

MOTORCAR PARTS AMERICA INC  
Form 10-K  
June 14, 2016

---

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

Form 10-K

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

For the fiscal year ended March 31, 2016

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

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

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

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

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.

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

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

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

As of September 30, 2015, 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 \$566,792,048 based on the closing sale price as reported on the NASDAQ Global Market.

There were 18,534,711 shares of common stock outstanding as of June 7, 2016.

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, 2016 or will be included in an amendment to this Form 10-K filed within 120 days of March 31, 2016.

---

---

TABLE OF CONTENTS

PART I

|   |    |
|---|----|
| Item 1. <u>Business</u>                   | 5  |
| Item 1A. <u>Risk Factors</u>              | 10 |
| Item 1B. <u>Unresolved Staff Comments</u> | 15 |
| Item 2. <u>Properties</u>                 | 15 |
| Item 3. <u>Legal Proceedings</u>          | 15 |
| Item 4. <u>Mine Safety Disclosures</u>    | 15 |

PART II

|   |    |
|---|----|
| Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 16 |
| Item 6. <u>Selected Financial Data</u>  | 18 |
| Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 19 |
| Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 38 |
| Item 8. <u>Financial Statements and Supplementary Data</u>  | 38 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 39 |
| Item 9A. <u>Controls and Procedures</u>   | 39 |
| Item 9B. <u>Other Information</u>   | 39 |

PART III

|  |    |
|--|----|
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u>   | 40 |
| Item 11. <u>Executive Compensation</u>   | 40 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners And Management and Related Stockholder Matters</u> | 40 |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>                      | 40 |
| Item 14. <u>Principal Accountant Fees and Services</u>   | 40 |

PART IV

|   |    |
|---|----|
| Item 15. <u>Exhibits, Financial Statement Schedules</u> | 41 |
|---|----|

|                   |    |
|-------------------|----|
| <u>SIGNATURES</u> | 49 |
|-------------------|----|

---

Table of Contents

MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

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

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

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

Table of Contents

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,” “MPA,” 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](http://www.sec.gov). Our SEC filings are also available free of charge on our website [www.motorcarparts.com](http://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.

Table of Contents

PART I

Item 1. Business

General

We are a leading manufacturer, remanufacturer, and distributor of aftermarket automotive parts for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. We sell our products predominantly in North America to the largest auto parts retail and traditional warehouse chains and to major automobile manufacturers for both their aftermarket programs and their warranty replacement programs (“OES”).

The current population of vehicles in the U.S. is approximately 253 million and the average age of these vehicles is approximately 11.5 years. While the aged vehicle population is favorable today, miles driven continues to fluctuate primarily based on fuel prices. We believe demand and replacement rates for aftermarket automotive parts generally increase with the age of vehicles and increases in miles driven.

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 less expensive alternative than having the repair performed by a professional installer. The second is the professional installer market, commonly known as the do-it-for-me (“DIFM”) market. This market is serviced by the traditional warehouse distributors, the dealer networks, and the commercial divisions of retail chains. Generally, the consumer in this channel is a professional parts installer. Our products are distributed to both the DIY and DIFM markets.

Pursuant to the guidance provided under the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) for segment reporting, we have identified our chief executive officer as our chief operating decision maker (“CODM”), have reviewed the documents used by the CODM, and understand how such documents are used by the CODM to make financial and operating decisions. We have determined through this review process that our business comprises one reportable segment for purposes of recording and reporting our financial results.

Growth Strategies

We are focused on growing our share in all channels within the aftermarket, including DIY, DIFM and OES. We are well positioned for growth in all channels, in particular the DIFM market in three ways: (i) our auto parts retail customers are expanding their efforts to target the DIFM market, (ii) we sell our products under private label and our own brand names directly to suppliers that focus on professional installers, and (iii) we sell our products to original equipment manufacturers for distribution to the professional installer both for warranty replacement and their general aftermarket channels. We have been successful in growing sales to all channels of the aftermarket.

Our goal is to take advantage of multiple growth strategies. To accomplish this, key elements of our strategy include:

Grow our product lines both with existing and potential new customers. We continue to develop and offer current and new sales programs to ensure that we are doing all we can to support our customers’ businesses. We remain dedicated to manage growth and continue to focus on enhancements to our infrastructure and making investments in resources to support our customers.

Introduction of new product lines. We continue to strive to expand our business by exploring new product lines including working with our existing customers to identify potential new product opportunities. We expect to launch a new product line in the second quarter of fiscal 2017.

The strategic acquisition of other companies or businesses. We have in the past and intend to continue to making strategic acquisitions to grow our business. We maintain an in-house acquisition team that continuously works to identify potential new targets.

Creating value for our customers. A core part of our strategy is ensuring that we add meaningful value for our customers. We consistently support and pilot our customers' supply management initiatives in addition to providing demand analytics, inventory planning, market share, and retail store layout information to our customers.

## Table of Contents

### Products

Our current products include (i) rotating electrical products such as alternators and starters, (ii) wheel hub assemblies and bearings, and (iii) brake master cylinders.

Our products meet or exceed original equipment manufacturer specifications. We produce both new and remanufactured units. 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. Our remanufactured parts are generally sold at competitively lower prices than most new replacement parts. We believe most of our automotive parts are non-elective replacement parts in all makes and models of vehicles because they are required for a vehicle to operate.

We recycle materials, including metal from the Used Cores and corrugated packaging, in keeping with our focus of positively impacting the environment.

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 automotive parts required to service vehicles. We carry over 13,000 stock keeping units (“SKUs”) for automotive parts that are sold under our customers’ widely recognized private label brand names and our Quality-Built®, Pure Energy™, XtremeReliance™ and other brand names.

### Sales, Marketing and Distribution

We sell our products to the largest automotive chains in North America including Advance (inclusive of Carquest, Autopart International, and Worldpac), AutoZone, Genuine Parts (NAPA), O’Reilly, and Pep Boys, with an aggregate of approximately 24,000 retail outlets. In addition, we sell our products to OES customers, professional installers, and a diverse group of automotive warehouse distributors.

We publish printed and electronic catalogs with part numbers and applications for our products 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.

We ship our products from our facilities and fee warehouses located in North America.

Customers: Customer Concentration. 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 2016, 2015 and 2014, sales to our three largest customers in the aggregate represented 87%, 86% and 83%, respectively, of our net sales, and sales to our largest customer, AutoZone, represented 48%, 56% and 53%, respectively, of our net sales. Any meaningful reduction in the level of sales to any of these customers, deterioration of the financial condition of any of these customers or the loss of any of these customers could have a materially adverse impact on our business, results of operations, and financial condition.

Customer Arrangements; Impact on Working Capital. We have various length agreements with our customers. Under these agreements, which in most cases have initial terms of at least four years, we are designated as the exclusive or primary supplier for specified categories of our products. Because of the very competitive nature of the market 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) 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 April 2021.

6

---

## Table of Contents

While these longer-term agreements strengthen our customer relationships, the increased demand for our products often requires that we increase our inventories and personnel. Customer demands that we purchase and maintain their Remanufactured Core inventory also requires the use of 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 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 market for aftermarket automotive parts is highly competitive. We compete with several large and medium sized remanufacturers, including BBB Industries, Remy/BorgWarner Inc., and a large number of smaller regional and specialty remanufacturers. We also compete with overseas manufacturers, particularly those located in China, who are increasing their operations and could become a significant competitive force in the future.

We believe that the reputations for quality and customer service that a supplier provides are significant factors in our customers' purchase decisions. We believe that our ability to provide quality replacement automotive parts, rapid and reliable delivery capabilities as well as promotional support distinguishes us from many of our competitors and provides a competitive advantage. In addition, we believe favorable pricing, our core exchange program, and extended payment terms are also very important competitive factors in customers' purchase decisions.

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.

## Operations

**Production Process.** The majority of our products are remanufactured. Our remanufacturing process begins with the receipt of 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 an environmentally-sound 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.

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. To maximize remanufacturing efficiency, we store component parts ready for assembly in our production facilities.

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 has been fully implemented at all of our production facilities. This manufacturing enables us to significantly reduce the time it takes to produce a finished product. We continue to explore opportunities for improving efficiencies in our remanufacturing process.



Table of Contents

Offshore Remanufacturing. The majority of our remanufacturing operations are conducted at our facilities in Mexico and Malaysia. We continue to maintain production of certain remanufactured units that require specialized service and/or rapid turnaround in our U.S. facilities. In addition, we operate shipping and receiving warehouses and testing facilities in Singapore and China for our products.

Used Cores. 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 Used Cores in the open market from core brokers who specialize in buying and selling Used Cores to supplement the supply of Used Cores sent to us by our customers. Although the open market is not a primary source of Used Cores, it is a critical source for meeting our raw material demands. Remanufacturing consumes, on average, more than one Used Core for each remanufactured unit produced since not all Used Cores are reusable. The yield rates depend upon both the product and customer specifications.

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

Purchased Finished Goods. In addition to our remanufactured goods, we also purchase finished goods from various suppliers, including several located in Asia. We perform supplier qualification, product inspection and testing according to our ISO TS 16949 certified quality system to assure product quality levels. We also perform periodic site audits of our suppliers’ manufacturing facilities.

Return Rights. Under our customer agreements and general industry practice, our customers are allowed stock adjustments if their inventory of certain product lines exceeds the inventory necessary to support sales to end-user consumers (stock adjustment returns). Customers have various contractual rights for stock adjustment returns which are typically less than 5% of units sold. In some instances, we allow a higher level of returns in connection with significant restocking orders. In addition, we allow customers to return goods to us that their end-user consumers have returned to them. We allow this general right of return regardless of whether the returned item is or is not defective. We seek to limit aggregate 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 to new customers from the time the new customer relationship is established.

Table of Contents

Employees

We employed 2,663 full-time global employees as of March 31, 2016. We use independent contractors and temporary employees to supplement our workforce as needed. A union represents 2,080 of the employees at our Mexico facility. All other employees are non-union. We consider our relations with our employees to be satisfactory.

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.

Table of Contents

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 large customers for a 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 these customers or adverse developments with respect to the financial condition of these customers could reduce our net income and operating results.

Our net sales are concentrated among a small number of large customers. During fiscal 2016, sales to our three largest customers in the aggregate represented 87% of our net sales, and sales to our largest customer represented 48% of our net sales. We are under ongoing pressure from our major customers to offer lower prices, extended payment terms, increased marketing and other allowances and other terms more favorable to these customers because our sales to these customers are concentrated, and the market in which we operate is very competitive. 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 these customers. Changes in terms with, significant allowances for and collections from these customers could affect our operating results and cash flows. The loss of or a significant decline in sales to any of these customers could adversely affect our business, results of operations and financial condition.

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 Mexico, increase our exposure to political, criminal or economic instability in the host countries and to currency fluctuations. Risks are inherent in international operations, including:

- exchange controls and currency restrictions;
- currency fluctuations and devaluations;
- changes in local economic conditions;
- repatriation restrictions (including the imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries);
- global sovereign uncertainty and hyperinflation in certain foreign countries;
- laws and regulations relating to export and import restrictions;
- exposure to government actions; and
- exposure to local political or social unrest including resultant acts of war, terrorism or similar events.

These and other factors may have a material adverse effect on our offshore activities and on our business, results of operations and financial condition. Our overall success as a business depends, substantially, upon our ability to manage our foreign operations. We may not continue to succeed in developing and implementing policies and strategies that are effective in each location where we do business, and failure to do so could materially and adversely impact our business, results of operations and financial condition.



Table of Contents

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. We generally purchase up to 20% of our Used Cores from core brokers. Historically, the Used Core returned from customers together with purchases from core brokers have provided us with an adequate supply of Used Cores. 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 could 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. 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.

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

In light of the continuous pressure on pricing which we have experienced from our large customers, we may not be able to recoup the higher costs of our products due to changes in the prices of raw materials, particularly aluminum and copper. If we are unable to recover a substantial portion of our raw materials from Used Cores returned to us by our customers through the core exchange program, the prices of Used Cores that we purchase may reflect the impact of changes in the cost of raw materials. However, we are unable to determine what adverse impact, if any, sustained raw material price increases may have on our product costs or 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 automotive aftermarket, 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 automotive parts failure rates that are outside of our control.

Our operating results are affected over the long term by automotive parts failure rates. These failure rates are impacted by a number of factors outside of our control, including product designs that have resulted in greater reliability, the number of miles driven by consumers, and the average age of vehicles on the road. A reduction in the failure rates of automotive parts 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, general economic conditions, including changes in prevailing interest rates, and the introduction of new products. Our gross profit percentage fluctuates due to numerous factors, some of which are outside of our control. These factors include the timing and level of marketing allowances provided to our customers, actual sales during the relevant period, pricing strategies, the mix of products sold during a reporting period, and general market and competitive conditions. We also incur allowances, accruals, charges and other expenses that differ from period to period based on changes in our business, which causes our operating income and net income to fluctuate.





Table of Contents

Our lenders may not waive future defaults under our credit agreements.

Over the past several years, we have violated a number of the financial and other covenants contained in our credit agreements with our lenders. Our most recent waiver was in June 2013. If we fail to meet the financial covenants or the other obligations set forth in our credit agreements in the future, there is no assurance that our lenders will waive any such defaults. If obtained, any such waiver may impose significant costs or covenants on us.

Our stock price may be volatile and could decline substantially.

Our stock price may decline substantially as a result of developments in our business, 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 period, (ii) downward revisions in securities analysts' estimates, (iii) market perceptions concerning our future earnings prospects, (iv) public or private sales of a substantial number of shares of our common stock, and (v) adverse changes in general market conditions or economic trends.

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. In fiscal 2016, approximately 10% of our total expenses were in currencies other than the U.S. dollar. 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. We also enter into forward foreign exchange contracts to exchange U.S. dollars for Chinese yuan in order to mitigate risk related to our purchases and payments to our Chinese vendors. 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 generally 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:

- the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner;
- the challenges in achieving strategic objectives, cost savings and other benefits from acquisitions;
- the potential loss of key employees of the acquired businesses;
- the risk of diverting the attention of senior management from our operations;
- risks associated with integrating financial reporting and internal control systems;
- difficulties in expanding information technology systems and other business processes to accommodate the acquired businesses; and
- future impairments of any goodwill of an acquired business.

We may also incur significant expenses to pursue and consummate acquisitions. Any of the foregoing, or a combination of them, could cause us to incur additional expenses, and materially and adversely impact our business, financial condition, results of operations or liquidity.

Table of Contents

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

Any weakness in the credit markets could result in significant constraints on liquidity and availability of borrowing terms from lenders and accounts payable with vendors. Modest economic growth in most major industrial countries in the world and uncertain prospects for continued growth threaten to cause tightening of the credit markets, more stringent lending standards and terms, and higher 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, deterioration in the U.S. economy could materially and adversely impact our operating results.

Our reliance on foreign suppliers for some of the automotive parts we sell to our customers or included in our products presents risks to our business.

A significant portion of automotive parts and components we use in our remanufacturing process are imported from suppliers located outside the U.S., including various countries in Asia. As a result, we are subject to various risks of doing business in foreign markets and importing products from abroad, such as:

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

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

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

Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements.

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. Any failure to maintain or implement new or improved internal controls, or any difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses,

cause us to fail to meet our periodic reporting obligations (which may result in our failure to maintain the listing standards for our common stock) or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required under SOX.

Table of Contents

An increase in the cost or a disruption in the flow of our imported products may significantly decrease our sales and profits.

Merchandise manufactured offshore represents a significant portion of our total product purchases. A disruption in the shipping or cost of such merchandise may significantly decrease our sales and profits. In addition, if imported merchandise becomes more expensive or unavailable, the transition to alternative sources may not occur in time to meet our demands. Merchandise from alternative sources may also be of lesser quality and more expensive than those we currently import. Risks associated with our reliance on imported merchandise include disruptions in the shipping and importation or increase in the costs of imported products. For example, common risks may be:

- raw material shortages;
- work stoppages;
- strikes and political unrest;
- problems with oceanic shipping, including shipping container shortages;
- increased customs inspections of import shipments or other factors causing delays in shipments;
- economic crises;
- international disputes and wars;
- loss of “most favored nation” trading status by the U. S. in relations to a particular foreign country;
- import duties;
- import quotas and other trade sanctions; and
  - increases in shipping rates.

Products manufactured overseas and imported into the U.S. and other countries are subject to import restrictions and duties.

If our technology and telecommunications systems were to fail, or we were not able to successfully anticipate, invest in or adopt technological advances in our industry, it could have an adverse effect on our operations.

We rely on computer and telecommunications systems to communicate with our customers and vendors and manage our business. The temporary or permanent loss of our computer and telecommunications equipment and software systems, through casualty, operating malfunction, software virus or service provider failure, could disrupt our operations. In addition, our future growth may require additional investment in our systems to keep up with technological advances in our industry. If we are not able to invest in or adopt changes to our systems, or such upgrades take longer or cost more than anticipated, our business, financial condition and operating results may be adversely affected.

Cyber-attacks or other breaches of information technology security could adversely impact our business and operations.

Cyber-attacks or other breaches of network or information technology security may cause equipment failure or disruption to our operations. Such attacks, which include the use of malware, computer viruses and other means for disruption or unauthorized access, on companies have increased in frequency, scope and potential harm in recent years. While, to the best of our knowledge, we have not been subject to cyber-attacks or to other cyber incidents which, individually or in the aggregate, have been material to our operations or financial conditions, the preventive actions we take to reduce the risk of cyber incidents and protect our information technology and networks may be insufficient to repel a major cyber-attack in the future. To the extent that any disruption or security breach results in a loss or damage to our data or unauthorized disclosure of confidential information, it could cause significant damage to our reputation, affect our relationship with our customers, suppliers and employees, and lead to claims against us and ultimately harm our business. Additionally, we may be required to incur significant costs to protect against damage

caused by these disruptions or security breaches in the future. While we maintain specific cyber insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. Furthermore, because cyber threat scenarios are inherently difficult to predict and can take many forms, some breaches may not be covered under our cyber insurance coverage.

Table of Contents

Regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as “conflict minerals”, originating from the Democratic Republic of Congo (“DRC”) and adjoining countries. These rules could adversely affect the sourcing, supply, and pricing of materials used in our products, as the number of suppliers who provide conflict-free minerals may be limited. We may also suffer reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free or if we are unable to modify our products to avoid the use of such materials. We may also face challenges in satisfying customers who may require that our products be certified as containing conflict-free minerals.

Natural disasters or other disruptions in our business in California and Baja California, Mexico could increase our operating expenses or cause us to lose revenues.

A substantial portion of our operations are located in California and Baja California, Mexico, including our headquarters, remanufacturing and warehouse facilities. Any natural disaster, such as an earthquake, or other damage to our facilities from weather, fire or other event could cause us to lose inventory, delay delivery of orders to customers, cause us to incur additional expenses to repair, disrupt our operations and otherwise harm our business. These events could also disrupt our information systems, which would harm our ability to manage our operations worldwide and compile and report financial information. As a result, we could incur additional expenses or liabilities or lose revenues, which could exceed any insurance coverage and would adversely affect our financial condition and results of operations.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

The following sets forth the location, type of facility, square footage and ownership interest in each of our facilities.

| Location             | Type of Facility                                       | Approx. Square Feet | Leased or Owned | Expiration                     |
|----------------------|--|---------------------|-----------------|--------------------------------|
| Torrance, CA         | Remanufacturing, Warehouse, Administrative, and Office | 231,000             | Leased          | March 2022                     |
| Tijuana, Mexico (1)  | Remanufacturing, Warehouse, and Office                 | 311,000             | Leased          | October 2016                   |
| Singapore & Malaysia | Remanufacturing, Warehouse, and Office                 | 65,000              | Leased          | Various through September 2018 |
| Shanghai, China      | Warehouse and Office                                   | 54,000              | Leased          | March 2019                     |
| North Dighton, MA    | Warehouse and Office                                   | 65,000              | Leased          | May 2017                       |

(1) We have the option to extend the lease term for six additional 30-day periods.

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 were a defendant in a case filed by an investment bank in state court in New York alleging breach of contract. On May 13, 2016, we entered into a settlement agreement to avoid further litigation and to settle and resolve all causes of action, claims, and disputes. None of the parties admitted the allegations made by any other party. In connection with this lawsuit, we established a reserve of \$1,100,000 as of March 31, 2016 and the related expense was recorded in fiscal 2016. This amount was paid in full on May 19, 2016. In addition, we have established a reserve of \$218,000 in connection with a settlement agreement with one of the discontinued subsidiary's suppliers.

We are also subject to various other lawsuits and claims in the normal course of business. Management does not believe that the outcome of these other matters will have a material adverse effect on its financial position or future results of operations.

#### Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

## 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 NASDAQ Global Select Market under the trading symbol MPAA. The following table sets forth the high and low prices for our common stock during fiscal 2016 and 2015.

|             | Fiscal 2016 |         | Fiscal 2015 |         |
|-------------|-------------|---------|-------------|---------|
|             | High        | Low     | High        | Low     |
| 1st Quarter | \$33.33     | \$25.86 | \$29.29     | \$22.13 |
| 2nd Quarter | \$36.62     | \$27.37 | \$31.02     | \$21.79 |
| 3rd Quarter | \$41.03     | \$30.76 | \$36.43     | \$23.30 |
| 4th Quarter | \$38.78     | \$28.52 | \$31.65     | \$22.12 |

As of June 7, 2016, there were 18,534,711 shares of common stock outstanding held by 16 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 permits the payment of up to \$10,000,000 of dividends per calendar year, subject to a minimum availability threshold and pro forma compliance with financial covenants.

## 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. The program does not have an expiration date. Under this program we repurchased and retired a total 67,347 shares at a total cost of \$389,000 through fiscal 2013. We did not repurchase any common stock during fiscal 2016, 2015, and 2014.

