,358,000	(70,000)	(2,252,000)
Share-based compensation expense	59,000	136,000	508,000
Gain on acquisition	-	(1,331,000)	-
Impairment of goodwill	-	-	2,191,000
Impact of tax benefit on APIC pool from stock options exercised	33,000	24,000	-
(Gain) loss on redemption of short-term investment	(25,000)	5,000	-
Loss on disposal of assets	37,000	13,000	4,000
Changes in current assets and liabilities:			
Accounts receivable	(5,894,000)	11,917,000	(11,521,000)
Inventory	1,305,000	(3,936,000)	6,833,000
Inventory unreturned	(1,107,000)	784,000	(584,000)
Prepaid expenses and other current assets	(3,527,000)	(1,054,000)	369,000
Other assets	(245,000)	(832,000)	207,000
Accounts payable and accrued liabilities	8,885,000	7,122,000	(10,179,000)
Customer finished goods returns accrual	1,707,000	(1,097,000)	1,732,000
Income tax payable	(381,000)	(518,000)	870,000
Deferred core revenue	2,668,000	127,000	3,007,000
Long-term accounts receivable	-	-	767,000
Long-term core inventory	(13,885,000)	(5,692,000)	(9,894,000)
Long-term core inventory deposits	(216,000)	(1,317,000)	(1,974,000)
Other liabilities	448,000	(931,000)	864,000
Net cash provided by (used in) operating activities	10,735,000	18,347,000	(11,078,000)
Cash flows from investing activities:			
Purchase of plant and equipment	(1,566,000)	(1,055,000)	(2,317,000)
Purchase of businesses	(464,000)	(2,622,000)	(7,462,000)
Long-term note receivable	(4,863,000)	-	-
Change in short term investments	170,000	11,000	(67,000)
Net cash used in investing activities	(6,723,000)	(3,666,000)	(9,846,000)
Cash flows from financing activities:			
Borrowings under revolving loan	46,200,000	31,600,000	52,310,000
Repayments under revolving loan	(46,200,000)	(53,200,000)	(30,710,000)
Proceeds from term loan	-	10,000,000	-
Repayments of term loan	(2,000,000)	(500,000)	-

Deferred financing costs	(16,000)	(414,000)	-
Payments on capital lease obligations	(975,000)	(1,630,000)	(1,868,000)
Exercise of stock options	199,000	152,000	-
Excess tax benefit from employee stock options exercised	123,000	69,000	-
Impact of tax benefit on APIC pool from stock options exercised	(33,000)	(24,000)	-
Repurchase of common stock, including fees	(89,000)	-	-
Proceeds from issuance of common stock	1,000	-	-
Net cash (used in) provided by financing activities	(2,790,000)	(13,947,000)	19,732,000
Effect of exchange rate changes on cash	45,000	24,000	(291,000)
Net increase (decrease) in cash	1,267,000	758,000	(1,483,000)
Cash — Beginning of year	1,210,000	452,000	1,935,000
Cash — End of year	$2,477,000	$1,210,000	$452,000
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest, net	$5,270,000	$4,568,000	$4,048,000
Income taxes, net of refunds	8,073,000	5,636,000	3,404,000
Non-cash investing and financing activities:			
Settlement of accounts receivable in connection with purchase of business	$-	$1,123,000	$-
Property acquired under capital lease	351,000	-	357,000
Holdback on purchase of businesses	-	-	800,000
Note payable on purchase of business	-	-	722,000
Retirement of common stock in satisfaction of shareholder note receivable	-	-	682,000

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Company Background and Organization

Motorcar Parts of America, Inc. and its subsidiaries (the "Company" or "MPA") remanufacture, produce and distribute alternators and starters for import 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 major automobile manufacturers.

The Company obtains used alternators and starters, 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, Singapore and Malaysia. In addition, the Company utilizes third party warehouse distribution centers in Edison, New Jersey and Springfield, Oregon. The Company also uses a warehouse distribution facility in Berlin, Connecticut.

2. Summary of Significant Accounting Policies

Segment Reporting

The Company currently operates in one business segment pursuant to the guidance provided under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Motorcar Parts of America, Inc and its wholly owned subsidiaries, MVR Products Pte. Ltd., Unijoh Sdn. Bhd., Motorcar Parts de Mexico, S.A. de C.V. and Motorcar Parts of Canada, Inc. All significant inter-company accounts and transactions have been eliminated.