## Equity Compensation Plan Information

The following summarizes our equity compensation plans as of March 31, 2016:

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average exercise price of outstanding options warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|--|--|---|--|
| Equity compensation plans approved by securities holders   | 1,137,593  | (1) \$ 11.98  | (2) 1,272,450  |
| Equity compensation plans not approved by security holders | N/A  | N/A   | N/A  |
| Total  | 1,137,593  | \$ 11.98  | 1,272,450  |

- Consists of (i) options issued pursuant to our 2003 Long-Term Incentive Plan, 2004 Non-Employee Director Stock (1) Option Plan, and Second Amended and Restated 2010 Incentive Award Plan and (ii) RSUs issued under our 2014 Non-Employee Director Incentive Award Plan.
- (2) The weighted average exercise price does not reflect the shares that will be issued in connection with the settlement of RSUs, since RSUs have no exercise price.
- (3) Consists of shares available for issuance under our Second Amended and Restated 2010 Incentive Award Plan and 2014 Non-Employee Director Incentive Award Plan.

Table of Contents

Stock Performance Graph

The following graph compares the cumulative return to holders of our common stock for the five years ending March 31, 2016 with the NASDAQ Composite Index and the Zacks Retail and Wholesale Auto Parts Index. The comparison assumes \$100 was invested at the close of business on March 31, 2011 in our common stock and in each of the comparison groups, and assumes reinvestment of dividends.

Table of Contents

## Item 6. Selected Financial Data

The following selected historical consolidated financial information for the periods indicated below has been derived from and should be read in conjunction with our consolidated financial statements and related notes thereto.

Our selected income statement data below represents our continuing operations and excludes the results of the discontinued subsidiary between the acquisition in May 2011 and its bankruptcy in June 2013.

| Income Statement Data                                   | Fiscal Years Ended March 31, |               |               |               |               |
|---|------------------------------|---------------|---------------|---------------|---------------|
|   | 2016                         | 2015          | 2014          | 2013          | 2012          |
| Net sales   | \$368,970,000                | \$301,711,000 | \$258,669,000 | \$213,151,000 | \$178,551,000 |
| Operating income  | 38,286,000                   | 33,586,000    | 32,104,000    | 34,314,000    | 26,574,000    |
| Income from continuing operations                       | 10,563,000                   | 11,453,000    | 6,482,000     | 14,558,000    | 14,348,000    |
| Basic net income per share from continuing operations   | \$0.58                       | \$0.68        | \$0.45        | \$1.01        | \$1.15        |
| Diluted net income per share from continuing operations | \$0.55                       | \$0.65        | \$0.42        | \$1.01        | \$1.13        |

| Balance Sheet Data             | March 31,     |               |               |               |               |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
|                                | 2016          | 2015          | 2014          | 2013          | 2012          |
| Total assets                   | \$413,372,000 | \$420,881,000 | \$318,853,000 | \$364,969,000 | \$501,898,000 |
| Working capital (1)            | 8,702,000     | 66,734,000    | 22,077,000    | 33,722,000    | 15,311,000    |
| Revolving loan                 | 7,000,000     | -             | 10,000,000    | -             | -             |
| Term loan                      | 23,047,000    | 79,222,000    | 87,277,000    | 81,905,000    | 75,000,000    |
| Capital lease obligations      | 2,608,000     | 528,000       | 318,000       | 214,000       | 463,000       |
| Other long term liabilities    | 49,185,000    | 43,725,000    | 26,340,000    | 15,464,000    | 10,526,000    |
| Shareholders' equity (deficit) | \$210,808,000 | \$190,203,000 | \$109,636,000 | \$(3,514,000) | \$73,619,000  |

---

(1) The calculation of working capital excludes the impact of the discontinued subsidiary between the acquisition in May 2011 and its bankruptcy in June 2013.

Table of Contents

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 a small number of customers, changes in the financial condition of or our relationship with any of our major customers, the increasing customer pressure for lower prices and more favorable payment and other terms, lower revenues than anticipated from new and existing contracts, the increasing demands on our working capital, the significant strain on working capital associated with large inventory purchases from customers, any meaningful difference between expected production needs and ultimate sales to our customers, investments in operational changes or acquisitions, 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, our failure to meet the financial covenants or the other obligations set forth in our credit agreement and the lenders' refusal to waive any such defaults, increases in interest rates, the impact of high gasoline prices, 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, risks associated with cyber-attacks, risks associated with conflict minerals, and other factors discussed herein and in our other filings with the SEC.

Management Overview

We are a leading manufacturer, remanufacturer, and distributor of aftermarket automotive parts for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. We sell our products predominantly in North America to the largest auto parts retail and traditional warehouse chains and to major automobile manufacturers for both their aftermarket programs and their OES programs. Our products include (i) rotating electrical products such as alternators and starters, (ii) wheel hub assemblies and bearings, and (iii) brake master cylinders.

The current population of vehicles in the U.S. is approximately 253 million and the average age of these vehicles is approximately 11.5 years. While the aged vehicle population is favorable today, miles driven continues to fluctuate primarily based on fuel prices. We believe demand and replacement rates for aftermarket automotive parts generally increase with the age of vehicles and increases in miles driven.

The aftermarket for automobile parts is divided into two markets. The first market is the 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 less expensive alternative than having the repair performed by a professional installer. The second is the professional installer market, commonly known as the DIFM market. This market is serviced by the traditional warehouse distributors, the dealer networks, and the commercial divisions of retail chains. Generally, the consumer in this channel is a professional parts installer. Our products are distributed to both the DIY and DIFM markets.

Pursuant to the guidance provided under the FASB ASC for segment reporting, we have identified our chief executive officer as CODM, have reviewed the documents used by the CODM, and understand how such documents are used by the CODM to make financial and operating decisions. We have determined through this review process that our business comprises one reportable segment for purposes of recording and reporting our financial results.



Table of Contents

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 of 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 affect 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 more complex accounting than many businesses our size or larger.

Inventory

Non-core Inventory

Non-core inventory is comprised of (i) non-core raw materials, (ii) the non-core value of work in process, (iii) the non-core value of remanufactured finished goods, and (iv) purchased 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." Used Cores are a source of raw materials used in the remanufacturing of our products.

Non-core inventory is stated at the lower of cost or market. The cost of non-core remanufactured inventory approximates average historical purchase prices paid for raw materials, and is based upon the direct costs of material and an allocation of labor and variable and fixed overhead costs. The cost of purchased finished goods inventory approximates average historical purchase prices paid, and an allocation of 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 and is valued at the average cost of materials issued to the open work orders. Historically, non-core work in process inventory has not been material compared to the total non-core inventory balance.

The cost of remanufactured finished goods 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 these unallocated overhead as period costs. During fiscal 2016 and 2015 there were no unallocated overhead charged directly to cost of sales due to the usage of our U.S. facilities for wheel hub and brake master cylinder products. For the fiscal year ended March 31, 2014, approximately \$1,070,000 was considered unallocated overhead charged directly to cost of sales.





### Table of Contents

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 periodically review inventory to identify excess quantities and part numbers that are experiencing a reduction in demand. Any part numbers with quantities identified during this process are reserved for at rates based upon management's judgment, historical rates, and consideration of possible scrap and liquidation values which 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 recorded reserves of \$3,626,000 and \$2,675,000 for excess and obsolete inventory at March 31, 2016 and 2015, respectively, based on higher inventory levels to support our growth.

We record vendor discounts as reductions of inventories that are recognized as reductions 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 which are classified as Remanufactured Cores until they are physically received by us,

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

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 arm's 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.

21

---

Table of Contents

Used Cores obtained in core broker transactions 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 a portion 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. 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

During fiscal 2016, we completed the core buy-back program with one of our largest customers. As a result of the completion of this buy-back program and related long-term core inventory reconciliations, \$25,805,000 from long-term core inventory deposit was transferred to Remanufactured Cores held at customers' locations within long-term core inventory. At March 31, 2015, \$26,002,000 of Remanufactured Cores in connection with this core buy-back program was included in long-term core inventory deposit. The remaining long-term core inventory deposit represents the cost of Remanufactured Cores we have purchased from customers, which are held by the customers and remain on the customers' premises. The costs of these Remanufactured Cores were established at the time of the transaction based on the then current cost, determined as noted under the caption “Long-Term Core Inventory”. The selling value of these Remanufactured Cores was established based on agreed upon amounts with these customers. We expect to realize the selling value and the related cost of these Remanufactured Cores when our relationship with a customer ends, a possibility that we consider remote based on existing long-term customer agreement and historical experience.

Table of Contents

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
- Collectability 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 remanufactured product sold to customers is generally comprised of separately invoiced amounts for the Remanufactured Core included in the product ("Remanufactured Core value") and the 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, a significant portion of the remanufactured automobile parts 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 — Core Revenue

Full price Remanufactured Cores: When we ship a remanufactured product, we invoice certain customers for the Remanufactured Core value portion of the product at the 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 the 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.

23

---

Table of Contents

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). Customers have various contractual rights for stock adjustment returns which are typically less than 5% of units sold. In some instances, we allow a higher level of returns in connection with significant restocking orders. In addition, we allow customers to return goods to us that their end-user consumers have returned to them. We seek to limit aggregate customer returns, including warranty and stock adjustment returns, to less than 20% of unit sales.

We provide for such anticipated returns of inventory by reducing revenue and the related cost of sales for the units estimated to be returned as further described under the captions “Customer Finished Goods Returns Accrual” and “Inventory Unreturned”.

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.

Customer Finished Goods Returns Accrual

The customer finished goods returns accrual represents our estimate of our exposure to customer returns, including warranty returns, under our general right of return policy to allow customers to return items that their end-user customers have returned to them and from time to time, stock adjustment returns when the customers’ inventory of certain products exceeds the anticipated sales to end-user customers. The customer finished goods returns accrual represents the non-core sales value of the estimated returns and is classified as a current liability due to the expectation that these returns will occur within the normal operating cycle of one year.

Accrued Core Payment

The accrued core payment represents the full Remanufactured Core sales price of Remanufactured Cores we have purchased from our customers, which are held by these customers and remain on their premises. At the same time, we record the long-term core inventory for the Remanufactured Cores purchased at its cost, determined as noted under the caption “Long-term Core Inventory”. The difference between the full Remanufactured Core sales price of Remanufactured Cores and its related cost is treated as sales allowance reducing revenue when the purchases are made.

The repayments for these Remanufactured Core Inventory purchases are made through the issuance of credits against that customer’s receivables either on a one time basis or over an agreed-upon period. The accrued core payments are recorded as current and non-current liability in the consolidated balance sheets based on whether repayments will occur within the normal operating cycle of one year.

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.

24

---



## Table of Contents

### Goodwill

We evaluate goodwill for impairment at least annually during the fourth quarter of each fiscal year or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. We have concluded that there is one reporting unit and therefore, test goodwill for impairment at the entity level. In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the carrying value of net assets to the fair value of the reporting unit. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, we would compare the implied fair value of the goodwill to its carrying value to determine the amount of the impairment loss, if any. We completed the required annual testing of goodwill for impairment during the fourth quarter of fiscal 2016, and determined through the qualitative assessment that our goodwill of \$2,053,000 is not impaired.

### Intangible Assets

Our intangible assets other than goodwill are finite-lived and amortized on a straight line basis over their respective useful lives. We analyze our finite-lived intangible assets for impairment when and if indicators of impairment exist. As of March 31, 2016, our intangible assets, net of amortization, were \$4,573,000 and there were no indicators of impairment.

### 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 expense 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. We review our deferred tax assets on a jurisdiction by jurisdiction basis to determine whether it is more likely than not that the deferred tax assets will be realized. We believe that it is more likely than not that our future taxable income will be sufficient to realize the recorded deferred tax assets. In evaluating this ability, we consider long-term agreements and Remanufactured Core purchase obligations with our major customers that expire at various dates through April 2021. We also periodically compare the forecasts to actual results. Although there can be no assurance that the forecasted results will be achieved, the history of income in all jurisdictions provides sufficient positive evidence that no valuation allowance is needed.

### 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. We also enter into

forward foreign exchange contracts to exchange U.S. dollars for Chinese yuan in order to mitigate risk related to our purchases and payments to our Chinese vendors. 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 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.

## Table of Contents

### 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 instruments 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 associated with restricted stock or restricted stock units is measured based on the number of shares granted and the closing price of our common stock on the grant date, subject to continued employment. The cost of equity instruments is recognized in the consolidated statements of income on a straight-line basis (net of estimated forfeitures) 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.

### Recently Adopted Accounting Pronouncements

#### Debt Issuance Costs

In April 2015, the FASB issued guidance that requires debt issuance costs related to a recognized liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. In August 2015, the FASB issued guidance to clarify that an entity may elect to present debt issuance costs related to a line-of-credit arrangement as an asset, regardless of whether or not there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim period within those fiscal years. Early adoption of this guidance is permitted for financial statements that have not been previously issued. We adopted this guidance effective June 30, 2015, which resulted in the reclassification of debt issuance costs of \$879,000 from other assets and is now presented as a direct deduction of \$110,000 to the current portion of the term loan and \$769,000 to the non-current portion of the term loan in the previously reported consolidated balance sheet at March 31, 2015. We elected to continue presenting debt issuance costs related to our revolving credit facilities as an asset. The adoption of this guidance did not have any other impact on our consolidated financial statements.

#### Discontinued Operations

In April 2014, the FASB issued guidance on reporting discontinued operations. The new guidance changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. The adoption of this guidance did not have any impact on our financial position, results of operations or cash flows.

#### Business Combinations

In September 2015, the FASB issued guidance simplifying the accounting for measurement-period adjustments. The guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adjustments related to previous reporting periods since the acquisition date must be disclosed by income statement line item either on the face of the income statement or in the notes. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years and earlier adoption is permitted for financial statements that have not been issued. We adopted this guidance effective September 30, 2015,

which resulted in no material effect on our financial position, results of operations, or cash flows (see Note 3).

Table of Contents

New Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued guidance codified in ASC 606, “Revenue Recognition - Revenue from Contracts with Customers”, which amends the guidance in the former ASC 605, “Revenue Recognition”. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within that reporting period for a public company. A full or modified retrospective transition method is required. In August 2015, the FASB delayed the effective date by one year to annual periods beginning after December 15, 2017, and interim periods within that reporting period for a public company. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the impact of the provisions of this guidance to our consolidated financial statements.

Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern

In August 2014, the FASB issued guidance which requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). If conditions or events raise substantial doubt that is not alleviated, an entity should disclose that there is substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management’s evaluation of the significance of those conditions or events in relation to the entity’s ability to meet its obligations and management’s plans that are intended to mitigate those conditions. The new guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. We do not expect any impact on our financial position, results of operations or cash flows from the adoption of this guidance.

Extraordinary Items

In January 2015, the FASB issued guidance that simplifies income statement presentation by eliminating the concept of extraordinary items. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We do not expect any impact on our consolidated financial statements from the adoption of this guidance.

Inventory

In July 2015, the FASB issued guidance that requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the impact of the provisions of this guidance to our consolidated financial statements.

Income Taxes

In November 2015, the FASB issued guidance that simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities be presented as non-current on the balance sheet. This new guidance is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016, with early adoption permitted. The amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We are currently evaluating the potential impact of this adoption on our consolidated financial statements.

Table of Contents

Financial Instruments

In January 2016, the FASB issued guidance that addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. A reporting entity should apply the new guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We are currently evaluating the impact of the provisions of this guidance to our consolidated financial statements.

Leases

In February 2016, the FASB issued new guidance that requires balance sheet recognition of a right-of-use asset and lease liability by lessees for operating leases. The new guidance also requires new disclosures providing additional qualitative and quantitative information about the amounts recorded in the financial statements. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new guidance requires a modified retrospective approach with optional practical expedients. We are currently evaluating the impact of the provisions of this guidance to our consolidated financial statements.

Share-based Compensation

In March 2016, the FASB issued guidance that simplifies several aspects of the accounting for share-based payment transactions and states that, among other things, all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement and an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2016 with early adoption permitted. We are currently evaluating the impact of the provisions of this guidance to our consolidated financial statements.

Subsequent Events

Credit Facility

In May 2016, we entered into a consent and second amendment to the Credit Facility (the "Second Amendment") which, among other things, (i) increases the borrowing capacity of the revolving credit facility from \$100,000,000 to \$120,000,000, subject to certain borrowing base restrictions and a \$15,000,000 sublimit for letters of credit, (ii) amends the definition and calculation of consolidated EBITDA, (iii) increases the maximum of amount of capital expenditures, and (iv) makes certain other amendments and modifications.

Vendor Agreement

In May 2016, we entered into an addendum to a vendor agreement with one of our major customers which, among other things, extended the term of this vendor agreement to April 2021 and required us to make payments or issue credits for certain customer allowances. These amounts have been included in other long-term obligations in our contractual obligations table in this management discussion and analysis and in commitments to provide marketing allowances under long-term customer contracts in Note 15 of the notes to consolidated financial statements.

Table of Contents

## Results of Operations

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere herein.

The following table summarizes certain key operating data from our continuing operations for the periods indicated:

|   | Fiscal Years Ended March 31, |   |               |   |              |   |
|---|------------------------------|---|---------------|---|--------------|---|
|   | 2016                         |   | 2015          |   | 2014         |   |
| Gross profit percentage                               | 27.4                         | % | 27.0          | % | 31.5         | % |
| Cash flow provided by (used in) continuing operations | \$15,334,000                 |   | \$(9,457,000) |   | \$13,290,000 |   |
| Finished goods turnover (1)                           | 6.5                          |   | 6.3           |   | 7.2          |   |

---

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

## Fiscal 2016 Compared to Fiscal 2015

## Net Sales and Gross Profit

The following summarizes net sales and gross profit:

|                         | Fiscal Years Ended March 31, |   |               |   |
|-------------------------|------------------------------|---|---------------|---|
|                         | 2016                         |   | 2015          |   |
| Net sales               | \$368,970,000                |   | \$301,711,000 |   |
| Cost of goods sold      | 268,046,000                  |   | 220,138,000   |   |
| Gross profit            | 100,924,000                  |   | 81,573,000    |   |
| Gross profit percentage | 27.4                         | % | 27.0          | % |

**Net Sales.** Our net sales for fiscal 2016 increased by \$67,259,000, or 22.3%, to \$368,970,000 compared to net sales for fiscal 2015 of \$301,711,000. Our prior year net sales included the favorable impact of the recognition of previously deferred revenue related to the Remanufactured Cores of \$16,331,000 partially offset by an accrued customer allowance of \$3,706,000 for the buy-backs of Remanufactured Cores. The increase in our net sales was across all the product lines and reflects the full year impact of the new rotating electrical business awarded to us by a significant customer in January 2015. In addition, we began selling remanufactured brake master cylinder products in July 2015. Our sales of wheel hub products and brake master cylinder products represented 19.6% and 1.7%, respectively, of net sales for fiscal 2016, and 16.9% and 1.0%, respectively, of net sales for fiscal 2015. Our net sales in fiscal 2016 and 2015 were further impacted by returns and customer allowances as discussed in the Gross Profit paragraph below.

**Gross Profit.** Our gross profit percentage increased to 27.4% for fiscal 2016 from 27.0% for fiscal 2015. This increase was due primarily to overall lower per unit costs from an increased volume of purchases and production resulting in better absorption of overhead. The increase in our fiscal 2016 gross profit was partially offset by the following in connection with new business awarded to us: (i) \$6,807,000 (consists of net sales offset of \$7,548,000 less cost of goods sold offset of \$741,000) of returns, customer allowances, and core inventory purchases in connection with certain rotating electrical products, (ii) \$3,396,000 offset to net sales of customer allowances in connection with core



inventory purchases for remanufactured brake master cylinder products, (iii) \$3,352,000 (consists of net sales offset of \$3,420,000 less cost of goods sold offset of \$68,000) of returns associated with remanufactured brake master cylinder products, and (iv) \$43,000 of start-up costs incurred related to a new product line. Our gross profit for fiscal 2015 was impacted by (i) \$5,746,000 (offset to net sales) of customer allowances recorded for the core purchases in connection with the new business awarded to us in our rotating electrical product line, which we began shipping in January 2015, (ii) \$5,003,000 (consists of net sales offset of \$5,468,000 less cost of goods sold offset of \$465,000) recorded in connection with the returns of certain wheel hub and new brake master cylinder products, (iii) \$2,879,000 offset to net sales of customer allowance recorded in connection with certain core inventory purchases, (iv) \$2,819,000 offset to net sales of initial warranty accrual set up for the new brake master cylinder products and the new business awarded to us in our existing product lines, (v) \$1,070,000 offset to net sales of upfront customer allowances incurred, (vi) \$537,000 (offset to net sales of \$1,055,000 less cost of goods sold offset of \$518,000) net expense recorded in connection with the returns of products associated with the new business awarded to us, and (vii) \$189,000 of start-up costs incurred related to new brake master cylinder products.

Table of Contents

## Operating Expenses

The following summarizes operating expenses:

|                            | Fiscal Years Ended March 31, |              |
|----------------------------|------------------------------|--------------|
|                            | 2016                         | 2015         |
| General and administrative | \$49,665,000                 | \$37,863,000 |
| Sales and marketing        | 9,965,000                    | 7,851,000    |
| Research and development   | 3,008,000                    | 2,273,000    |

## Percent of net sales

|                            |      |   |      |   |
|----------------------------|------|---|------|---|
| General and administrative | 13.5 | % | 12.5 | % |
| Sales and marketing        | 2.7  | % | 2.6  | % |
| Research and development   | 0.8  | % | 0.8  | % |

**General and Administrative.** Our general and administrative expenses for fiscal 2016 were \$49,665,000, which represents an increase of \$11,802,000, or 31.2%, from general and administrative expenses for fiscal 2015 of \$37,863,000. The increase in general and administrative expenses was primarily due to (i) \$9,250,000, net of insurance recoveries, for the litigation settlement with M&T Bank and the trustee in the bankruptcy cases relating to the discontinued subsidiary, (ii) \$4,678,000 of increased loss recorded due to the change in the fair value of the warrant liability, (iii) \$4,220,000 of increased bad debt expense resulting from the bankruptcy filing by one of our customers, (iv) \$1,986,000 due to increased personnel to support our growth initiatives and other employee related expenses, (v) \$1,121,000 of increased general and administrative expenses at our offshore locations to support our growth, (vi) \$1,318,000 of legal reserve established in connection with the settlement agreements, (vii) \$375,000 of increased share-based compensation expense, (viii) \$281,000 of increased professional services, (ix) \$293,000 of increased travel, and (x) \$224,000 of increased maintenance and licensing expense for information technologies. These increases in general and administrative expenses were partially offset by (i) a \$5,800,000 gain in connection with the settlement of litigation with FAPL and various of its subsidiaries, (ii) \$2,051,000 of decreased legal fees, (iii) a \$777,000 gain recorded due to the change in the fair value of the forward foreign currency exchange contracts during fiscal 2016 compared to a loss of \$1,034,000 recorded during fiscal 2015, and (iv) a \$990,000 gain recorded due to the change in the fair value of the contingent consideration in connection with our acquisition in May 2015. In addition, our fiscal 2015 general and administrative expenses included \$2,002,000 of cash incentive compensation that was paid to certain executives.

**Sales and Marketing.** Our sales and marketing expenses for fiscal 2016 increased \$2,114,000, or 26.9%, to \$9,965,000 from \$7,851,000 for fiscal 2015. The increase was due primarily to (i) \$1,342,000 due to increased personnel to support our growth initiatives, (ii) \$273,000 of increased commissions, (iii) \$250,000 of increased advertising expenses, (iv) \$154,000 of increased travel, and (v) \$100,000 of increased marketing expenses in connection with the new rotating electrical business.

Table of Contents

**Research and Development.** Our research and development expenses increased by \$735,000, or 32.3%, to \$3,008,000 for fiscal 2016 from \$2,273,000 for fiscal 2015 due primarily to \$418,000 of increased supplies expense and \$345,000 due to increased personnel to support our growth initiatives partially offset by \$51,000 of decreased travel.

**Interest Expense**

**Interest Expense, net.** Our interest expense, net for fiscal 2016 increased \$3,179,000, or 24.3%, to \$16,244,000 from \$13,065,000 for fiscal 2015. The increase in interest expense was due primarily to the write-off of previous debt issuance costs of \$5,108,000 in connection with the financing agreement which was terminated when we entered into a new credit facility in June 2015. In addition, interest expense increased due to a higher balance of receivables discounted during fiscal 2016 compared to fiscal 2015 and the amortization of interest on accrued core payments. These increases were partially offset by lower interest rates and lower average outstanding balances on our loans.

**Provision for Income Taxes**

**Income Tax.** Our income tax expense was \$11,479,000, an effective tax rate of 52.1%, and \$9,068,000, an effective tax rate of 44.2% during fiscal 2016 and 2015, respectively. The income tax rates were higher than the federal statutory rate for both periods primarily due to (i) state income taxes, which were partially offset by the benefit of lower statutory tax rates in foreign taxing jurisdictions, (ii) the impact of non-deductible executive compensation under Internal Revenue Code Section 162(m), and (iii) the non-deductible expenses in connection with the fair value adjustment on the warrants. The effective tax rate for fiscal 2016 was higher due primarily to a greater impact of non-deductible expenses in connection with the fair value adjustments on the warrants.

**Fiscal 2015 Compared to Fiscal 2014****Net Sales and Gross Profit**

The following summarizes net sales and gross profit from our continuing operations:

|                         | Fiscal Years Ended March 31, |               |
|-------------------------|------------------------------|---------------|
|                         | 2015                         | 2014          |
| Net sales               | \$301,711,000                | \$258,669,000 |
| Cost of goods sold      | 220,138,000                  | 177,103,000   |
| Gross profit            | 81,573,000                   | 81,566,000    |
| Gross profit percentage | 27.0                         | % 31.5        |

**Net Sales.** Our net sales for fiscal 2015 increased by \$43,042,000, or 16.6%, to \$301,711,000 compared to net sales for fiscal 2014 of \$258,669,000. The increase in net sales was due primarily to (i) growth in the sales of our wheel hub products, including the full period impact of the introduction of our wheel hub products, which we launched in late June 2013, (ii) recognition of revenue related to the Remanufactured Cores of \$16,331,000, which was previously deferred, partly offset by an accrued sales allowance of \$3,706,000 for future buy-backs of Remanufactured Cores, (iii) growth in the unit sales of our rotating electrical products, and (iv) launch of new brake master cylinder products which we began selling in late July 2014. In fiscal 2015, sales of wheel hub products and the new brake master cylinder products represented 16.9% and 1.0%, respectively, of net sales.

**Gross Profit.** Our gross profit percentage decreased to 27.0% for fiscal 2015 from 31.5% for fiscal 2014. Our gross profit for the fiscal 2015 was lower primarily due to changes in the mix of product sold. In addition, our gross profit for fiscal 2015 was impacted by (i) \$5,746,000 of customer allowances recorded for the core purchases in connection with the new business awarded to us in our rotating electrical product line, which we began shipping in January 2015,

(ii) \$5,003,000 recorded in connection with the returns of certain wheel hub and new brake master cylinder products, (iii) \$2,879,000 of customer allowance recorded in connection with certain core inventory purchases, (iv) \$2,819,000 of initial warranty accrual set up for the new brake master cylinder products and the new business awarded to us in our existing product lines, (v) \$1,070,000 of upfront customer allowances incurred, (vi) \$537,000 net expense recorded in connection with the returns of products associated with the new business awarded to us, and (vii) \$189,000 of start-up costs incurred related to new brake master cylinder products. In addition, our gross profit was impacted by lower per unit manufacturing costs due to better absorption of manufacturing overhead.

Table of Contents

## Operating Expenses

The following summarizes operating expenses from our continuing operations:

|                            | Fiscal Years Ended March 31, |               |
|----------------------------|------------------------------|---------------|
|                            | 2015                         | 2014          |
| General and administrative | \$ 37,863,000                | \$ 39,684,000 |
| Sales and marketing        | 7,851,000                    | 7,838,000     |
| Research and development   | 2,273,000                    | 1,940,000     |

## Percent of net sales

|                            |      |   |      |   |
|----------------------------|------|---|------|---|
| General and administrative | 12.5 | % | 15.3 | % |
| Sales and marketing        | 2.6  | % | 3.0  | % |
| Research and development   | 0.8  | % | 0.7  | % |

**General and Administrative.** Our general and administrative expenses for fiscal 2015 were \$37,863,000, which represents a decrease of \$1,821,000, or 4.6%, from general and administrative expenses for fiscal 2014 of \$39,684,000. The decrease in general and administrative expenses was primarily due to (i) \$7,949,000 of decreased loss recorded due to the change in the fair value of the Wanxiang warrant liability and (ii) our prior year general and administrative expenses included \$2,035,000 of expense due to the change in the fair value of the Cerberus warrant liability partly offset by a gain of \$216,000 recorded on the extinguishment of the Cerberus warrant. These decreases were partly offset by (i) \$3,701,000 of increased legal fees related to the discontinued subsidiary, which was partially offset by decreased legal fees of \$621,000 for all other corporate-related activities, (ii) \$2,002,000 of cash incentive compensation to certain executives in fiscal 2015 compared to \$528,000 in fiscal 2014, (iii) \$900,000 of increased incentive compensation, (iv) \$1,240,000 of increased share-based compensation, (v) \$1,000,000 of reserve established in connection with certain legal cases, (vi) \$556,000 of increased employee-related costs, (vii) \$231,000 of increased bad debt expense, (viii) \$192,000 of increased expense related to the change in the fair value of the forward foreign exchange contracts, and (ix) \$192,000 of increased travel. In addition, our prior year general and administrative expenses included \$870,000 of professional fees related to the discontinued subsidiary.

**Sales and Marketing.** Our sales and marketing expenses for fiscal 2015 increased \$13,000, or 0.2%, to \$7,851,000 from \$7,838,000 for fiscal 2014, due primarily to an increase in advertising expense.

**Research and Development.** Our research and development expenses increased by \$333,000, or 17.2%, to \$2,273,000 for fiscal 2015 from \$1,940,000 for fiscal 2014 due primarily to \$254,000 of increased employee-related costs and \$79,000 of increased supplies expense.

## Interest Expense

**Interest Expense, net.** Our interest expense, net from continuing operations for fiscal 2015 decreased \$5,224,000, or 28.6%, to \$13,065,000 from \$18,289,000 for fiscal 2014. The decrease in interest expense was due primarily to lower interest rates on long-term debt. In addition, our prior year interest expense included the write-off of debt issuance costs in connection with the amendment to the financing agreements and interest on certain vendor payables. These decreases were partly offset by increased interest payments on receivables discount programs due to a larger balance of receivables discounted under the program during fiscal 2015 as compared to fiscal 2014.

Table of Contents

## Provision for Income Taxes

Income Tax. Our income tax expense was \$9,068,000, an effective tax rate of 44.2%, and \$7,333,000, an effective tax rate of 53.1% during fiscal 2015 and 2014, respectively. The primary change in the effective tax rate was due to the impact of non-deductible expenses in connection with the fair value adjustments on the warrants and the impact of the non-deductible executive compensation under Internal Revenue Code Section 162(m).

## Income (Loss) from Discontinued Operations

Income (Loss) from Discontinued Operations. Our income from discontinued operations was \$100,877,000 during fiscal 2014. The income from discontinued operations during fiscal 2014 consists of (i) a \$118,095,000 gain on the deconsolidation of the discontinued subsidiary, including an income tax benefit of \$1,374,000, (ii) a loss of approximately \$20,464,000 in connection with the guarantee of obligations to certain suppliers of the discontinued subsidiary partly offset by income tax benefits of \$9,156,000 recorded during fiscal 2014, and (iii) losses of approximately \$5,910,000 incurred by the discontinued subsidiary from April 1, 2013 to May 31, 2013.

## Liquidity and Capital Resources

## Overview

At March 31, 2016, we had working capital of \$8,702,000, a ratio of current assets to current liabilities of 1.1:1, and cash of \$21,897,000, compared to working capital of \$66,734,000, a ratio of current assets to current liabilities of 1.6:1, and cash of \$61,230,000 at March 31, 2015. The significant change in working capital during fiscal 2016 was due to the repayment of our term loans from our cash balance at March 31, 2015. We generated cash during fiscal 2016 from operations, the use of receivable discount programs with certain of our major customers, and from our credit facility. The cash generated from these activities was used to: (i) repay our previous financing agreement which was terminated when we entered into a new credit facility in June 2015, (ii) build up our long-term core inventory to support higher sales, and (iii) make accrued core payments.

We believe our cash and cash equivalents, short-term investments, use of receivable discount programs, amounts available under our credit facility, and other sources are sufficient to satisfy our expected future working capital needs, repayment of the current portion of our term loans, capital lease commitments, and capital expenditure obligations over the next twelve months.

## Cash Flows

Our cash flows from our continuing operations as reflected in the consolidated statement of cash flows for fiscal 2016, 2015, and 2014 are summarized as follows:

|   | Fiscal Years Ended March 31, |                 |               |
|---|------------------------------|-----------------|---------------|
|   | 2016                         | 2015            | 2014          |
| Cash provided by (used in):   |                              |                 |               |
| Operating activities from our continuing operations                                 | \$ 15,334,000                | \$ (9,457,000 ) | \$ 13,290,000 |
| Investing activities from our continuing operations                                 | (7,582,000 )                 | (3,868,000 )    | (3,032,000 )  |
| Financing activities from our continuing operations                                 | (46,982,000)                 | 50,081,000      | 15,642,000    |
| Effect of exchange rates on cash and cash equivalents                               | (103,000 )                   | (125,000 )      | (31,000 )     |
| Net (decrease) increase in cash and cash equivalents from our continuing operations | (39,333,000)                 | 36,631,000      | 25,869,000    |

Additional selected cash flow data:

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

|                               |             |             |             |
|-------------------------------|-------------|-------------|-------------|
| Depreciation and amortization | \$2,936,000 | \$2,521,000 | \$2,742,000 |
| Capital expenditures          | 3,747,000   | 3,734,000   | 2,978,000   |

Fiscal 2016 Compared to Fiscal 2015

Net cash provided by our operating activities was \$15,334,000 during fiscal 2016 compared to net cash used in operating activities of \$9,457,000 during fiscal 2015. The significant changes in our operating activities for fiscal 2016 were due primarily to (i) increased operating results (net income plus net add-back for non-cash transactions in earnings), (ii) changes in our inventory levels to support our existing and future growth, and (iii) accrued core payments made in fiscal 2016 in connection with the program established in fiscal 2015,

### Table of Contents

Net cash used in investing activities was \$7,582,000 and \$3,868,000 during fiscal 2016 and 2015, respectively. This increase was due primarily to the acquisition of OE Plus, Ltd. in May 2015 and an increase in our short-term investments.

Net cash used in financing activities was \$46,982,000 during fiscal 2016 compared to net cash provided by financing activities of \$50,081,000 during fiscal 2015. The change in financing activities was due mainly to the increased net repayment of our long-term debt and an increase in stock options exercised compared to net proceeds received from our public offering in September 2014.

### Fiscal 2015 Compared to Fiscal 2014

Net cash used in operating activities from our continuing operations was \$9,457,000 during fiscal 2015 compared to net cash provided by operating activities from our continuing operations of \$13,290,000 during fiscal 2014. Our prior year operating activities from our continuing operations included the receipt of an income tax refund of \$16,472,000. In addition, our prior year accounts payable balances increased more significantly compared to fiscal 2015 as we increased our non-core inventory. The remaining change in cash used from our continuing operations was due to changes in our operating assets and liabilities. Our major use of cash from operations included building our inventory levels to support significant new business awarded to us.

Net cash used in investing activities from our continuing operations was \$3,868,000 and \$3,032,000 during fiscal 2015 and 2014, respectively. This change was due primarily to (i) purchases of equipment for our manufacturing facilities including for our wheel hub products and new brake master cylinder products and (ii) improvements to our facilities.

Net cash provided by financing activities from our continuing operations was \$50,081,000 and \$15,642,000 during fiscal 2015 and 2014, respectively. This change was due mainly to the net proceeds of \$66,973,000 received from the public offering of our common stock in fiscal 2015 partly offset by the repayment of all amounts outstanding under our revolving loan compared to additional borrowing during fiscal 2014. In addition, fiscal 2014 included financing costs paid in connection with the amendment of our credit agreement.

### Capital Resources

#### Debt

We are party to the following credit agreements.

#### Credit Facility

We were party to a financing agreement (as amended, modified, and restated or supplemented, the “Financing Agreement”) with a syndicate of lenders party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent. The Financing Agreement was comprised of (i) a \$95,000,000 term facility (the “Term Loans” and (ii) an up to \$40,000,000 revolving facility subject to borrowing base restrictions and a \$10,000,000 sublimit for letters of credit (the “Revolving Facility”). The interest rate on our Term Loans was 6.75% at March 31, 2015. The obligations under the Financing Agreement were repaid on June 3, 2015. The repayment of the Term Loans was accounted for as an extinguishment of debt and as a result, we wrote off \$5,108,000 of previously deferred debt issuance costs associated with the Term Loans.

On June 3, 2015, we entered into a new \$125,000,000 senior secured financing (the “Credit Facility”) with the lenders party thereto, and PNC Bank, National Association, as administrative agent, consisting of (i) a \$100,000,000 revolving loan facility, subject to borrowing base restrictions and a \$15,000,000 sublimit for letters of credit (the “New



Revolving Facility”) and (ii) a \$25,000,000 term loan facility (the “New Term Loans”). The loans under the Credit Facility mature on June 3, 2020. In connection with the Credit Facility, the lenders were granted a security interest in substantially all of our assets. Our Credit Facility permits the payment of up to \$10,000,000 of dividends per calendar year, subject to a minimum availability threshold and pro forma compliance with financial covenants.

Table of Contents

In November 2015, we entered into a consent and first amendment to the Credit Facility (the “First Amendment”) which (i) provided consent for us to enter into the litigation settlement agreement with M&T Bank and the trustee in the bankruptcy cases relating to the discontinued subsidiary and (ii) amended certain terms and provisions of the Credit Facility.

The New Term Loans require quarterly principal payments of \$781,250 beginning October 1, 2015. The New Revolving Facility and New Term Loans made under the Credit Facility bear interest at rates equal to either LIBOR plus a margin of 2.50%, 2.75% or 3.00% or a reference rate plus a margin of 1.50%, 1.75% or 2.00%, in each case depending on the total leverage ratio as of the applicable measurement date. There is also a facility fee of 0.25% to 0.375%, depending on the total leverage ratio as of the applicable measurement date. The interest rate on our New Term Loans and New Revolving Facility was 2.94% and 3.53%, respectively, at March 31, 2016.

The Credit Facility, among other things, requires us to maintain certain financial covenants including a maximum total leverage ratio and a minimum fixed charge coverage ratio. We were in compliance with all financial covenants as of March 31, 2016.

The following summarizes the financial covenants required under the Credit Facility:

|                                      | Calculation as of<br>March 31, 2016 | Financial covenants<br>required per the Credit<br>Facility |
|--------------------------------------|-------------------------------------|--|
| Maximum senior leverage ratio        | 0.37                                | 2.50   |
| Minimum fixed charge coverage ratio. | 1.63                                | 1.10   |

In addition to other covenants, the Credit Facility places limits on our ability to incur liens, incur additional indebtedness, make loans and investments, engage in mergers and acquisitions, engage in asset sales, redeem or repurchase capital stock, alter the business conducted by us and our subsidiaries, transact with affiliates, prepay, redeem or purchase subordinated debt, and amend or otherwise alter debt agreements.

At March 31, 2016, we had \$7,000,000 outstanding under the New Revolving Facility. In addition, \$430,000 was reserved for standby letters of credit for workers’ compensation insurance and \$600,000 for commercial letters of credit at March 31, 2016. We had no outstanding balance under the Revolving Facility at March 31, 2015. At March 31, 2016, \$91,970,000, subject to certain adjustments, was available under the New Revolving Facility.

WX Agreement

In August 2012, we entered into the Revolving Credit/Strategic Cooperation Agreement (the “WX Agreement”) with Wanxiang America Corporation (the “Supplier”) and the discontinued subsidiary. In connection with the WX Agreement, we also issued a warrant (the “Supplier Warrant”) to the Supplier to purchase up to 516,129 shares of our common stock for an initial exercise price of \$7.75 per share exercisable at any time after August 22, 2014 and on or prior to September 30, 2017. The exercise price is subject to adjustments, among other things, for sales of common stock by us at a price below the exercise price.

The fair value of the Supplier Warrant using the Monte Carlo simulation model was \$15,643,000 and \$10,506,000 at March 31, 2016 and 2015, respectively. This amount is recorded as a warrant liability which is included in other liabilities in the consolidated balance sheets. During fiscal 2016 and 2015, expenses of \$5,137,000 and \$459,000, respectively, were recorded in general and administrative expenses due to the change in the fair value of this warrant liability.



Table of Contents

## Receivable Discount Programs

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

The following is a summary of the receivable discount programs:

|  | Years Ended March 31, |                |  |   |
|--|-----------------------|----------------|--|---|
|  | 2016                  | 2015           |  |   |
| Receivables discounted                 | \$ 331,176,000        | \$ 260,973,000 |  |   |
| Weighted average days                  | 341                   | 336            |  |   |
| Weighted average discount rate         | 2.3                   | % 2.0          |  | % |
| Amount of discount as interest expense | \$ 7,257,000          | \$ 4,917,000   |  |   |

## Off-Balance Sheet Arrangements

At March 31, 2016, 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 in most cases have initial terms of at least four years, we are designated as the exclusive or primary supplier for specified categories of our products. Because of the very competitive nature of the market 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. 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 April 2021.

While these longer-term agreements strengthen our customer relationships, the increased demand for our products often requires that we increase our inventories and personnel. Customer demands that we purchase their Remanufactured Core inventory also require the use of 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.

## 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. The program does not have an expiration date. Under this program we repurchased and retired a total 67,347 shares at a total cost of \$389,000 through fiscal 2013. We did not repurchase any common stock during fiscal 2016, 2015, and 2014.

Table of Contents

## Capital Expenditures and Commitments

Our capital expenditures were \$3,747,000 during fiscal 2016. A significant portion of these expenditures relate to the purchase of equipment for our office, manufacturing and warehouse facilities. We expect our fiscal 2017 capital expenditures to be approximately \$4,000,000 to support current operations. In addition, we expect to invest additional amounts in connection with the expansion of our operations in Mexico, and are currently finalizing the timing and amount of such initiatives. 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, 2016 and the effect such obligations could have on our cash flows in future periods:

| Contractual Obligations         | Payments Due by Period |                     |                 |                 |                      |
|---------------------------------|------------------------|---------------------|-----------------|-----------------|----------------------|
|                                 | Total                  | Less than<br>1 year | 2 to 3<br>years | 4 to 5<br>years | More than 5<br>years |
| Capital lease obligations (1)   | \$2,865,000            | \$693,000           | \$1,336,000     | \$836,000       | \$-                  |
| Operating lease obligations (2) | 10,775,000             | 3,448,000           | 3,354,000       | 2,625,000       | 1,348,000            |
| Revolving loan                  | 7,000,000              | 7,000,000           | -               | -               | -                    |
| Term loan (3)                   | 25,554,000             | 3,774,000           | 7,268,000       | 14,512,000      | -                    |
| Accrued core payment (4)        | 27,545,000             | 9,536,000           | 18,009,000      | -               | -                    |
| Unrecognized tax benefits (5)   | -                      | -                   | -               | -               | -                    |
| Other long-term obligations (6) | 68,193,000             | 48,754,000          | 16,753,000      | 2,686,000       | -                    |
| Total                           | \$141,932,000          | \$73,205,000        | \$46,720,000    | \$20,659,000    | \$1,348,000          |

(1) Capital lease obligations represent amounts due under capital leases for various types of equipment.