Cash

The Company maintains cash balances in local currencies in Singapore and Malaysia and in local and U.S. dollar currencies in Mexico for use by the facilities operating in those foreign countries. The balances in these foreign accounts translated into U.S. dollars at March 31, 2011 and 2010 were $685,000 and $569,000, respectively.

Accounts Receivable

The allowance for doubtful accounts is developed based upon several factors including customer credit quality, historical write-off experience and any known specific issues or disputes which exist as of the balance sheet date. Accounts receivable are written off only when all collection attempts have failed. The Company does not require collateral for accounts receivable.

The Company has receivable discount programs that have been established with certain customers and their respective banks. Under these programs, the Company has the option to sell those customers' receivables to those banks at a discount to be agreed upon at the time the receivables are sold. Once the customer chooses which outstanding invoices are going to be made available for discounting, the Company can accept or decline the bundle of invoices provided. The receivable discount programs are non-recourse, and funds cannot be reclaimed by the customer or its bank after

the related invoices have been discounted.

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Inventory

Non-core Inventory

Non-core inventory is comprised of non-core raw materials, the non-core value of work in process and the non-core value of finished goods. Used Cores, the Used Core value of work in process and the Remanufactured Core portion of finished goods are classified as long-term core inventory as described below under the caption “Long-term Core Inventory.”

Non-core inventory is stated at the lower of cost or market. The cost of non-core inventory approximates average historical purchase prices paid, and is based upon the direct costs of material and an allocation of labor and variable and fixed overhead costs. The cost of non-core inventory is evaluated at least quarterly during the fiscal year and adjusted as necessary to reflect current lower of cost or market levels. These adjustments are determined for individual items of inventory within each of the three classifications of non-core inventory as follows:

- Non-core raw materials are recorded at average cost, which is based on the actual purchase price of raw materials on hand. The average cost is updated quarterly. This average cost is used in the inventory costing process and is the basis for allocation of materials to finished goods during the production process.

- Non-core work in process is in various stages of production, is on average 50% complete and is valued at 50% of the cost of a finished good. Non-core work in process inventory historically comprises less than 3% of the total non-core inventory balance.

- Finished goods cost includes the average cost of non-core raw materials and allocations of labor and variable and fixed overhead. The allocations of labor and variable and fixed overhead costs are determined based on the average actual use of the production facilities over the prior twelve months which approximates normal capacity. This method prevents the distortion in costs that would occur during short periods of abnormally low or high production. In addition, the Company excludes certain unallocated overhead such as severance costs, duplicative facility overhead costs, and spoilage from the calculation and expenses them as period costs. For the years ended March 31, 2011, 2010, and 2009, costs of approximately $1,378,000, $1,314,000, and $2,019,000, respectively, were considered abnormal and thus excluded from the cost calculation and charged directly to cost of sales.

The Company records an allowance for potentially excess and obsolete inventory based upon recent sales history, the quantity of inventory on-hand, and a forecast of potential use of the inventory. The Company reviews inventory on a monthly basis to identify excess quantities and part numbers that are experiencing a reduction in demand. In general, part numbers with quantities representing a one to three-year supply are partially reserved for at rates based upon management’s judgment and consistent with historical rates. Any part numbers with quantities representing more than a three-year supply are reserved for at a rate that considers possible scrap and liquidation values and may be as high as 100% of cost if no liquidation market exists for the part.

The quantity thresholds and reserve rates are subjective and are based on management’s judgment and knowledge of current and projected industry demand. The reserve estimates may, therefore, be revised if there are changes in the overall market for the Company’s products or market changes that, in management’s judgment, impact the Company’s ability to sell or liquidate potentially excess or obsolete inventory.

The Company records vendor discounts as a reduction of inventories that are recognized as a reduction to cost of sales as the inventories are sold.

Inventory Unreturned

Inventory unreturned represents the Company's estimate, based on historical data and prospective information provided directly by the customer, of finished goods shipped to customers that the Company expects to be returned after the balance sheet date. Because all cores are classified separately as long term assets, the inventory unreturned balance includes only the added unit value of finished goods. The return rate is calculated based on expected returns within the normal operating cycle of one year. As such, the related amounts are classified in current assets.

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Inventory unreturned is valued in the same manner as the Company's finished goods inventory.

Long-term Core Inventory

Long-term core inventory consists of:

- Used Cores purchased from core brokers and held in inventory at the Company's facilities,
- Used Cores returned by the Company's customers and held in inventory at the Company's facilities,
- Used Cores returned by end-users to customers but not yet returned to the Company are classified as Remanufactured Cores until they are physically received by the Company,