Operating lease obligations represent amounts due for rent under our leases for all our office and warehouse facilities and for our Company automobile. The expiration date for the lease of our facility in Mexico is October (2) 2016 and we have the option to extend the lease term for six additional 30-day periods, therefore, operating lease obligations for this facility are included in the above table through April 2017.

Term loan obligations represent the amounts due for principal payments as well as interest payments to be made. (3) Interest payments were calculated based upon the interest rate for our term loan using the LIBOR option at March 31, 2016 which was 2.94%.

Accrued core payments represent the amounts due for principal and interest payments to be made in connection (4) with the purchases of Remanufactured Cores from our customers, which are held by these customers and remain on their premises.

We are unable to reliably estimate the timing of future payments related to uncertain tax position liabilities at (5) March 31, 2016 in the amount of \$1,181,000; therefore, this amount has been excluded from the table above. However, future tax payment accruals related to uncertain tax positions are included in our consolidated balance sheets, reduced by the associated federal deduction for state taxes.

(6) 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, including our May

2016 addendum to a vendor agreement. We are not obligated to provide these marketing allowances should our business relationships end with these customers.

Table of Contents

Related Party Transactions

Mr. Mel Marks served as a director of our Asian subsidiaries, in addition to his position as one of our directors. Mr. Marks received annual compensation of \$150,000 for his services as a director of our Asian subsidiaries for fiscal 2016 and \$50,000 for fiscal 2015, in addition to his regular compensation as one of our directors.

During fiscal 2014, we paid \$304,000 to Houlihan Lokey Howard & Zukin Capital, Inc. in connection with the restructuring of the discontinued subsidiary. Scott Adelson, a member of our board of directors, is a co-president and global co-head of corporate finance for Houlihan Lokey Howard & Zukin Capital, Inc. Mr. Adelson recused himself from, or was not present at, any board deliberation or vote related to such retention.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk relates to changes in 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.

Interest rate risk

We are exposed to changes in interest rates primarily as a result of our borrowing and receivable discount programs, which have interest costs that vary with interest rate movements. Our credit facility bears interest at variable base rates, plus an applicable margin. At March 31, 2016, our net debt obligations totaled \$30,047,000. If interest rates were to increase 1%, our net annual interest expense would have increased by approximately \$300,000. 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 increase our interest expense by \$50,000.

Foreign currency risk

We are exposed to foreign currency exchange risk inherent in our anticipated purchases and expenses denominated in currencies other than the U.S. dollar. We transact business in the following foreign currencies; Mexican pesos, Malaysian ringit, Singapore dollar, Chinese yuan, and the Canadian dollar. Our primary currency risks result from fluctuations in the value of the Mexican peso and to a lesser extent the Chinese yuan. To mitigate these risks, we enter into forward foreign currency exchange contracts to exchange U.S. dollars for these foreign currencies. 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. 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, 2016 would have increased our general and administrative expenses by approximately \$1,682,000. During fiscal 2016 and 2015, a gain of \$777,000 and a loss of \$1,034,000, 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.





Table of Contents

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 SEC 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.

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(b) and 15d-15(e). Based on this evaluation, our chief executive officer, chief financial officer, and chief accounting officer concluded that MPA's disclosure controls and procedures were effective as of March 31, 2016.

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).

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 accounting principles generally accepted in the United State of America, applying certain estimates and judgments as required.

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;  
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
2. 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.

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 2013 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, 2016.

The effectiveness of our internal control over financial reporting as of March 31, 2016 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 MPA's internal control over financial reporting during the fourth quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, MPA's internal control over financial reporting.

#### Item 9B. Other Information

None.

39

---

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to our Definitive Proxy Statement in connection with our next Annual Meeting of Stockholders (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.

Table of Contents

## 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 | 51  |
| Consolidated Balance Sheets                              | F-1 |
| Consolidated Statements of Income                        | F-2 |
| Consolidated Statements of Comprehensive Income (Loss)   | F-3 |
| Consolidated Statements of Shareholders' Equity          | F-4 |
| Consolidated Statements of Cash Flows                    | F-5 |
| Notes to Consolidated Financial Statements               | F-6 |

## (2) Schedules.

## Schedule II — Valuation and Qualifying Accounts \$-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.   |
| 3.7    | Certificate of Amendment of the Certificate of Incorporation of the Company | Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 17, 2014.  |



Table of Contents

| Number | Description of Exhibit  | Method of Filing  |
|--------|---|---|
| 4.1    | 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. |
| 4.2    | 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.          |
| 4.3    | 2010 Incentive Award Plan   | Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed on December 15, 2010.                        |
| 4.4    | Amended and Restated 2010 Incentive Award Plan  | Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed on March 5, 2013.                            |
| 4.5    | Second Amended and Restated 2010 Incentive Award Plan   | Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed on March 3, 2014.                            |
| 4.6    | 2014 Non-Employee Director Incentive Award Plan   | Incorporated by reference to Appendix B to the Proxy Statement on Schedule 14A filed on March 3, 2014.                            |
| 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   | Form of Indemnification Agreement for officers and directors  | Incorporated by reference to Exhibit 10.25 to the 1997 Registration Statement.  |
| 10.4   | 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.  |
| 10.5*  | 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.  |
| 10.6   | Form of Orbian Discount Agreement between the Company and Orbian Corp.  | Incorporated by reference to Exhibit 10.17 to the 2004 10-K.  |
| 10.7   |   |   |

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

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.



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

Table of Contents

| Number  | Description of Exhibit  | Method of Filing  |
|---------|---|---|
| 10.8    | 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.    |
| 10.9    | 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.     |
| 10.10*  | 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.     |
| 10.11   | 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.    |
| 10.12   | 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.   |
| 10.13   | 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.        |
| 10.14*  | 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.            |
| 10.15*  | 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.            |
| 10.16 * | 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. |
| 10.17 * | 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. |
| 10.18 * |   |   |

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

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.

10.19 \* 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.

10.20 \* 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.

43

---

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

Table of Contents

| Number | Description of Exhibit  | Method of Filing  |
|--------|---|---|
| 10.21  | Core Amendment No. 3 to Vendor Agreement, dated as of May 31, 2011, by and between Motorcar Parts of America, Inc. and AutoZone Parts, Inc.   | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on June 16, 2011.     |
| 10.22  | Core Amendment No. 4 to Vendor Agreement, dated as of May 31, 2011, by and between Motorcar Parts of America, Inc. and AutoZone Parts, Inc.   | Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on June 16, 2011.     |
| 10.23  | Addendum No. 2 to Amendment No. 1 to Vendor Agreement, dated as of May 31, 2011, by and between Motorcar Parts of America, Inc. and AutoZone Parts, Inc.  | Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed on June 16, 2011.     |
| 10.24  | Fifth Amendment, dated as of November 17, 2011, to that certain Standard Industrial Commercial Single Tenant Lease-Gross, dated as of September 19, 1995, between Golkar Enterprises, Ltd and Motorcar Parts of America, Inc., as amended                                   | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on November 25, 2011. |
| 10.25  | Financing Agreement, dated as of January 18, 2012, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent                     | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on January 24, 2012.  |
| 10.26  | Right of First Refusal Agreement, dated May 3, 2012   | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 7, 2012.       |
| 10.27  | Employment Agreement, dated as of May 18, 2012, between Motorcar Parts of America, Inc., and Selwyn Joffe   | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 24, 2012.      |
| 10.28  | Second Amendment to the Financing Agreement, dated as of May 24, 2012, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 31, 2012.      |
| 10.29  | Warrant to Purchase Common Stock, dated May 24, 2012, issued by Motorcar Parts of America, Inc. to Cerberus Business Finance, LLC in connection with the Second Amendment to the Financing Agreement  | Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on May 31, 2012.      |

Table of Contents

| Number | Description of Exhibit  | Method of Filing  |
|--------|---|---|
| 10.30  | Revolving Credit/Strategic Cooperation Agreement, dated as of August 22, 2012, by and among Motorcar Parts of America, Inc. (solely for purposes of provisions specified thereto), Fenwick Automotive Products Limited and Wanxiang America Corporation                                 | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on August 28, 2012.         |
| 10.31  | Guaranty, dated as of August 22, 2012, by Motorcar Parts of America, Inc. for the benefit of Wanxiang America Corporation   | Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on August 28, 2012.         |
| 10.32  | Warrant to Purchase Common Stock, dated as of August 22, 2012, issued by Motorcar Parts of America, Inc. to Wanxiang America Corporation  | Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed on August 28, 2012.         |
| 10.33  | Third Amendment and Waiver to the Financing Agreement, dated as of August 22, 2012, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association as administrative agent | Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed on August 28, 2012.         |
| 10.34  | Fourth Amendment to Financing Agreement, dated as of December 3, 2012, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent             | Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on December 6, 2012.        |
| 10.35  | Fifth Amendment to Financing Agreement, dated as of January 16, 2013, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent              | Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on January 17, 2013.        |
| 10.36  | Mel Marks Agreement, dated and effective as of March 31, 2013, among Motorcar Parts of America, Inc., Mel Marks and Melmarks Enterprises LLLP   | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 16, 2013.            |
| 10.37  | Sixth Amendment to Financing Agreement, dated as of June 14, 2013, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent                 | Incorporated by reference to Exhibit 10.58 to the 2013 Annual Report on Form 10-K filed on June 17, 2013. |

Table of Contents

| Number | Description of Exhibit   | Method of Filing   |
|--------|--|--|
| 10.38  | Form of Stock Option Notice for use in connection with stock options granted to Selwyn Joffe pursuant to the Motorcar Parts of America, Inc. 2010 Incentive Award Plan   | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on August 12, 2013.                |
| 10.39  | Form of Stock Option Agreement for use in connection with stock options granted to Selwyn Joffe pursuant to the Motorcar Parts of America, Inc. 2010 Incentive Award Plan  | Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on August 12, 2013.                |
| 10.40  | Seventh Amendment to the Financing Agreement, dated as of August 26, 2013, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent                  | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on August 30, 2013.                |
| 10.41  | Eighth Amendment to the Financing Agreement, dated as of October 9, 2013, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent                   | Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on October 10, 2013.               |
| 10.42  | Ninth Amendment and Waiver to the Financing Agreement, dated as of November 6, 2013, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent        | Incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed on November 12, 2013.           |
| 10.43  | Amended and Restated Financing Agreement, dated as of November 6, 2013, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent                     | Incorporated by reference to Exhibit 10.1 to Amended Quarterly Report on Form 10-Q/A filed on February 10, 2014. |
| 10.44  | Third Amendment to Amended and Restated Financing Agreement, dated as of December 11, 2014, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent | Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 12, 2014.          |

Table of Contents

| Number      | Description of Exhibit   | Method of Filing  |
|-------------|--|---|
| 10.45       | Fourth Amendment to Amended and Restated Financing Agreement, dated as of April 30, 2015, among Motorcar Parts of America, Inc., each lender from time to time party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent | Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 1, 2015.         |
| 10.46*      | Revolving Credit, Term Loan and Security Agreement, dated as of June 3, 2015, among Motorcar Parts of America, Inc., each lender from time to time party thereto, and PNC Bank, National Association, as agent   | Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 8, 2015.        |
| 10.47       | First Amendment to Revolving Credit, Term Loan and Security Agreement, dated as of November 5, 2015, among Motorcar Parts of America, Inc., each lender from time to time party thereto, and PNC Bank, National Association, as agent  | Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed on November 9, 2015. |
| 10.48**     | Consent and Second Amendment to Revolving Credit, Term Loan and Security Agreement, dated as of May 19, 2016, among Motorcar Parts of America, Inc., each lender from time to time party thereto, and PNC Bank, National Association, as administrative agent                                  | Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 25, 2016.            |
| 14.1        | Motorcar Parts of America, Inc., Code of Business Conduct and Ethics, as amended, effective January 15, 2015   | Incorporated by reference to Exhibit 14.1 to Current Report on Form 8-K filed on January 20, 2015.        |
| <u>21.1</u> | List of Subsidiaries   | Filed herewith.   |
| <u>23.1</u> | Consent of Independent Registered Public Accounting Firm Ernst & Young LLP   | Filed herewith.   |
| <u>31.1</u> | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002   | Filed herewith.   |
| <u>31.2</u> | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002   | Filed herewith.   |
| <u>31.3</u> | Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002  | Filed herewith.   |

Table of Contents

| Number      | Description of Exhibit   | Method of Filing |
|-------------|--|------------------|
| <u>32.1</u> | Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002  | Filed herewith.  |
| 101.1       | The following financial information from Motorcar Parts of America, Inc.'s Annual Report on Form 10-K for the fiscal year ended March 31, 2016, formatted in Extensible Business Reporting Language ("XBRL") and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity; (v) the Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements | Filed herewith.  |

---

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

\*\* Certain provisions of this exhibit have been omitted pursuant to a request for confidential treatment. A complete version of this exhibit has been filed separately with the SEC.

Table of Contents

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 14, 2016 By: /s/ David Lee  
David Lee  
Chief Financial Officer

Dated: June 14, 2016 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      Chief Executive Officer and Director      June 14, 2016  
Selwyn Joffe      (Principal Executive Officer)

/s/ David Lee      Chief Financial Officer      June 14, 2016  
David Lee      (Principal Financial Officer)

/s/ Kevin Daly      Chief Accounting Officer      June 14, 2016  
Kevin Daly      (Principal Accounting Officer)

/s/ Scott Adelson      Director      June 14, 2016  
Scott Adelson

/s/ Rudolph Borneo      Director      June 14, 2016  
Rudolph Borneo

/s/ Philip Gay      Director      June 14, 2016  
Philip Gay

/s/ Duane Miller      Director      June 14, 2016  
Duane Miller

/s/ Jeffrey Mirvis      Director      June 14, 2016  
Jeffrey Mirvis

/s/ David Bryan      Director      June 14, 2016  
David Bryan

/s/ Joseph Ferguson      Director      June 14, 2016  
Joseph Ferguson





Table of Contents

MOTORCAR PARTS OF AMERICA, INC.  
AND SUBSIDIARIES

CONTENTS

|  | Page |
|--|------|
| Reports of Independent Registered Public Accounting Firm | 51   |
| Consolidated Balance Sheets                              | F-1  |
| Consolidated Statements of Income                        | F-2  |
| Consolidated Statements of Comprehensive Income          | F-3  |
| Consolidated Statements of Shareholders' Equity          | F-4  |
| Consolidated Statements of Cash Flows                    | F-5  |
| Notes to Consolidated Financial Statements               | F-6  |
| Schedule II — Valuation and Qualifying Accounts          | S-1  |

50

---

Table of Contents

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, 2016 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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, 2016, based on COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Motorcar Parts of America, Inc. and subsidiaries as of March 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2016 and our report dated June 14, 2016 expressed an unqualified opinion.

/s/ Ernst & Young LLP

Los Angeles, California  
June 14, 2016



Table of Contents

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, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2016. 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 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, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2016, 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. and subsidiaries' internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 14, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
June 14, 2016

Table of Contents

## MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

March 31,

|   | 2016                 | 2015                 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents   | \$21,897,000         | \$61,230,000         |
| Short-term investments  | 1,813,000            | 699,000              |
| Accounts receivable — net   | 8,548,000            | 24,799,000           |
| Inventory— net  | 58,060,000           | 56,829,000           |
| Inventory unreturned  | 10,520,000           | 7,833,000            |
| Deferred income taxes   | 33,347,000           | 22,998,000           |
| Prepaid expenses and other current assets   | 5,900,000            | 7,407,000            |
| Total current assets  | 140,085,000          | 181,795,000          |
| Plant and equipment — net   | 16,099,000           | 12,535,000           |
| Long-term core inventory — net (Note 7)   | 241,100,000          | 188,950,000          |
| Long-term core inventory deposits (Note 7)  | 5,569,000            | 31,571,000           |
| Long-term deferred income taxes   | 236,000              | 261,000              |
| Goodwill  | 2,053,000            | -                    |
| Intangible assets — net   | 4,573,000            | 2,574,000            |
| Other assets  | 3,657,000            | 3,195,000            |
| <b>TOTAL ASSETS</b>   | <b>\$413,372,000</b> | <b>\$420,881,000</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable  | \$72,152,000         | \$61,893,000         |
| Accrued liabilities   | 9,101,000            | 10,096,000           |
| Customer finished goods returns accrual   | 26,376,000           | 19,678,000           |
| Accrued core payment  | 8,989,000            | 13,190,000           |
| Revolving loan  | 7,000,000            | -                    |
| Other current liabilities   | 4,698,000            | 2,471,000            |
| Current portion of term loan  | 3,067,000            | 7,733,000            |
| Total current liabilities   | 131,383,000          | 115,061,000          |
| Term loan, less current portion   | 19,980,000           | 71,489,000           |
| Long-term accrued core payment  | 17,550,000           | 23,880,000           |
| Long-term deferred income taxes   | 14,315,000           | 7,803,000            |
| Other liabilities   | 19,336,000           | 12,445,000           |
| Total liabilities   | 202,564,000          | 230,678,000          |
| 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, 50,000,000 shares authorized; 18,531,751 and 17,974,598 shares issued and outstanding at March 31, 2016 and 2015, respectively | 185,000              | 180,000              |
| Additional paid-in capital  | 203,650,000          | 191,279,000          |
| Retained earnings   | 11,825,000           | 1,262,000            |
| Accumulated other comprehensive loss  | (4,852,000 )         | (2,518,000 )         |
| Total shareholders' equity  | 210,808,000          | 190,203,000          |

|  |               |               |
|--|---------------|---------------|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$413,372,000 | \$420,881,000 |
|--|---------------|---------------|

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

F-1

---

Table of Contents

## MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

## Consolidated Statements of Income

Years Ended March 31,

|   | 2016             | 2015             | 2014              |
|---|------------------|------------------|-------------------|
| Net sales   | \$368,970,000    | \$301,711,000    | \$258,669,000     |
| Cost of goods sold  | 268,046,000      | 220,138,000      | 177,103,000       |
| Gross profit  | 100,924,000      | 81,573,000       | 81,566,000        |
| Operating expenses:   |                  |                  |                   |
| General and administrative                                  | 49,665,000       | 37,863,000       | 39,684,000        |
| Sales and marketing   | 9,965,000        | 7,851,000        | 7,838,000         |
| Research and development                                    | 3,008,000        | 2,273,000        | 1,940,000         |
| Total operating expenses                                    | 62,638,000       | 47,987,000       | 49,462,000        |
| Operating income  | 38,286,000       | 33,586,000       | 32,104,000        |
| Interest expense, net                                       | 16,244,000       | 13,065,000       | 18,289,000        |
| Income from continuing operations before income tax expense | 22,042,000       | 20,521,000       | 13,815,000        |
| Income tax expense  | 11,479,000       | 9,068,000        | 7,333,000         |
| Income from continuing operations                           | 10,563,000       | 11,453,000       | 6,482,000         |
| Income from discontinued operations                         | -                | -                | 100,877,000       |
| <br>Net income  | <br>\$10,563,000 | <br>\$11,453,000 | <br>\$107,359,000 |
| <br>Basic net income per share from continuing operations   | <br>\$0.58       | <br>\$0.68       | <br>\$0.45        |
| Basic net income per share from discontinued operations     | -                | -                | 6.89              |
| Basic net income per share                                  | \$0.58           | \$0.68           | \$7.34            |
| <br>Diluted net income per share from continuing operations | <br>\$0.55       | <br>\$0.65       | <br>\$0.42        |
| Diluted net income per share from discontinued operations   | -                | -                | 6.59              |
| Diluted net income per share                                | \$0.55           | \$0.65           | \$7.01            |
| <br>Weighted average number of shares outstanding:          |                  |                  |                   |
| Basic   | 18,233,163       | 16,734,539       | 14,633,946        |
| Diluted   | 19,066,093       | 17,605,940       | 15,317,931        |

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

F-2

---



Table of Contents

## MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

Years Ended March 31,

|   | 2016          | 2015          | 2014           |
|---|---------------|---------------|----------------|
| Net income  | \$ 10,563,000 | \$ 11,453,000 | \$ 107,359,000 |
| Other comprehensive (loss) income, net of tax:  |               |               |                |
| Unrealized (loss) gain on short-term investments (net of tax of \$(8,000), \$16,000, and \$22,000, respectively | (13,000 )     | 24,000        | 34,000         |
| Foreign currency translation loss   | (2,321,000 )  | (1,665,000 )  | (65,000 )      |
| Total other comprehensive loss, net of tax  | (2,334,000 )  | (1,641,000 )  | (31,000 )      |
| Comprehensive income  | \$ 8,229,000  | \$ 9,812,000  | \$ 107,328,000 |

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

F-3

---

Table of Contents

## MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

## Consolidated Statements of Shareholders' Equity

For the Years Ended March 31,

|   | Common Stock |            | Additional                            | Retained                             | Accumulated                             |                |
|---|--------------|------------|---------------------------------------|--------------------------------------|---|----------------|
|   | Shares       | Amount     | Paid-in<br>Capital<br>Common<br>Stock | Earnings<br>(Accumulated<br>Deficit) | Other<br>Comprehensive<br>Income (Loss) | Total          |
| Balance at March 31,<br>2013  | 14,460,979   | \$ 145,000 | \$ 114,737,000                        | \$(117,550,000)                      | \$(846,000)                             | \$(3,514,000)  |
| Compensation recognized<br>under employee stock<br>plans  | -            | -          | 969,000                               | -                                    | -                                       | 969,000        |
| Common stock issued<br>under stock plans, net of<br>shares withheld for<br>employee taxes         | 606,666      | 6,000      | 5,760,000                             |                                      |   | 5,766,000      |
| Repurchase of options<br>granted  |              |            | (627,000)                             |                                      |   | (627,000)      |
| Tax benefit from<br>employee stock options<br>exercised   | -            | -          | (286,000)                             | -                                    | -                                       | (286,000)      |
| Unrealized gain (loss) on<br>investments, net of tax  | -            | -          | -                                     | -                                    | 34,000                                  | 34,000         |
| Foreign currency<br>translation   | -            | -          | -                                     | -                                    | (65,000)                                | (65,000)       |
| Net income  | -            | -          | -                                     | 107,359,000                          | -                                       | 107,359,000    |
| Balance at March 31,<br>2014  | 15,067,645   | \$ 151,000 | \$ 120,553,000                        | \$(10,191,000)                       | \$(877,000)                             | \$ 109,636,000 |
| Compensation recognized<br>under employee stock<br>plans  | -            | -          | 2,210,000                             | -                                    | -                                       | 2,210,000      |
| Common stock issued<br>under stock plans, net of<br>shares withheld for<br>employee taxes         | 123,734      | 1,000      | 1,246,000                             |                                      |   | 1,247,000      |
| Issuance of common stock<br>upon vesting of RSUs, net<br>of shares withheld for<br>employee taxes | 23,219       | -          | (806,000)                             |                                      |   | (806,000)      |
| Tax benefit from<br>employee stock options<br>exercised   | -            | -          | 1,131,000                             | -                                    | -                                       | 1,131,000      |
|   | 2,760,000    | 28,000     | 71,732,000                            | -                                    | -                                       | 71,760,000     |

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

|  |            |           |               |              |                |               |
|--|------------|-----------|---------------|--------------|----------------|---------------|
| Common stock issued in connection with public offering                                   |            |           |               |              |                |               |
| Stock issuance costs   | -          | -         | (4,787,000 )  |              |                | (4,787,000 )  |
| Unrealized gain (loss) on investments, net of tax  | -          | -         | -             | -            | 24,000         | 24,000        |
| Foreign currency translation   | -          | -         | -             | -            | (1,665,000 )   | (1,665,000 )  |
| Net income   | -          | -         | -             | 11,453,000   | -              | 11,453,000    |
| Balance at March 31, 2015  | 17,974,598 | \$180,000 | \$191,279,000 | \$1,262,000  | \$(2,518,000 ) | \$190,203,000 |
| Compensation recognized under employee stock plans                                       | -          | -         | 2,584,000     | -            | -              | 2,584,000     |
| Common stock issued under stock plans, net of shares withheld for employee taxes         | 510,637    | 5,000     | 5,387,000     | -            | -              | 5,392,000     |
| Issuance of common stock upon vesting of RSUs, net of shares withheld for employee taxes | 46,516     | -         | (913,000 )    | -            | -              | (913,000 )    |
| Tax benefit from employee stock options exercised  | -          | -         | 5,313,000     | -            | -              | 5,313,000     |
| Unrealized gain (loss) on investments, net of tax  | -          | -         | -             | -            | (13,000 )      | (13,000 )     |
| Foreign currency translation   | -          | -         | -             | -            | (2,321,000 )   | (2,321,000 )  |
| Net income   | -          | -         | -             | 10,563,000   | -              | 10,563,000    |
| Balance at March 31, 2016  | 18,531,751 | \$185,000 | \$203,650,000 | \$11,825,000 | \$(4,852,000 ) | \$210,808,000 |

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

Table of Contents

## MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

Years Ended March 31,

|  | 2016          | 2015          | 2014           |
|--|---------------|---------------|----------------|
| Cash flows from operating activities:  |               |               |                |
| Net income   | \$ 10,563,000 | \$ 11,453,000 | \$ 107,359,000 |
| Less income from discontinued operations   | -             | -             | 100,877,000    |
| Income from continuing operations  | 10,563,000    | 11,453,000    | 6,482,000      |
| Adjustments to reconcile net income from continuing operations to net cash provided by (used in) operating activities: |               |               |                |
| Depreciation   | 2,315,000     | 1,851,000     | 2,003,000      |
| Amortization of intangible assets  | 621,000       | 670,000       | 739,000        |
| Amortization of debt issuance costs  | 790,000       | 1,702,000     | 4,574,000      |
| Write-off of debt issuance costs   | 5,108,000     | -             | -              |
| Amortization of interest on accrued core payments  | 736,000       | -             | -              |
| Loss due to the change in the fair value of the warrant liability  | 5,137,000     | 459,000       | 10,443,000     |
| Gain due to the change in the fair value of the contingent consideration   | (990,000 )    | -             | -              |
| Gain on extinguishment of warrant liability  | -             | -             | (216,000 )     |
| Gain on redemption of short term investment  | -             | (4,000 )      | -              |
| Net provision for inventory reserves   | 4,518,000     | 1,635,000     | 1,620,000      |
| Net (recovery of) provision for customer payment discrepancies   | (299,000 )    | 91,000        | (10,000 )      |
| Net provision for (recovery of) doubtful accounts  | 4,404,000     | 184,000       | (47,000 )      |
| Deferred income taxes  | (3,781,000 )  | 5,831,000     | 20,124,000     |
| Share-based compensation expense   | 2,584,000     | 2,209,000     | 969,000        |
| Impact of tax benefit on APIC pool from stock options exercised  | -             | -             | 569,000        |
| Loss on disposal of plant and equipment  | 7,000         | 16,000        | 9,000          |
| Changes in current assets and liabilities:   |               |               |                |
| Accounts receivable  | 4,647,000     | (2,790,000 )  | (18,342,000 )  |
| Inventory  | 3,054,000     | (10,239,000)  | (14,478,000 )  |
| Inventory unreturned   | (2,687,000 )  | (299,000 )    | (552,000 )     |
| Prepaid expenses and other current assets  | 2,765,000     | (3,451,000 )  | 3,689,000      |
| Other assets   | (477,000 )    | (491,000 )    | (463,000 )     |
| Accounts payable and accrued liabilities   | 6,620,000     | 3,621,000     | 18,965,000     |
| Customer finished goods returns accrual  | 6,698,000     | 3,427,000     | 1,961,000      |
| Deferred core revenue  | -             | (15,065,000)  | 3,051,000      |
| Long-term core inventory   | (53,408,000)  | (46,466,000)  | (26,519,000 )  |
| Long-term core inventory deposits  | 26,002,000    | (2,196,000 )  | (1,766,000 )   |
| Accrued core payments  | (11,266,000)  | 37,070,000    | -              |
| Other liabilities  | 1,673,000     | 1,325,000     | 485,000        |
| Net cash provided by (used in) operating activities from continuing operations   | 15,334,000    | (9,457,000 )  | 13,290,000     |
| Net cash provided by operating activities from discontinued operations   | -             | -             | 227,000        |
| Net cash provided by (used in) operating activities  | 15,334,000    | (9,457,000 )  | 13,517,000     |
| Cash flows from investing activities:  |               |               |                |
| Purchase of plant and equipment  | (3,747,000 )  | (3,734,000 )  | (2,978,000 )   |
| Purchase of business   | (2,701,000 )  | -             | -              |
| Additions to short term investments  | (1,134,000 )  | (134,000 )    | (54,000 )      |
| Net cash used in investing activities from continuing operations   | (7,582,000 )  | (3,868,000 )  | (3,032,000 )   |
| Net cash used in investing activities from discontinued operations   | -             | -             | (295,000 )     |
| Net cash used in investing activities  | (7,582,000 )  | (3,868,000 )  | (3,327,000 )   |

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

|  |              |              |               |
|--|--------------|--------------|---------------|
| Cash flows from financing activities:  |              |              |               |
| Borrowings under revolving loan  | 29,000,000   | -            | 10,000,000    |
| Repayments under revolving loan  | (22,000,000) | (10,000,000) | -             |
| Borrowings under term loan   | 25,000,000   | -            | 20,000,000    |
| Repayments of term loan  | (86,063,000) | (8,400,000 ) | (11,600,000 ) |
| Payments for debt issuance costs   | (2,337,000 ) | -            | (5,221,000 )  |
| Payments on capital lease obligations  | (374,000 )   | (64,000 )    | (196,000 )    |
| Exercise of stock options  | 5,392,000    | 1,247,000    | 5,766,000     |
| Excess tax benefits from stock-based compensation  | 5,313,000    | 1,131,000    | (286,000 )    |
| Cash used to net share settle equity awards  | (913,000 )   | (806,000 )   | -             |
| Repurchase of common stock and options, including fees                                   | -            | -            | (627,000 )    |
| Repurchase of warrants   | -            | -            | (2,194,000 )  |
| Proceeds from issuance of common stock   | -            | 71,760,000   | -             |
| Stock issuance costs   | -            | (4,787,000 ) | -             |
| Net cash (used in) provided by financing activities from continuing operations           | (46,982,000) | 50,081,000   | 15,642,000    |
| Net cash used in financing activities from discontinued operations                       | -            | -            | (20,636,000 ) |
| Net cash (used in) provided by financing activities                                      | (46,982,000) | 50,081,000   | (4,994,000 )  |
| Effect of exchange rate changes on cash and cash equivalents                             | (103,000 )   | (125,000 )   | (31,000 )     |
| Net (decrease) increase in cash and cash equivalents                                     | (39,333,000) | 36,631,000   | 5,165,000     |
| Cash and cash equivalents — Beginning of period from continuing operations               | 61,230,000   | 24,599,000   | 19,346,000    |
| Cash and cash equivalents — Beginning of period from discontinued operations             | -            | -            | 88,000        |
| Cash and cash equivalents — End of period  | 21,897,000   | 61,230,000   | 24,599,000    |
| Less cash and cash equivalents — End of period from discontinued operations              | -            | -            | -             |
| Cash and cash equivalents — End of period from continuing operations                     | \$21,897,000 | \$61,230,000 | \$24,599,000  |
| Supplemental disclosures of cash flow information:                                       |              |              |               |
| Cash paid during the period for:   |              |              |               |
| Interest, net  | \$9,812,000  | \$11,369,000 | \$14,647,000  |
| Income taxes, net of refunds   | 3,762,000    | 4,918,000    | (16,472,000 ) |
| Non-cash investing and financing activities:   |              |              |               |
| Property acquired under capital lease  | \$2,454,000  | \$274,000    | \$303,000     |
| Contingent consideration   | 1,320,000    | -            | -             |
| The accompanying notes to consolidated financial statements are an integral part hereof. |              |              |               |

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Company Background and Organization

Overview

Motorcar Parts of America, Inc. and its subsidiaries (the “Company”, or “MPA”) is a leading manufacturer, remanufacturer, and distributor of aftermarket automotive parts. 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 North America and to major automobile manufacturers for both their aftermarket programs and warranty replacement programs (“OES”). The Company’s products include (i) rotating electrical products such as alternators and starters, (ii) wheel hub assemblies and bearings, and (iii) brake master cylinders.

The Company obtains used automotive parts, commonly known as Used Cores, primarily from its customers under the Company’s core exchange program. 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 automotive parts in North America and Asia. In addition, the Company utilizes various third party warehouse distribution centers in North America.

Pursuant to the guidance provided under the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), for segment reporting the Company has identified its chief executive officer as chief operating decision maker (“CODM”), has reviewed the documents used by the CODM, and understands how such documents are used by the CODM to make financial and operating decisions. The Company has determined through this review process that it has one reportable segment for purposes of recording and reporting its financial results.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Motorcar Parts of America, Inc. and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated. The Company has classified Fenco (as defined in Note 20) operations as discontinued operations in the accompanying consolidated financial statements as a result of the Fenco Entities (as defined in Note 20) voluntary petition for relieve under Chapter 7 of Title 11 of the United States Code in the U.S. Bankruptcy Court for the District of Delaware on June 10, 2013 (see Note 20).

Reclassification of Prior Period Balances

The long-term deferred income tax liability has been reclassified from other liabilities to long-term deferred income taxes in the consolidated balance sheet at March 31, 2015 to conform to the consolidated balance sheet presentation at March 31, 2016.

Cash and Cash Equivalents

Cash primarily consists of cash on hand and bank deposits. Cash equivalents consist of money market funds. The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained with various financial institutions.

F-6

---

Table of Contents

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 major 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.

Inventory

Non-core Inventory

Non-core inventory is comprised of (i) non-core raw materials, (ii) the non-core value of work in process, (iii) the non-core value of remanufactured finished goods, and (iv) purchased 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." Used Cores are a source of raw materials used in the manufacturing of the Company's products.

Non-core inventory is stated at the lower of cost or market. The cost of non-core remanufactured inventory approximates average historical purchase prices paid for raw materials, and is based upon the direct costs of material and an allocation of labor and variable and fixed overhead costs. The cost of purchased finished goods inventory approximates average historical purchase prices paid, and an allocation of 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 and is valued at the average cost of materials issued to open work orders. Historically, non-core work in process inventory has not been material compared to the total non-core inventory balance.

The cost of remanufactured finished goods 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, the Company excludes certain unallocated overhead such as severance costs, duplicative facility overhead costs, and spoilage from the calculation and expenses these unallocated overhead as period costs. For each of the years ended March 31, 2016 and 2015 there was no unallocated overhead charged directly to cost of sales due to the usage of the Company's U.S. facilities for wheel hub products and brake master cylinder products. For the year ended March 31, 2014, approximately \$1,070,000 was considered unallocated overhead 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 periodically reviews inventory to identify excess quantities and part numbers that are experiencing a reduction in demand. Any part numbers with quantities identified during this process are reserved for at rates based upon management's judgment, historical rates, and consideration of possible scrap and liquidation values which may be as high as 100% of cost if no liquidation market exists for the part.

F-7

---

### Table of Contents

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 its ability to sell or liquidate potentially excess or obsolete inventory. The Company had recorded reserves of \$3,626,000 and \$2,675,000 for excess and obsolete inventory at March 31, 2016 and 2015, respectively, based on higher inventory levels to support the Company's growth.

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.

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,

• Remanufactured Cores held in finished goods inventory at the Company's facilities; and

• Remanufactured Cores held at customer locations as a part of finished goods sold to the customer. For these Remanufactured Cores, the Company expects the finished good containing the Remanufactured Core to be returned under the Company's general right of return policy or a similar Used Core to be returned to the Company 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 arm's 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. The Company must purchase these Used Cores from core brokers because its customers do not have a sufficient supply of these newer Used Cores available for the core exchange program.

Used Cores obtained in core broker transactions 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 the core exchange program.

Long-term core inventory is recorded at the lower of cost or market value. In the absence of sufficient recent purchases, the Company uses 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 the Company obtains most of its Used Core inventory from the customer core exchange program.

F-8

---

Table of Contents

The Company classifies all of its core inventories as long-term assets. The determination of the long-term classification is based on its view that the value of the cores is not consumed or realized in cash during the Company's 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." The Company does not believe that core inventories, which the Company classifies 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. The Company does not expect the core inventories to be consumed, and thus the Company does not expect to realize cash, until its relationship with a customer ends, a possibility that the Company considers remote based on existing long-term customer agreements and historical experience.

However, historically for certain finished goods sold, the Company's customer will not send the Company a Used Core to obtain the credit the Company offers under its core exchange program. Therefore, based on the Company's historical estimate, the Company derecognizes the core value for these finished goods upon sale, as the Company believes they have been consumed and the Company has realized cash.

The Company realizes cash for only the core exchange program shortfall. This shortfall represents the historical difference between the number of finished goods shipped to customers and the number of Used Cores returned to the Company by customers. The Company does 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. The Company does not expect to realize cash for the remaining portion of these Remanufactured Cores until its relationship with a customer ends, a possibility that the Company considers remote based on existing long-term customer agreements and historical experience.

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

Long-term Core Inventory Deposit

During the year ended March 31, 2016, the Company completed the core buy-back program with one of its largest customers. As a result of the completion of this buy-back program and related long-term core inventory reconciliations, \$25,805,000 from long-term core inventory deposit was transferred to Remanufactured Cores held at customers' locations within long-term core inventory. At March 31, 2015, \$26,002,000 of Remanufactured Cores in connection with this core buy-back program was included in long-term core inventory deposit. The remaining long-term core inventory deposit represents the cost of Remanufactured Cores the Company has purchased from customers, which are held by the customers and remain on the customers' premises. The costs of these Remanufactured Cores were established at the time of the transaction based on the then current cost, determined as noted under the caption "Long-Term Core Inventory". The selling value of these Remanufactured Cores was established based on agreed upon amounts with these customers. The Company expects to realize the selling value and the related cost of these Remanufactured Cores when its relationship with a customer ends, a possibility that the Company considers remote based on existing long-term customer agreements and historical experience.

## Table of Contents

### Customer Finished Goods Returns Accrual

The customer finished goods returns accrual represents the Company's estimate of its exposure to customer returns, including warranty returns, under its general policy to allow customers to return items that their end user customers have returned to them and from time to time, stock adjustment returns when the customers' inventory of certain products exceeds the anticipated sales to end-user customers. The customer finished goods returns accrual represents the non-core sales value of the estimated returns and is classified as a current liability due to the expectation that these returns will occur within the normal operating cycle of one year.

### Accrued Core Payment

The accrued core payment represents the full Remanufactured Core sales price of Remanufactured Cores the Company has purchased from its customers, which are held by these customers and remain on their premises. At the same time, the Company records the long-term core inventory for the Remanufactured Cores purchased at its cost, determined as noted under the caption "Long-term Core Inventory". The difference between the full Remanufactured Core sales price of Remanufactured Cores and its related cost is treated as sales allowance reducing revenue when the purchases are made.

The repayments for these Remanufactured Core Inventory purchases are made through the issuance of credits against that customer's receivables either on a one time basis or over an agreed-upon period. The accrued core payments are recorded as a current and non-current liability in the consolidated balance sheets based on whether repayments will occur within the normal operating cycle of one year.

### Income Taxes

The Company accounts 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 the Company's income tax provision 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 the Company's ability to generate sufficient future taxable income. The Company reviews its deferred tax assets on a jurisdiction by jurisdiction basis to determine whether it is more likely than not that the deferred tax assets will be realized. The Company believes that it is more likely than not that future taxable income will be sufficient to realize the recorded deferred tax assets. In evaluating this ability, the Company considers long-term agreements and Remanufactured Core purchase obligations with each of its major customers that expire at various dates through April 2021. The Company periodically compares its forecasts to actual results. Although there can be no assurance that the forecasted results will be achieved, the history of income in all jurisdictions provides sufficient positive evidence that no valuation allowance is needed.

### Plant and Equipment

Plant and equipment are stated at cost, less accumulated depreciation. The cost of additions and improvements are capitalized, while maintenance and repairs are charged to expense when incurred. Depreciation is provided on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Machinery and equipment are depreciated over a range from five to ten years. Office equipment and

fixtures are depreciated over a range from three to ten years. Leasehold improvements are depreciated over the lives of the respective leases or the service lives of the leasehold improvements, whichever is shorter. Depreciation of assets recorded under capital leases is included in depreciation expense.

F-10

---

## Table of Contents

### Intangible Assets

The Company's intangible assets other than goodwill are finite-lived and amortized on a straight line basis over their respective useful lives. Finite-lived intangible assets are analyzed for impairment when and if indicators of impairment exist. As of March 31, 2016, the Company's intangible assets, net of amortization, were \$4,573,000 and there were no indicators of impairment.

### Goodwill

The Company evaluates goodwill for impairment at least annually during the fourth quarter of each fiscal year or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. The Company has concluded that there is one reporting unit and therefore, tests goodwill for impairment at the entity level. In testing for goodwill impairment, the Company may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the Company's qualitative assessment indicates that goodwill impairment is more likely than not, a two-step impairment test is performed. The Company tests goodwill for impairment under the two-step impairment test by first comparing the carrying value of net assets to the fair value of the reporting unit. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, the Company would compare the implied fair value of the goodwill to its carrying value to determine the amount of the impairment loss, if any. The Company completed the required annual testing of goodwill for impairment during the fourth quarter of the year ended March 31, 2016, and determined through the qualitative assessment that its goodwill of \$2,053,000 is not impaired.

### Debt Issuance Costs

Debt issuance costs include fees and costs incurred to obtain financing. Debt issuance costs related to the Company's term loans are presented in the balance sheet as a direct deduction from the carrying amount of the term loans. Debt issuance costs related to the Company's revolving loan are presented in other assets in the accompanying consolidated balance sheets, regardless of whether or not there are any outstanding borrowings under the revolving loan. These fees and costs are amortized using the straight-line method, which approximates the effective interest rate method, over the terms of the related loans and are included in interest expense in the Company's consolidated statements of income.

### Foreign Currency Translation

For financial reporting purposes, the functional currency of the foreign subsidiaries is the local currency. The assets and liabilities of foreign operations for which the local currency is the functional currency are translated into the U.S. dollar at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average exchange rates during the year. The accumulated foreign currency translation adjustment is presented as a component of comprehensive income or loss in the consolidated statements of shareholders' equity.

### Revenue Recognition

The Company recognizes revenue when performance by the Company 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

•Collectability is reasonably assured.

F-11

---



### Table of Contents

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. The Company includes shipping and handling charges in its gross invoice price to customers and classifies the total amount as revenue. Shipping and handling costs are recorded as cost of sales.

The price of a finished remanufactured 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”). Unit value revenue is recorded based on the Company’s price list, net of applicable discounts and allowances. The Company allows customers to return slow moving and other inventory. The Company provides for such returns of inventory by reducing revenue and cost of sales for the unit value of goods sold that are expected to be returned based on a historical return analysis and information obtained from customers about current stock levels as further described under the captions “Customer Finished Goods Returns Accrual” and “Inventory Unreturned”.

The Company accounts for revenues and cost of sales on a net-of-core-value basis. The Company has determined that its business practices and contractual arrangements result in a significant portion of the Remanufactured Cores sold being replaced by similar Used Cores sent back for credit by customers under the Company’s core exchange program. Accordingly, the Company excludes the value of Remanufactured Cores from revenue.

When the Company ships a product, it recognizes an obligation to accept a similar Used Core sent back under the core exchange program by recording a contra receivable account based upon the Remanufactured Core price agreed upon by the Company and its customer. Upon receipt of a Used Core, the Company grants the customer a credit based on the Remanufactured Core price billed and restores the Used Core to on-hand inventory.

When the Company ships a product, it invoices certain customers for the Remanufactured Core portion of the product at full Remanufactured Core sales price. For these Remanufactured Cores, the Company recognizes core revenue based upon an estimate of the rate at which the Company’s customers will pay cash for Remanufactured Cores in lieu of sending back similar Used Cores for credits under the Company’s core exchange program.

In addition, the Company recognizes revenue related to Remanufactured Cores originally sold at a nominal price and not expected to be replaced by a similar Used Core under the core exchange program. Unlike the full price Remanufactured Cores, the Company only recognizes revenue from nominally priced Remanufactured Cores not expected to be replaced by a similar Used Core sent back under the core exchange program when the Company believes it has met all of the following criteria:

The Company has a signed agreement with the customer covering the nominally priced Remanufactured Cores not expected to be replaced by a similar Used Core sent back under the core exchange program. This agreement must specify the number of Remanufactured Cores its customer will pay cash for in lieu of sending back a similar Used Core 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 the Company’s records and customer’s records of the number of nominally priced Remanufactured Cores not expected to be replaced by a similar Used Core sent back under the core exchange program must be in the current or a prior period.

•The reconciliation of the nominally priced Remanufactured Cores must be completed and agreed to by the customer.

•The amount must be billed to the customer.

### Marketing Allowances

The Company records the cost of all marketing allowances provided to its customers. Such allowances include sales incentives and concessions. Voluntary 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. See Note 15 for a description of all marketing allowances.

F-12

---

Table of Contents

## Advertising Costs

The Company expenses all advertising costs as incurred. Advertising expenses from the Company's continuing operations for the years ended March 31, 2016, 2015 and 2014 were \$474,000, \$224,000 and \$205,000, respectively.

## Net Income Per Share

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

The following presents a reconciliation of basic and diluted net income per share.

|   | Years Ended March 31, |              |               |
|---|-----------------------|--------------|---------------|
|   | 2016                  | 2015         | 2014          |
| Income from continuing operations                         | \$10,563,000          | \$11,453,000 | \$6,482,000   |
| Income from discontinued operations                       | -                     | -            | 100,877,000   |
| Net income  | \$10,563,000          | \$11,453,000 | \$107,359,000 |
| Basic shares  | 18,233,163            | 16,734,539   | 14,633,946    |
| Effect of dilutive stock options and warrants             | 832,930               | 871,401      | 683,985       |
| Diluted shares  | 19,066,093            | 17,605,940   | 15,317,931    |
| Net income per share:                                     |                       |              |               |
| Basic net income per share from continuing operations     | \$0.58                | \$0.68       | \$0.45        |
| Basic net income per share from discontinued operations   | -                     | -            | 6.89          |
| Basic net income per share                                | \$0.58                | \$0.68       | \$7.34        |
| Diluted net income per share from continuing operations   | \$0.55                | \$0.65       | \$0.42        |
| Diluted net income per share from discontinued operations | -                     | -            | 6.59          |
| Diluted net income per share                              | \$0.55                | \$0.65       | \$7.01        |

The effect of dilutive options excludes 1,100 shares subject to options with an exercise price of \$34.17 per share for the year ended March 31, 2016, which were anti-dilutive. There were no anti-dilutive options or warrants for the year ended March 31, 2015. The effect of dilutive options and warrants excludes 77,000 shares subject to options with exercise prices ranging from \$13.65 to \$19.94 per share for the year ended March 31, 2014, which were anti-dilutive.

## Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. On an on-going basis, the Company evaluates its estimates, including those related to the carrying amount of plant and equipment; valuation of acquisition-related intangible assets including goodwill, impairment of long-lived assets, valuation and return allowances for receivables, inventories, and deferred income taxes; accrued liabilities, warrant liability, contingent consideration, share-based compensation, and litigation and disputes.

Table of Contents

The Company uses significant estimates in the calculation of sales returns. These estimates are based on the Company's historical return rates and an evaluation of estimated sales returns from specific customers.

The Company uses significant estimates in the calculation of the lower of cost or market value of long-term core inventory.

The Company's calculation of inventory reserves involves significant estimates. The basis for the inventory reserve is a comparison of inventory on hand to historical production usage or sales volumes.

The Company uses significant estimates in the calculation of its income tax provision or benefit by using forecasts to estimate whether it will have sufficient future taxable income to realize its deferred tax assets. There can be no assurances that the Company's taxable income will be sufficient to realize such deferred tax assets.

The Company uses significant estimates in the ongoing calculation of potential liabilities from uncertain tax positions that are more likely than not to occur.

A change in the assumptions used in the estimates for sales returns, inventory reserves and income taxes could result in a difference in the related amounts recorded in the Company's consolidated financial statements.

Financial Instruments

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

Share-Based Payments

In accounting for share-based compensation awards, the Company follows the accounting guidance for equity-based compensation, which requires that the Company measure the cost of employee services received in exchange for an award of equity instruments 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 associated with restricted stock or restricted stock units is measured based on the number of shares granted and the closing price of the Company's common stock on the grant date, subject to continued employment. The cost of equity instruments is recognized in the consolidated statements of income on a straight-line basis (net of estimated forfeitures) 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.

The Black-Scholes option pricing model requires the input of subjective assumptions including the expected volatility of the underlying stock and the expected holding period of the option. These subjective assumptions are based on both historical and other information. Changes in the values assumed and used in the model can materially affect the estimate of fair value.

The following summarizes the Black-Scholes option pricing model assumptions used to derive the weighted average fair value of the stock options granted during the periods noted.

|  | Years Ended March 31, |        |        |
|--|-----------------------|--------|--------|
|  | 2016                  | 2015   | 2014   |
| Weighted average risk free interest rate         | 1.73 %                | 1.75 % | 1.88 % |
| Weighted average expected holding period (years) | 5.76                  | 5.01   | 5.89   |

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

|  |         |        |        |
|--|---------|--------|--------|
| Weighted average expected volatility           | 46.84%  | 46.02% | 48.15% |
| Weighted average expected dividend yield       | -       | -      | -      |
| Weighted average fair value of options granted | \$14.14 | \$9.65 | \$5.16 |

F-14

---

## Table of Contents

### Credit Risk

The majority of the Company's sales are to leading automotive aftermarket parts suppliers. Management believes the credit risk with respect to trade accounts receivable is limited due to the Company's credit evaluation process and the nature of its customers. However, should the Company's customers experience significant cash flow problems, the Company's financial position and results of operations could be materially and adversely affected, and the maximum amount of loss that would be incurred would be the outstanding receivable balance, Used Cores expected to be returned by customer, and the value of the Remanufactured Cores held at customers' locations at March 31, 2016.

### Deferred Compensation Plan

The Company has a deferred compensation plan for certain members of management. The plan allows participants to defer salary and bonuses. The assets of the plan are held in a trust and are subject to the claims of the Company's general creditors under federal and state laws in the event of insolvency. Consequently, the trust qualifies as a Rabbi trust for income tax purposes. The plan's assets consist primarily of mutual funds and are classified as available for sale. The investments are recorded at market value, with any unrealized gain or loss recorded as other comprehensive income or loss in shareholders' equity. Adjustments to the deferred compensation obligation are recorded in operating expenses. The Company did not redeem any of its short-term investments for the payment of deferred compensation liabilities during the year ended March 31, 2016. During the year ended March 31, 2015, the Company redeemed \$4,000 of its short-term investments for the payment of deferred compensation liabilities. The carrying value of plan assets was \$1,813,000 and \$699,000, and deferred compensation obligation was \$1,813,000 and \$699,000 at March 31, 2016 and 2015, respectively. During the years ended March 31, 2016, 2015, and 2014 an expense of \$409,000, \$17,000 and \$10,000, respectively, was recorded for each year related to the deferred compensation plan.

### Comprehensive Income or Loss

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

### Recently Adopted Accounting Pronouncements

#### Debt Issuance Costs

In April 2015, the FASB issued guidance that requires debt issuance costs related to a recognized liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. In August 2015, the FASB issued guidance to clarify that an entity may elect to present debt issuance costs related to a line-of-credit arrangement as an asset, regardless of whether or not there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim period within those fiscal years. Early adoption of this guidance is permitted for financial statements that have not been previously issued. The Company adopted this guidance effective June 30, 2015, which resulted in the reclassification of debt issuance costs of \$879,000 from other assets and is now presented as a direct deduction of \$110,000 to the current portion of the term loan and \$769,000 to the non-current portion of the term loan in the previously reported consolidated balance sheet at March 31, 2015. The Company elected to continue presenting debt issuance costs related to its revolving credit facilities as an asset. The adoption of this guidance did not have any other impact on the Company's consolidated financial statements.

#### Discontinued Operations

In April 2014, the FASB issued guidance on reporting discontinued operations. The new guidance changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. The adoption of this guidance did not have any impact on the Company's financial position, results of operations or cash flows.

F-15

---

Table of Contents

Business Combinations

In September 2015, the FASB issued guidance simplifying the accounting for measurement-period adjustments. The guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adjustments related to previous reporting periods since the acquisition date must be disclosed by income statement line item either on the face of the income statement or in the notes. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years and earlier adoption is permitted for financial statements that have not been issued. The Company adopted this guidance effective September 30, 2015, which resulted in no material effect on its financial position, results of operations, or cash flows.

New Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued guidance codified in ASC 606, "Revenue Recognition - Revenue from Contracts with Customers", which amends the guidance in the former ASC 605, "Revenue Recognition". The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within that reporting period for a public company. A full or modified retrospective transition method is required. In August 2015, the FASB delayed the effective date by one year to annual periods beginning after December 15, 2017, and interim periods within that reporting period for a public company. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of the provisions of this guidance to its consolidated financial statements.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued guidance which requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). If conditions or events raise substantial doubt that is not alleviated, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions. The new guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company does not expect any impact on its financial position, results of operations or cash flows from the adoption of this guidance.

Extraordinary Items

In January 2015, the FASB issued guidance that simplifies income statement presentation by eliminating the concept of extraordinary items. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect any impact on its consolidated financial statements from the adoption of this guidance.



## Table of Contents

### Inventory

In July 2015, the FASB issued guidance that requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of the provisions of this guidance to its consolidated financial statements.

### Income Taxes

In November 2015, the FASB issued guidance that simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities be presented as non-current on the balance sheet. This new guidance is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016, with early adoption permitted. The amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is currently evaluating the potential impact of this adoption on its consolidated financial statements.

### Financial Instruments

In January 2016, the FASB issued guidance that addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. A reporting entity should apply the new guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of the provisions of this guidance to its consolidated financial statements.

### Leases

In February 2016, the FASB issued new guidance that requires balance sheet recognition of a right-of-use asset and lease liability by lessees for operating leases. The new guidance also requires new disclosures providing additional qualitative and quantitative information about the amounts recorded in the financial statements. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new guidance requires a modified retrospective approach with optional practical expedients. The Company is currently evaluating the impact of the provisions of this guidance to its consolidated financial statements.

### Share-based Compensation

In March 2016, the FASB issued guidance that simplifies several aspects of the accounting for share-based payment transactions and states that, among other things, all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement and an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the impact of the provisions of this guidance to its consolidated financial statements.

### 3. Acquisition

On May 20, 2015, the Company completed the acquisition of certain assets and liabilities of OE Plus, Ltd. (“OE Plus”), a privately held remanufacturer of alternators and starters based in North Dighton, Massachusetts. The acquisition was consummated pursuant to an asset purchase agreement dated May 15, 2015 for cash purchase price of \$2,701,000. As a result, the Company recorded (i) finite-lived intangible assets for trademarks with an estimated useful life of 10 years of \$520,000, (ii) finite-lived intangible assets for customer relationships with an estimated useful life of 8 years of \$2,100,000, and (iii) goodwill of \$2,053,000.

F-17

---

Table of Contents

In addition, the Company is contingently obligated to make additional payments to the former owners of OE Plus up to \$2,000,000 over the next four years. The estimated fair value of the contingent consideration obligation as of the acquisition date was \$1,320,000 and was determined using an option-pricing model. Any subsequent changes from the initial recognition in the fair value of the contingent consideration are recorded in current period earnings as a general and administrative expense. The assets and results of operations of OE Plus were not significant to the Company's consolidated financial position or results of operations, and thus pro forma information is not presented.

## 4. Intangible Assets

The following is a summary of acquired intangible assets subject to amortization at March 31:

|   | Weighted<br>Average<br>Amortization<br>Period | 2016                       |                             | 2015                       |                             |
|---|---|----------------------------|-----------------------------|----------------------------|-----------------------------|
|   |   | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Gross<br>Carrying<br>Value | Accumulated<br>Amortization |
| Intangible assets subject to amortization |   |                            |                             |                            |                             |
| Trademarks                                | 11 years                                      | \$705,000                  | \$127,000                   | \$397,000                  | \$278,000                   |
| Customer relationships                    | 13 years                                      | 5,900,000                  | 1,905,000                   | 6,211,000                  | 3,756,000                   |
| Total                                     |   | \$6,605,000                | \$2,032,000                 | \$6,608,000                | \$4,034,000                 |

During the years ended March 31, 2016 and 2015, the Company retired \$2,623,000 and \$666,000, respectively, of fully amortized intangible assets.

Amortization expense for acquired intangible assets is as follows:

|  | Years Ended March 31, |      |      |
|--|-----------------------|------|------|
|  | 2016                  | 2015 | 2014 |

|                      |           |           |           |
|----------------------|-----------|-----------|-----------|
| Amortization expense | \$621,000 | \$670,000 | \$739,000 |
|----------------------|-----------|-----------|-----------|

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

Year Ending March 31,

|            |             |
|------------|-------------|
| 2017       | \$580,000   |
| 2018       | 580,000     |
| 2019       | 580,000     |
| 2020       | 580,000     |
| 2021       | 580,000     |
| Thereafter | 1,673,000   |
| Total      | \$4,573,000 |

## 5. Short-Term Investments

The short-term investments contain the assets of the Company's deferred compensation plan. The plan's assets consist primarily of mutual funds and are classified as available for sale. The Company did not redeem any short-term investments for the payment of deferred compensation liabilities during the year ended March 31, 2016. During the year ended March 31, 2015, the Company redeemed \$4,000 of short-term investments for the payment of deferred compensation liabilities. As of March 31, 2016 and 2015, the fair market value of the short-term investments was \$1,813,000 and \$699,000, and the liability to plan participants was \$1,813,000 and \$699,000, respectively.

6. Accounts Receivable — Net

Included in accounts receivable — net are significant offset accounts related to customer allowances earned (see Note 15), customer payment discrepancies, returned goods authorizations (“RGA”) issued for in-transit unit returns, estimated future credits to be provided for Used Cores returned by the customers (see Note 2) and potential bad debts. Due to the forward looking nature and the different aging periods of certain estimated offset accounts, they may not, at any point in time, directly relate to the balances in the accounts receivable—trade account.

F-18

---

Table of Contents

Accounts receivable — net is comprised of the following at March 31:

|   | 2016         | 2015         |
|---|--------------|--------------|
| Accounts receivable — trade                     | \$62,206,000 | \$62,171,000 |
| Allowance for bad debts                         | (4,284,000 ) | (629,000 )   |
| Customer allowances earned                      | (12,029,000) | (7,221,000 ) |
| Customer payment discrepancies                  | (703,000 )   | (852,000 )   |
| Customer returns RGA issued                     | (6,561,000 ) | (7,029,000 ) |
| Customer core returns accruals                  | (30,081,000) | (21,641,000) |
| Less: total accounts receivable offset accounts | (53,658,000) | (37,372,000) |
| <br>  |              |              |
| Total accounts receivable — net                 | \$8,548,000  | \$24,799,000 |

## Warranty Returns

The Company allows its customers to return goods to the Company that their end-user customers have returned to them, whether the returned item is or is not defective (warranty returns). The Company accrues an estimate of its exposure to warranty returns based on a historical analysis of the level of this type of return as a percentage of total unit sales. Amounts charged to expense for these warranty returns are considered in arriving at the Company's net sales. At March 31, 2016 and 2015, the Company's total warranty return accrual was \$10,845,000 and \$10,904,000, respectively, of which \$4,612,000 and \$3,746,000, respectively, was included in the customer returns RGA issued balance in the above table for expected credits to be issued against accounts receivable and \$6,233,000 and \$7,158,000, respectively, was included in the customer finished goods returns accrual (see Note 2) in the consolidated balance sheets for estimated future warranty returns.

The following summarizes the change in the Company's warranty return accrual:

|                                | Years Ended March 31, |              |              |
|--------------------------------|-----------------------|--------------|--------------|
|                                | 2016                  | 2015         | 2014         |
| Balance at beginning of period | \$10,904,000          | \$8,039,000  | \$6,205,000  |
| Charged to expense             | 80,099,000            | 65,469,000   | 56,284,000   |
| Amounts processed              | (80,158,000)          | (62,604,000) | (54,450,000) |
| <br>                           |                       |              |              |
| Balance at end of period       | \$10,845,000          | \$10,904,000 | \$8,039,000  |

Table of Contents

## 7. Inventory

Non-core inventory, inventory unreturned, long-term core inventory, and long-term core inventory deposits are as follows at March 31:

|   | 2016          | 2015          |
|---|---------------|---------------|
| Non-core inventory                                    |               |               |
| Raw materials   | \$17,394,000  | \$18,836,000  |
| Work-in-process                                       | 135,000       | 255,000       |
| Finished goods  | 42,982,000    | 39,828,000    |
|   | 60,511,000    | 58,919,000    |
| Less allowance for excess and obsolete inventory      | (2,451,000 )  | (2,090,000 )  |
| Total   | \$58,060,000  | \$56,829,000  |
| Inventory unreturned                                  | \$10,520,000  | \$7,833,000   |
| Long-term core inventory                              |               |               |
| Used cores held at the Company's facilities           | \$34,405,000  | \$27,417,000  |
| Used cores expected to be returned by customers       | 10,781,000    | 9,799,000     |
| Remanufactured cores held in finished goods           | 24,489,000    | 21,557,000    |
| Remanufactured cores held at customers' locations (1) | 172,600,000   | 130,762,000   |
|   | 242,275,000   | 189,535,000   |
| Less allowance for excess and obsolete inventory      | (1,175,000 )  | (585,000 )    |
| Total   | \$241,100,000 | \$188,950,000 |
| Long-term core inventory deposits (1)..               | \$5,569,000   | \$31,571,000  |

---

During the year ended March 31, 2016, the Company completed the core buy-back program with one of its largest customers. As a result of the completion of this buy-back program and related long-term core inventory (1) reconciliations, \$25,805,000 from long-term core inventory deposits was transferred to Remanufactured Cores held at customers' locations within long-term core inventory. At March 31, 2015, \$26,002,000 of remanufactured cores in connection with this core buy-back program was included in long-term core inventory deposits.

## 8. Plant and Equipment

The following summarizes plant and equipment, at cost, at March 31:

|                               | 2016         | 2015         |
|-------------------------------|--------------|--------------|
| Machinery and equipment       | \$29,340,000 | \$25,963,000 |
| Office equipment and fixtures | 10,527,000   | 8,602,000    |
| Leasehold improvements        | 7,391,000    | 7,422,000    |
|                               | 47,258,000   | 41,987,000   |
| Less accumulated depreciation | (31,159,000) | (29,452,000) |
| Total                         | \$16,099,000 | \$12,535,000 |

Plant and equipment located in the foreign countries where the Company has facilities, net of accumulated depreciation, totaled \$3,431,000 and \$3,913,000 at March 31, 2016 and 2015, respectively. These assets constitute

substantially all the long-lived assets of the Company located outside of the United States.

F-20

---

Table of Contents

## 9. Capital Lease Obligations

The Company leases various types of machinery and computer equipment under agreements accounted for as capital leases and included in plant and equipment as follows at March 31:

|                                | 2016        | 2015      |
|--------------------------------|-------------|-----------|
| Cost                           | \$2,764,000 | \$617,000 |
| Less: accumulated depreciation | (370,000 )  | (95,000 ) |
| Total                          | \$2,394,000 | \$522,000 |

Future minimum lease payments for the capital leases are as follows:

Year Ending March 31,

|  |             |
|--|-------------|
| 2017   | \$693,000   |
| 2018   | 684,000     |
| 2019   | 652,000     |
| 2020   | 586,000     |
| 2021   | 250,000     |
| Total minimum lease payments                   | 2,865,000   |
| Less amount representing interest              | (257,000 )  |
| Present value of future minimum lease payments | 2,608,000   |
| Less current portion of lease payments         | (592,000 )  |
| Long-term portion of lease payments            | \$2,016,000 |

The current portion of lease payments of \$592,000 is included in other current liabilities and the long-term portion of lease payments of \$2,016,000 is included in other liabilities in the accompanying consolidated balance sheet at March 31, 2016.

## 10. Accrued Core Payment

At March 31, 2016 and 2015, the Company recorded \$26,539,000 and \$37,070,000, respectively, representing the net accrued core payments for the cores purchased from its customers, which are held by these customers and remain on their premises.

Future repayments for accrued core payments are as follows:

Year Ending March 31,

|   |              |
|---|--------------|
| 2017  | \$9,536,000  |
| 2018  | 9,442,000    |
| 2019  | 8,567,000    |
| Total accrued core payments                   | 27,545,000   |
| Less amount representing interest             | (1,006,000 ) |
| Present value of accrued core payments        | 26,539,000   |
| Less current portion of accrued core payments | (8,989,000 ) |
| Long-term portion of accrued core payments    | \$17,550,000 |





Table of Contents

11. Debt

The Company has the following credit agreements.

Credit Facility

The Company was party to a financing agreement (as amended, modified, and restated or supplemented, the “Financing Agreement”) with a syndicate of lenders party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent. The Financing Agreement was comprised of (i) a \$95,000,000 term loan facility (the “Term Loans”) and (ii) an up to \$40,000,000 revolving credit facility subject to borrowing base restrictions and a \$10,000,000 sublimit for letters of credit (the “Revolving Facility”). The interest rate on the Company’s Term Loans was 6.75% at March 31, 2015. The obligations under the Financing Agreement were repaid on June 3, 2015. The repayment of the Term Loans was accounted for as an extinguishment of debt and as a result, the Company wrote off \$5,108,000 of previously deferred debt issuance costs associated with the Term Loans.

On June 3, 2015, the Company entered into a new \$125,000,000 senior secured financing (the “Credit Facility”) with the lenders party thereto, and PNC Bank, National Association, as administrative agent, consisting of (i) a \$100,000,000 revolving loan facility, subject to borrowing base restrictions and a \$15,000,000 sublimit for letters of credit (the “New Revolving Facility”) and (ii) a \$25,000,000 term loan facility (the “New Term Loans”). The loans under the Credit Facility mature on June 3, 2020. In connection with the Credit Facility, the lenders were granted a security interest in substantially all of the assets of the Company. The Credit Facility permits the payment of up to \$10,000,000 of dividends per calendar year, subject to a minimum availability threshold and pro forma compliance with financial covenants.

In November 2015, the Company entered into a consent and first amendment to the Credit Facility (the “First Amendment”) which (i) provided consent for the Company to enter into the litigation settlement agreement with M&T Bank and the trustee in the bankruptcy cases relating to the discontinued subsidiary and (ii) amended certain terms and provisions of the Credit Facility. Subsequent to March 31, 2016, the Company further amended its Credit Facility (see Note 24).

The New Term Loans require quarterly principal payments of \$781,250 beginning October 1, 2015. The Credit Facility bears interest at rates equal to either LIBOR plus a margin of 2.50%, 2.75% or 3.00% or a reference rate plus a margin of 1.50%, 1.75% or 2.00%, in each case depending on the total leverage ratio as of the applicable measurement date. There is also a facility fee of 0.25% to 0.375%, depending on the total leverage ratio as of the applicable measurement date. The interest rate on the Company’s New Term Loans and New Revolving Facility was 2.94% and 3.53%, respectively, at March 31, 2016.

The Credit Facility, among other things, requires the Company to maintain certain financial covenants including a maximum total leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all financial covenants as of March 31, 2016.

In addition to other covenants, the Credit Facility places limits on the Company’s ability to incur liens, incur additional indebtedness, make loans and investments, engage in mergers and acquisitions, engage in asset sales, redeem or repurchase capital stock, alter the business conducted by the Company and its subsidiaries, transact with affiliates, prepay, redeem or purchase subordinated debt, and amend or otherwise alter debt agreements.

Table of Contents

The following summarizes information about the Company's Term Loans at March 31:

|                                   | 2016         | 2015         |
|-----------------------------------|--------------|--------------|
| Principal amount of term loan     | \$23,438,000 | \$84,500,000 |
| Unamortized financing fees        | (391,000 )   | (5,278,000 ) |
| Net carrying amount of term loan  | 23,047,000   | \$79,222,000 |
| Less current portion of term loan | (3,067,000 ) | (7,733,000 ) |
| Long-term portion of term loan    | \$19,980,000 | \$71,489,000 |

Future repayments of the Company's Term Loans, by fiscal year, are as follows:

Year Ending March 31,

|                |              |
|----------------|--------------|
| 2017           | 3,125,000    |
| 2018           | 3,125,000    |
| 2019           | 3,125,000    |
| 2020           | 3,125,000    |
| 2021           | 10,938,000   |
| Total payments | \$23,438,000 |

At March 31, 2016, the Company had \$7,000,000 outstanding under the New Revolving Facility. In addition, \$430,000 was reserved for standby letters of credit for workers' compensation insurance and \$600,000 for commercial letters of credit at March 31, 2016. The Company had no outstanding balance under the Revolving Facility at March 31, 2015. At March 31, 2016, \$91,970,000, subject to certain adjustments, was available under the New Revolving Facility.

## WX Agreement

In August 2012, the Company entered into a Revolving Credit/Strategic Cooperation Agreement (the "WX Agreement") with Wanxiang America Corporation (the "Supplier") and the discontinued subsidiary. In connection with the WX Agreement, the Company also issued a warrant (the "Supplier Warrant") to the Supplier to purchase up to 516,129 shares of the Company's common stock for an initial exercise price of \$7.75 per share exercisable at any time after August 22, 2014 and on or prior to September 30, 2017. The exercise price is subject to adjustments, among other things, for sales of common stock by the Company at a price below the exercise price.

The fair value of the Supplier Warrant using the Monte Carlo simulation model was \$15,643,000 and \$10,506,000 at March 31, 2016 and 2015, respectively. This amount is recorded as a warrant liability which is included in other liabilities in the consolidated balance sheets at March 31, 2016 and 2015. During the years ended March 31, 2016 and 2015, expenses of \$5,137,000 and \$459,000, respectively, were recorded in general and administrative expenses due to the change in the fair value of this warrant liability.

Table of Contents

## 12. Accounts Receivable Discount Programs

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

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

|  | Years Ended March 31, |               |   |   |
|--|-----------------------|---------------|---|---|
|  | 2016                  | 2015          |   |   |
| Receivables discounted                 | \$331,176,000         | \$260,973,000 |   |   |
| Weighted average days                  | 341                   | 336           |   |   |
| Weighted average discount rate         | 2.3                   | % 2.0         | % | % |
| Amount of discount as interest expense | \$7,257,000           | \$4,917,000   |   |   |

## 13. Financial Risk Management and Derivatives

Purchases and expenses denominated in currencies other than the U.S. dollar, which are primarily related to the Company's facilities overseas, expose the Company to market risk from material movements in foreign exchange rates between the U.S. dollar and the foreign currency. The Company's primary risk exposure is from fluctuations in the value of the Mexican peso and to a lesser extent the Chinese yuan. To mitigate these risks, the Company enters into forward foreign currency exchange contracts to exchange U.S. dollars for these foreign currencies. The extent to which forward foreign currency exchange contracts are used is modified periodically in response to the Company's estimate of market conditions and the terms and length of anticipated requirements.

The Company enters into forward foreign currency exchange contracts in order to reduce the impact of foreign currency fluctuations and not to engage in currency speculation. The use of derivative financial instruments allows the Company to reduce its exposure to the risk that the eventual cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in exchange rates. The Company does not hold or issue financial instruments for trading purposes. The forward foreign currency exchange contracts are designated for forecasted expenditure requirements to fund foreign operations.

The Company had forward foreign currency exchange contracts with a U.S. dollar equivalent notional value of \$18,917,000 and \$19,356,000 at March 31, 2016 and 2015, respectively. These contracts generally expire in a year or less, at rates agreed at the inception of the contracts. The counterparty to this derivative transaction is a major financial institution with investment grade or better credit rating; however, the Company is exposed to credit risk with this institution. The credit risk is limited to the potential unrealized gains (which offset currency fluctuations adverse to the Company) in any such contract should this counterparty fail to perform as contracted. Any changes in the fair values of forward foreign currency exchange contracts are reflected in current period earnings and accounted for as an increase or offset to general and administrative expenses.

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

| Derivatives Not Designated as<br>Hedging Instruments | Gain (Loss) Recognized within General and Administrative Expenses<br>Years Ended March 31, |               |               |
|--|--|---------------|---------------|
|  | 2016   | 2015          | 2014          |
| Forward foreign currency exchange contracts          | \$ 777,000   | \$ (1,034,000 | ) \$ (842,000 |

The fair value of the forward foreign currency exchange contracts of \$416,000 and \$1,193,000 is included in other current liabilities in the accompanying consolidated balance sheets at March 31, 2016 and 2015, respectively.

F-24

---

Table of Contents

## 14. Fair Value Measurements

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company uses a three-tier valuation hierarchy based upon observable and unobservable inputs:

Level 1 — Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — Valuation is based upon unobservable inputs that are significant to the fair value measurement.

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following table sets forth by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2016 and 2015, according to the valuation techniques the Company used to determine their fair values.

|  | March 31, 2016 |  |            |            | March 31, 2015 |  |              |         |
|--|----------------|--|------------|------------|----------------|--|--------------|---------|
|  | Fair Value     | Fair Value Measurements Using Inputs Considered as |            |            | Fair Value     | Fair Value Measurements Using Inputs Considered as |              |         |
|  |                | Level 1  | Level 2    | Level 3    |                | Level 1  | Level 2      | Level 3 |
| <b>Assets</b>                                      |                |  |            |            |                |  |              |         |
| <b>Short-term investments</b>                      |                |  |            |            |                |  |              |         |
| Mutual funds                                       | \$ 1,813,000   | \$ 1,813,000                                       | -          | -          | \$ 699,000     | \$ 699,000   | -            | -       |
| <b>Liabilities</b>                                 |                |  |            |            |                |  |              |         |
| <b>Accrued liabilities</b>                         |                |  |            |            |                |  |              |         |
| Contingent consideration                           | 224,000        | -  | -          | \$ 224,000 | -              | -  | -            | -       |
| <b>Other current liabilities</b>                   |                |  |            |            |                |  |              |         |
| Deferred compensation                              | 1,813,000      | 1,813,000  | -          | -          | 699,000        | 699,000  | -            | -       |
| <b>Forward foreign currency exchange contracts</b> |                |  |            |            |                |  |              |         |
| Other liabilities                                  | 416,000        | -  | \$ 416,000 | -          | 1,193,000      | -  | \$ 1,193,000 | -       |

|                          |            |   |   |            |            |   |   |               |
|--------------------------|------------|---|---|------------|------------|---|---|---------------|
| Warrant liability        | 15,643,000 | - | - | 15,643,000 | 10,506,000 | - | - | \$ 10,506,000 |
| Contingent consideration | 106,000    | - | - | 106,000    | -          | - | - | -             |

#### Short-term Investments and Deferred Compensation

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

#### Forward Foreign Currency Exchange Contracts

The forward foreign currency exchange contracts are primarily measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers and classified as Level 2. During the years ended March 31, 2016 and 2015, a gain of \$777,000 and loss of \$1,034,000, 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.

Table of Contents

## Warrant Liability

The Company estimates the fair value of the warrant liability using level 3 inputs and the Monte Carlo simulation model at each balance sheet date. Monte Carlo simulation model requires the input of subjective assumptions including the expected volatility of the underlying stock. These subjective assumptions are based on both historical and other information. Changes in the values assumed and used in the model can materially affect the estimate of fair value. This amount is recorded as a warrant liability which is included in other liabilities in the consolidated balance sheets at March 31, 2016 and 2015. Any subsequent changes from the initial recognition in the fair value of the warrant liability are recorded in current period earnings as a general and administrative expense. During the years ended March 31, 2016 and 2015, expenses of \$5,137,000 and \$459,000, respectively, were recorded in general and administrative expenses due to the change in the fair value of the warrant liability.

The following assumptions were used to determine the fair value of the Supplier Warrant:

|                                 | March 31, 2016 |   |
|---------------------------------|----------------|---|
| Risk free interest rate         | 0.66           | % |
| Expected life in years          | 1.50           |   |
| Expected volatility             | 40.40          | % |
| Dividend yield                  | -              |   |
| Probability of future financing | 0              | % |

The risk free interest rate used was based on U.S. treasury-note yields with terms commensurate with the remaining term of the warrants. The expected life is based on the remaining contractual term of the warrants and the expected volatility is based on the Company's daily historical volatility over a period commensurate with the remaining term of the warrants.

## Contingent Consideration

The fair value of the contingent consideration of the OE Plus acquisition discussed in Note 3 was \$1,320,000 at the acquisition date based on an option-pricing model. The contingent consideration is a Level 3 liability recorded in accrued expenses and other liabilities in the Company's consolidated balance sheet at March 31, 2016. Any subsequent changes from the initial recognition in the fair value of the contingent consideration are recorded in current period earnings as a general and administrative expense. During the year ended March 31, 2016, a gain of \$990,000 was recorded in general and administrative expenses due to the change in the fair value of the contingent consideration.

The following assumptions were used to determine the fair value of the contingent consideration: (i) expected volatility of 30%, (ii) probability ranging from 20% to 50%, (iii) counter party present value factor of 4.8%, and (iv) a risk-free interest rate ranging from 0.15% to 0.82% commensurate with the term of the contingent consideration was used.

The following summarizes the activity for Level 3 fair value measurements:

|  | Years Ended March 31, |                          |                  |                          |
|--|-----------------------|--------------------------|------------------|--------------------------|
|  | 2016                  |                          | 2015             |                          |
|  | Supplier Warrant      | Contingent Consideration | Supplier Warrant | Contingent Consideration |
| Beginning balance                        | \$10,506,000          | \$ -                     | \$10,047,000     | \$ -                     |
| Newly issued                             | -                     | 1,320,000                | -                | -                        |
| Total (gain) loss included in net income | 5,137,000             | (990,000 )               | 459,000          | -                        |
| Exercises/settlements                    | -                     | -                        | -                | -                        |



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

|                                   |              |            |              |      |
|-----------------------------------|--------------|------------|--------------|------|
| Net transfers in (out) of Level 3 | -            | -          | -            | -    |
| Ending balance                    | \$15,643,000 | \$ 330,000 | \$10,506,000 | \$ - |

During the year ended March 31, 2016 the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

F-26

---

Table of Contents

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

## 15. Commitments and Contingencies

## Operating Lease Commitments

The Company leases various office and warehouse facilities in North America and Asia under operating leases expiring through March 2022. The Company also has short term contracts of one year or less covering its third party warehouses that provide for contingent payments based on the level of sales that are processed through the third party warehouse.

The remaining future minimum rental payments under the above operating leases are as follows:

Year Ending March 31,

|            |             |
|------------|-------------|
| 2017       | \$3,448,000 |
| 2018       | 1,767,000   |
| 2019       | 1,587,000   |
| 2020       | 1,296,000   |
| 2021       | 1,329,000   |
| Thereafter | 1,348,000   |

Total minimum lease payments \$ 10,775,000

During the years ended March 31, 2016, 2015 and 2014, the Company's continuing operations incurred total operating lease expenses of \$3,263,000, \$3,030,000 and \$2,928,000, respectively.

## Commitments to Provide Marketing Allowances under Long-Term Customer Contracts

The Company has or is renegotiating long-term agreements with many of its major customers. Under these agreements, which typically have initial terms of at least four years, the Company is designated as the exclusive or primary supplier for specified categories of remanufactured alternators and starters. In consideration for the Company's designation as a customer's exclusive or primary supplier, the Company typically provides 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 the Company meet ongoing standards related to fulfillment, price, and quality. The Company's contracts with major customers expire at various dates through April 2021.

The Company typically grants its customers marketing allowances in connection with these customers' purchase of goods. The Company records the cost of all marketing allowances provided to its customers. Such allowances include sales incentives and concessions and typically consist of: (i) allowances which may only be applied against future purchases and are recorded as a reduction to revenues in accordance with a schedule set forth in the long-term contract, (ii) allowances related to a single exchange of product that are recorded as a reduction of revenues at the time the related revenues are recorded or when such incentives are offered, and (iii) allowances that are made in connection with the purchase of inventory from a customer.



Table of Contents

The following summarizes the breakout of allowances for our continuing operations discussed above, recorded as a reduction to revenues:

|   | Years Ended March 31, |              |              |
|---|-----------------------|--------------|--------------|
|   | 2016                  | 2015         | 2014         |
| Allowances incurred under long-term customer contracts        | \$29,845,000          | \$18,358,000 | \$16,099,000 |
| Allowances related to a single exchange of product            | 47,451,000            | 36,112,000   | 30,948,000   |
| Allowances related to core inventory purchase obligations     | 2,268,000             | 15,540,000   | 2,506,000    |
| Total customer allowances recorded as a reduction of revenues | \$79,564,000          | \$70,010,000 | \$49,553,000 |

The following presents the commitments to incur allowances, excluding allowances related to a single exchange of product, which will be recognized as a charge against revenue, and customer Remanufactured Core purchase obligations which will be recognized in accordance with the terms of the relevant long-term customer contracts:

Year Ending March 31,

|      |              |
|------|--------------|
| 2017 | \$48,754,000 |
| 2018 | 14,311,000   |
| 2019 | 2,442,000    |
| 2020 | 1,345,000    |
| 2021 | 1,341,000    |

Total marketing allowances \$68,193,000

## 16. Significant Customer and Other Information

## Significant Customer Concentrations

The Company's largest customers accounted for the following total percentage of net sales from continuing operations:

|            | Years Ended March 31, |      |      |
|------------|-----------------------|------|------|
|            | 2016                  | 2015 | 2014 |
| Customer A | 48 %                  | 56 % | 53 % |
| Customer B | 18 %                  | 19 % | 19 % |
| Customer C | 21 %                  | 11 % | 11 % |

The Company's largest customers accounted for the following total percentage of accounts receivable — trade at March 31:

|            | 2016 | 2015 |
|------------|------|------|
| Customer A | 37 % | 48 % |
| Customer B | 17 % | 16 % |
| Customer C | 15 % | 12 % |

Table of Contents

## Geographic and Product Information

The Company's products are predominantly sold in the U.S. and accounted for the following total percentage of net sales from continuing operations:

|                                 | Years Ended March 31, |   |      |   |      |   |
|---------------------------------|-----------------------|---|------|---|------|---|
|                                 | 2016                  |   | 2015 |   | 2014 |   |
| Rotating electrical products    | 78                    | % | 82   | % | 89   | % |
| Wheel hub products              | 20                    | % | 17   | % | 11   | % |
| Brake master cylinders products | 2                     | % | 1    | % | -    | % |
|                                 | 100                   | % | 100  | % | 100  | % |

## Significant Supplier Concentrations

The Company's largest supplier accounted for 6%, 12%, and 13% of inventory purchases for the years ended March 31, 2016, 2015, and 2014, respectively. No other suppliers accounted for more than 10% of inventory purchases for the years ended March 31, 2016, 2015, and 2014.

## 17. Income Taxes

The income tax expense from the Company's continuing operations is as follows:

|                                      | Years Ended March 31, |             |             |
|--------------------------------------|-----------------------|-------------|-------------|
|                                      | 2016                  | 2015        | 2014        |
| Current tax expense                  |                       |             |             |
| Federal                              | \$12,400,000          | \$1,523,000 | \$4,564,000 |
| State                                | 1,995,000             | 1,100,000   | 614,000     |
| Foreign                              | 803,000               | 527,000     | 599,000     |
| Total current tax expense            | 15,198,000            | 3,150,000   | 5,777,000   |
| Deferred tax (benefit) expense       |                       |             |             |
| Federal                              | (2,929,000 )          | 5,553,000   | 2,477,000   |
| State                                | (757,000 )            | 93,000      | (162,000 )  |
| Foreign                              | (33,000 )             | 272,000     | (759,000 )  |
| Total deferred tax (benefit) expense | (3,719,000 )          | 5,918,000   | 1,556,000   |
| Total income tax expense             | \$11,479,000          | \$9,068,000 | \$7,333,000 |

Table of Contents

Deferred income taxes consist of the following at March 31:

|   | 2016           | 2015           |
|---|----------------|----------------|
| Assets                                      |                |                |
| Accounts receivable valuation               | \$6,438,000    | \$3,100,000    |
| Allowance for customer incentives           | 769,000        | 1,296,000      |
| Inventory obsolescence reserve              | 1,431,000      | 1,056,000      |
| Stock options                               | 1,714,000      | 1,931,000      |
| Intangibles, net                            | 380,000        | 846,000        |
| Estimate for returns                        | 3,785,000      | 986,000        |
| Accrued compensation                        | 1,485,000      | 2,563,000      |
| Net operating losses                        | 2,070,000      | 3,007,000      |
| Tax credits                                 | 1,660,000      | 832,000        |
| Other                                       | 2,583,000      | 2,154,000      |
| Total deferred tax assets                   | \$22,315,000   | \$17,771,000   |
| Liabilities                                 |                |                |
| Property and equipment, net                 | (1,119,000 )   | (807,000 )     |
| Other                                       | (2,124,000 )   | (1,635,000 )   |
| Total deferred tax liabilities              | \$(3,243,000 ) | \$(2,442,000 ) |
| Less valuation allowance                    | \$-            | \$-            |
| Net deferred tax assets                     | \$19,072,000   | \$15,329,000   |
| Net current deferred income tax asset       | \$33,347,000   | \$22,998,000   |
| Net long-term deferred income tax liability | (14,315,000)   | (7,803,000 )   |
| Net current deferred income tax liability   | (196,000 )     | (127,000 )     |
| Net long-term deferred income tax asset     | 236,000        | 261,000        |
| Total                                       | \$19,072,000   | \$15,329,000   |

At March 31, 2016 and 2015, net current deferred income tax liability of \$196,000 and \$127,000, respectively, are included in other current liabilities in the consolidated balance sheets.

At March 31, 2016, the Company had federal and state net operating loss carryforwards of \$1,878,000 and \$28,703,000, respectively. The utilization of these net operating loss carryforwards may be permanently limited due to Internal Revenue Code Section 382 in the United States. Prior to the utilization of such losses, the Company will perform further analysis to determine the amount subject to limitation. Additionally, in certain states the suspension of the usage of the net operating losses may apply. The net operating loss carryforwards expire between fiscal years 2021 and 2033.

The U.S. operating loss carryforwards include \$1,878,000 of losses attributable to windfall stock option deductions. A net benefit of \$712,000 will be recorded to additional paid-in capital when realized as a reduction to income taxes payable.

Realization of the Company's deferred tax assets is dependent upon the Company's ability to generate sufficient taxable income. Management reviews the Company's deferred tax assets on a jurisdiction by jurisdiction basis to determine whether it is more likely than not that the deferred tax assets will be realized. Management believes that it is more likely than not that future taxable income will be sufficient to realize the recorded deferred tax assets. In evaluating this ability, management considers long-term agreements and Remanufactured Core purchase obligations with the Company's major customers that expire at various dates through April 2021. Management also periodically compares its forecasts to actual results. Even though there can be no assurance that the forecasted results will be achieved, the history of income in all other jurisdictions provides sufficient positive evidence that no valuation allowance is needed.



Table of Contents

For the years ended March 31, 2016, 2015, and 2014, the primary components of the Company's income tax expense were (i) the current liability due to federal, state and foreign income taxes, (ii) foreign income taxed at rates that are different from the federal statutory rate, (iii) non-deductible expenses in connection with the fair value adjustments on the warrants, (iv) impact of the non-deductible executive compensation under Internal Revenue Code Section 162(m), and (v) the impact of uncertain tax positions.

The difference between the income tax expense at the federal statutory rate and the Company's effective tax rate from the Company's continuing operations is as follows:

|   | Years Ended March 31, |         |         |
|---|-----------------------|---------|---------|
|   | 2016                  | 2015    | 2014    |
| Statutory federal income tax rate             | 35.0%                 | 35.0%   | 34.0%   |
| State income tax rate, net of federal benefit | 4.0 %                 | 2.2 %   | 2.4 %   |
| Change in deferred tax rate                   | - %                   | (0.2 )% | (1.8 )% |
| Foreign income taxed at different rates       | (0.8 )%               | (0.9 )% | (7.2 )% |
| Warrants                                      | 8.2 %                 | 0.8 %   | 25.7 %  |
| Non-deductible executive compensation         | 2.2 %                 | 3.4 %   | 1.6 %   |
| Uncertain Tax Positions                       | 0.4 %                 | 2.5 %   | (2.4 )% |
| Other income tax                              | 3.1 %                 | 1.4 %   | 0.8 %   |
|   | 52.1 %                | 44.2 %  | 53.1 %  |

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions with varying statutes of limitations. At March 31, 2016, the Company is under examination in the U.S. by the Internal Revenue Service ("IRS") for the years ended March 31, 2011 through 2014. During the year ended March 31, 2016, the Company received various Notices of Proposed Adjustments ("NOPAs") from the IRS relating to the tax years ended March 31, 2013 and 2014. The NOPAs primarily related to timing differences related to the discontinued operations and bankruptcy of the Fenco Entities (as defined and further discussed in Note 20). The Company's tax provision for the year ended March 31, 2016 has been adjusted to include the IRS proposed adjustments. The Company believes that adequate amounts of tax and related interest have been provided in income tax expense related to these NOPAs. The Company is also under examination by the State of California for the years ended March 31, 2013 and 2014. The Company is not under examination in any another jurisdiction. The Company believes no significant changes in the unrecognized tax benefits will occur within the next 12 months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits from the Company's continuing operations is as follows:

|  | Years Ended March 31, |             |           |
|--|-----------------------|-------------|-----------|
|  | 2016                  | 2015        | 2014      |
| Balance at beginning of period                               | \$1,117,000           | \$540,000   | \$827,000 |
| Additions based on tax positions related to the current year | 57,000                | 359,000     | 71,000    |
| Additions for tax positions of prior year                    | 217,000               | 336,000     | -         |
| Reductions for tax positions of prior year                   | (210,000 )            | (118,000 )  | (358,000) |
| Settlements  | -                     | -           | -         |
| Balance at end of period                                     | \$1,181,000           | \$1,117,000 | \$540,000 |

At March 31, 2016, 2015 and 2014, there are \$678,000, \$958,000 and \$387,000 of unrecognized tax benefits that if recognized would affect the annual effective tax rate.



The Company recognizes interest and penalties accrued related to unrecognized tax benefits as part of income tax expense. During the years ended March 31, 2016, 2015, and 2014, the Company recognized approximately \$34,000, \$(56,000), and \$(9,000) in interest and penalties. The Company had approximately \$90,000 and \$56,000 for the payment of interest and penalties accrued at March 31, 2016 and 2015, respectively.

F-31

---

Table of Contents

18. Defined Contribution Plans

The Company has a 401(k) plan covering all employees who are 21 years of age with at least six months of service. The plan permits eligible employees to make contributions up to certain limitations, with the Company matching 50% of each participating employee's contribution up to the first 6% of employee compensation. Beginning in March 2015, the Company increased its matching contributions from 25% to 50% of each participant's elective contributions to the plan up to 6% of the participant's compensation for the year. Employees are immediately vested in their voluntary employee contributions and vest in the Company's matching contributions ratably over five years. The Company's matching contribution to the 401(k) plan was \$347,000, \$145,000, and \$126,000 for the years ended March 31, 2016, 2015, and 2014, respectively.

19. Share-based Payments

At the Company's Annual Meeting of Shareholders held on December 17, 2003, the shareholders approved the Company's 2003 Long-Term Incentive Plan ("Incentive Plan") which had been adopted by the Company's board of directors on October 31, 2003. Under the Incentive Plan, a total of 1,200,000 shares of the Company's common stock were reserved for grants of incentive awards and all of the Company's employees were eligible to participate. The 2003 Incentive Plan was terminated on October 31, 2013. As of March 31, 2016 and 2015, options to purchase 89,350 and 438,750 shares of common stock, respectively, were outstanding under the Incentive Plan. In January 2011, this Incentive Plan was replaced and no options were available for grant under the Incentive Plan.

In November 2004, the Company's shareholders approved the 2004 Non-Employee Director Stock Option Plan (the "2004 Plan") which provided for the granting of options to non-employee directors. At the Company's Annual Meeting of Shareholders held on February 25, 2010, the Company's shareholders approved an amendment to the 2004 Plan that increased the number of shares of common stock reserved for grant under the 2004 Plan from 175,000 to 275,000. As of March 31, 2016 and 2015, options to purchase 154,000 and 183,000 shares of common stock, respectively, were outstanding under the 2004 Plan. In March 2014, the 2004 Plan was replaced and no options were available for grant under this plan.

In January 2011, the Company's shareholders approved the 2010 Incentive Award Plan (the "2010 Plan") which replaced the 2003 Long-term Incentive Plan. At the Company's Annual Meeting of Shareholders held on March 28, 2013, the Company's shareholders approved an amendment and restatement of the 2010 Plan that increased the number of shares of common stock reserved for grant under the 2010 Plan from 750,000 to 1,750,000. At the Company's Annual Meeting of Shareholders held on March 31, 2014, the Company's shareholders approved the second amendment and restatement of the 2010 Plan that further increased the number of shares of common stock reserved for grant under the 2010 Plan from 1,750,000 to 2,750,000. Under the 2010 Plan, all of the Company's employees are eligible to participate. As of March 31, 2016 and 2015, 137,321 and 170,787 shares of restricted stock, respectively, were issued under the 2010 Plan. As of March 31, 2016 and 2015, options to purchase 740,716 and 767,504 shares of common stock, respectively, were outstanding and 964,039 and 1,165,740 shares of common stock, respectively, were available for grant under the 2010 Plan.

At the Company's Annual Meeting of Shareholders held on March 31, 2014, the shareholders approved the Company's 2014 Non-Employee Director Incentive Award Plan (the "2014 Plan") which had been adopted by the Company's board of directors on February 23, 2014 and replaced the 2004 Plan. Under the 2014 Plan, a total of 342,000 shares of the Company's common stock are reserved for grants to the Company's non-employee directors. As of March 31, 2016 and 2015, 16,206 and 10,656 shares of restricted stock, respectively, were issued. As of March 31, 2016 and 2015 no options to purchase shares under the 2014 Plan were issued. As of March 31, 2016 and 2015, 308,411 and 323,885 shares of common stock, respectively, were available for grant under the 2014 Plan.

The shares of common stock issued upon exercise of a previously granted stock option are considered new issuances from shares reserved for issuance upon adoption of the various plans. The Company requires that the option holders provide a written notice of exercise to the stock plan administrator and payment for the shares prior to issuance of the shares.

F-32

---

Table of Contents

The following is a summary of stock option activity during the year:

|                               | Number of<br>Shares | Weighted Average<br>Exercise Price |
|-------------------------------|---------------------|------------------------------------|
| Outstanding at March 31, 2015 | 1,389,254           | \$ 9.97                            |
| Granted                       | 111,222             | \$ 31.16                           |
| Exercised                     | (510,637 )          | \$ 10.56                           |
| Cancelled                     | (5,773 )            | \$ 23.22                           |
| Outstanding at March 31, 2016 | 984,066             | \$ 11.98                           |

Based on the market value of the Company's common stock at March 31, 2016, 2015, and 2014, the pre-tax intrinsic value of options exercised was \$14,002,000, \$1,955,000, and \$12,593,000 respectively. The total fair value of stock options vested during the years ended March 31, 2016, 2015, and 2014 was \$905,000, \$978,000, and \$459,000, respectively.

The following summarizes information about the options outstanding at March 31, 2016:

| Range of<br>Exercise price | Options Outstanding |  |  |                                 | Options Exercisable |  |                                 |
|----------------------------|---------------------|--|--|---------------------------------|---------------------|--|---------------------------------|
|                            | Shares              | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Life<br>In Years | Aggregate<br>Intrinsic<br>Value | Shares              | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
| \$4.17 to \$6.25           | 80,000              | \$ 5.22                                  | 3.03   | \$2,621,000                     | 80,000              | \$ 5.22                                  | \$2,621,000                     |
| \$6.46 to \$7.43           | 370,167             | 6.51                                     | 6.56   | 11,650,000                      | 370,167             | 6.51                                     | 11,650,000                      |
| \$9.32 to \$9.90           | 208,399             | 9.33                                     | 7.40   | 5,971,000                       | 122,933             | 9.33                                     | 3,522,000                       |
| \$10.01 to \$19.94         | 142,016             | 13.49                                    | 2.39   | 3,478,000                       | 125,350             | 12.69                                    | 3,170,000                       |
| \$22.93 to \$34.17         | 183,484             | \$ 27.82                                 | 8.93   | 1,865,000                       | 22,062              | \$ 23.07                                 | 328,000                         |
|                            | 984,066             | \$ 11.98                                 | 6.29   | \$25,585,000                    | 720,512             | \$ 8.43                                  | \$21,291,000                    |

The aggregate intrinsic values in the above table represent the pre-tax value of all in-the-money options if all such options had been exercised on March 31, 2016 based on the Company's closing stock price of \$37.98 as of that date.

At March 31, 2016, there was \$1,835,000 of total unrecognized compensation expense from stock-based compensation granted under the plans, which is related to non-vested shares. The compensation expense is expected to be recognized over a weighted average vesting period of 1.4 years.

#### Restricted Stock or Restricted Stock Units (collectively "RS")

During the years ended March 31, 2016 and 2015, the Company granted 49,702 and 95,645 shares of RS, respectively, with an estimated grant date fair value of \$1,566,000 and \$2,316,000, respectively, which was based on the closing market price on the date of grant. The fair value related to these awards is recognized as compensation expense over the vesting period. These awards generally vest in three equal installments beginning each anniversary from the grant date, subject to continued employment. Upon vesting, these awards may be net share settled to cover the required withholding tax with the remaining amount converted into an equivalent number of shares of common stock. Total shares withheld during the years ended March 31, 2016 and 2015 were 29,003 and 27,183, respectively, and was based on the value of these awards as determined by the Company's closing stock price on the vesting date.



Table of Contents

The following is a summary of changes in the status of non-vested RS during the year:

|                              | Number of Shares | Weighted Average<br>Grant Date Fair<br>Value |
|------------------------------|------------------|--|
| Non-vested at March 31, 2015 | 181,443          | \$ 16.84                                     |
| Granted                      | 49,702           | \$ 31.50                                     |
| Vested                       | (75,519          | ) \$ 15.34                                   |
| Cancelled                    | (2,099           | ) \$ 20.05                                   |
| Non-vested at March 31, 2016 | 153,527          | \$ 22.28                                     |

As of March 31, 2016, there was \$2,346,000 of unrecognized compensation expense related to these awards, which will be recognized over the remaining vesting period of approximately 1.5 years.

## 20. Discontinued Operations and Deconsolidation of Fenco

In May 2011, the Company purchased (i) all of the outstanding equity of Fenwick Automotive Products Limited (“FAPL”), (ii) all of the outstanding equity of Introcan, Inc., a Delaware corporation (“Introcan”), and (iii) 1% of the outstanding equity of Fapco S.A. de C.V., a Mexican variable capital company (“Fapco”) (collectively, “Fenco” and also referred to herein as the “discontinued subsidiary”). Since FAPL owned 99% of Fapco prior to these acquisitions, the Company owned 100% of Fapco.

Between May 2011 and its bankruptcy in June 2013, Fenco had been attempting to turn around its business. However, revenues generated by its undercar product line segment were not sufficient to enable Fenco to meet its operating expenses and otherwise implement its undercar product line turnaround plan. Fenco had recurring operating losses since the date of acquisition and had a working capital and equity deficiency.

In May 2013, FAPL appointed a new board of independent directors, hired an independent chief restructuring officer and all its previously existing officers resigned from FAPL. As a result of loss of control of Fenco, the Company deconsolidated the assets and liabilities of Fenco from its consolidated financial statements effective May 31, 2013. On June 10, 2013, each of FAPL, Introcan and Introcan’s subsidiaries, Flo-Pro Inc., LH Distribution Inc., Rafko Logistics Inc., Rafko Holdings Inc. and Rafko Enterprises Inc. (collectively, the “Fenco Entities”), filed a voluntary petition for relief under Chapter 7 of Title 11 of the United States Code (the “Bankruptcy Code”) in the U.S. Bankruptcy Court for the District of Delaware. As a result of the loss of control of Fenco and the subsequent filing of the petition for relief under the Bankruptcy Code, Fenco had effectively been disposed of and the Company did not and does not retain any continuing involvement in the operations of Fenco.

The Company’s income from discontinued operations was \$100,877,000 during the year ended March 31, 2014 and consisted of (i) a \$118,095,000 gain on the deconsolidation of the discontinued subsidiary, including an income tax benefit of \$1,374,000, (ii) a loss of approximately \$20,464,000 in connection with the guarantee of obligations to certain suppliers of the discontinued subsidiary partly offset by income tax benefits of \$9,156,000, and (iii) net sales of approximately \$14,140,000 and the resulting loss of approximately \$5,910,000 incurred by the discontinued subsidiary from April 1, 2013 to May 31, 2013.

## 21. Litigation

On October 26, 2015, the Company entered into a settlement and general and specific release agreement with M&T Bank and the trustee in the bankruptcy cases relating to the discontinued subsidiary, which resolved the litigation and released the claims made or threatened by those parties against the Company and its executives in exchange for a payment by the Company of \$18,500,000, of which approximately half was paid by the Company’s insurers under

applicable insurance policies. As a result, the Company recorded an expense of \$9,250,000 in general and administrative expense in the consolidated statements of income, net of insurance recoveries, during the year ended March 31, 2016. None of the parties admitted the allegations made by any other party, and the settlement was entered into for the purpose of avoiding the time, expense, inconvenience and delay incident to protracted litigation. The settlement agreement was subject to approval by the applicable courts and other customary conditions, which have now been obtained and satisfied.

F-34

---

Table of Contents

On December 8, 2015, the Company entered into a settlement agreement that resolved the federal court litigation brought in California by the Company involving the purchase of FAPL and various of its subsidiaries, styled Motorcar Parts of America, Inc. v. FAPL Holdings Inc., et al., Case No. 2:14-cv-01153-GW-JEM (“MPA Action”). The agreement also resolved the pending Ontario, Canada, litigation by individual defendants in the MPA Action against the Company relating to their employment. The Company received a net payment of \$5,800,000, which is included in general and administrative expenses in the consolidated statements of income for the year ended March 31, 2016. None of the parties admitted the allegations made by any other party. On December 16, 2015, the Ontario actions filed by the individual defendants against the Company were dismissed.

The Company was a defendant in a case filed by an investment bank in state court in New York alleging breach of contract. On May 13, 2016, the Company entered into a settlement agreement to avoid further litigation and to settle and resolve all causes of action, claims, and disputes. None of the parties admitted the allegations made by any other party. In connection with this lawsuit, the Company established a reserve of \$1,100,000 as of March 31, 2016 and the related expense was recorded in the year ended March 31, 2016. This amount was paid in full on May 19, 2016. In addition, the Company established a reserve of \$218,000 in connection with a settlement agreement with one of the discontinued subsidiary’s suppliers.

The Company also is subject to various other lawsuits and claims. Management does not believe that the outcome of these other matters will have a material adverse effect on its financial position or future results of operations.

## 22. Related Party Transactions

Mr. Mel Marks served as a director of the Company’s Asian subsidiaries, in addition to his position as one of the Company’s directors. Mr. Marks received annual compensation of \$150,000 for his services as a director of the Company’s Asian subsidiaries for the year ended March 31, 2016 and \$50,000 for the year ended March 31, 2015, in addition to his regular compensation as one of the Company’s directors.

During the year ended March 31, 2014, the Company paid \$304,000 to Houlihan Lokey Howard & Zukin Capital, Inc. in connection with the restructuring of the discontinued subsidiary. Scott Adelson, a member of the Company’s board of directors, is a co-president and global co-head of corporate finance for Houlihan Lokey Howard & Zukin Capital, Inc. Mr. Adelson recused himself from, or was not present at, any board deliberation or vote related to such retention.

## 23. Accumulated Other Comprehensive Income (Loss)

The following summarizes the changes in accumulated other comprehensive income (loss) for the years ended March 31:

|   | 2016        |               |               | 2015        |               |             |
|---|-------------|---------------|---------------|-------------|---------------|-------------|
|   | Unrealized  |               | Total         | Unrealized  |               | Total       |
|   | Gain        | (Loss)        |               | Gain        | (Loss)        |             |
|   | on          | Foreign       |               | on          | Foreign       |             |
|   | Short-Term  | Currency      |               | Short-Term  | Currency      |             |
|   | Investments | Translation   |               | Investments | Translation   |             |
| Beginning balance   | \$345,000   | \$(2,863,000) | \$(2,518,000) | \$321,000   | \$(1,198,000) | \$(877,000) |
| Other comprehensive (loss) income, net of tax                       | (13,000)    | (2,321,000)   | (2,334,000)   | 26,000      | (1,665,000)   | (1,639,000) |
| Amounts reclassified from other comprehensive income (loss), net of | -           | -             | -             | (2,000)     | -             | (2,000)     |



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

|                |           |               |               |           |               |               |
|----------------|-----------|---------------|---------------|-----------|---------------|---------------|
| tax            |           |               |               |           |               |               |
| Ending balance | \$332,000 | \$(5,184,000) | \$(4,852,000) | \$345,000 | \$(2,863,000) | \$(2,518,000) |

F-35

---

Table of Contents

## 24. Subsequent Events

## Credit Facility

In May 2016, the Company entered into a consent and second amendment to the Credit Facility (the “Second Amendment”) which, among other things, (i) increases the borrowing capacity of the revolving credit facility from \$100,000,000 to \$120,000,000, subject to certain borrowing base restrictions and a \$15,000,000 sublimit for letters of credit, (ii) amends the definition and calculation of consolidated EBITDA, (iii) increases the maximum of amount of capital expenditures, and (iv) makes certain other amendments and modifications.

## Vendor Agreement

In May 2016, the Company entered into an addendum to a vendor agreement with one of its major customers which, among other things, extended the term of this vendor agreement to April 2021 and required the Company to make payments or issue credits for certain customer allowances. These amounts have been included in the Company’s commitments to provide marketing allowances under long-term customer contracts (see Note 15).

## 25. Unaudited Quarterly Financial Data

The following summarizes selected quarterly financial data for the year ended March 31, 2016.

|   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---|------------------|-------------------|------------------|-------------------|
| Net sales   | \$85,835,000     | \$91,670,000      | \$94,022,000     | \$97,443,000      |
| Cost of goods sold                                | 59,844,000       | 69,850,000        | 65,123,000       | 73,229,000        |
| Gross profit                                      | 25,991,000       | 21,820,000        | 28,899,000       | 24,214,000        |
| Operating expenses:                               |                  |                   |                  |                   |
| General and administrative                        | 11,360,000       | 18,219,000        | 8,802,000        | 11,284,000        |
| Sales and marketing                               | 2,280,000        | 2,632,000         | 2,671,000        | 2,382,000         |
| Research and development                          | 736,000          | 646,000           | 711,000          | 915,000           |
| Total operating expenses                          | 14,376,000       | 21,497,000        | 12,184,000       | 14,581,000        |
| Operating income                                  | 11,615,000       | 323,000           | 16,715,000       | 9,633,000         |
| Other expense:                                    |                  |                   |                  |                   |
| Interest expense, net                             | 8,437,000        | 2,613,000         | 2,516,000        | 2,678,000         |
| Income (loss) before income tax expense (benefit) | 3,178,000        | (2,290,000 )      | 14,199,000       | 6,955,000         |
| Income tax expense (benefit)                      | 1,268,000        | (898,000 )        | 6,451,000        | 4,658,000         |
| Net income (loss)                                 | \$1,910,000      | \$(1,392,000 )    | \$7,748,000      | \$2,297,000       |
| Basic net income (loss) per share                 | \$0.11           | \$(0.08 )         | \$0.42           | \$0.12            |
| Diluted net income (loss) per share               | \$0.10           | \$(0.08 )         | \$0.41           | \$0.12            |

Table of Contents

The following summarizes selected quarterly financial data for the year ended March 31, 2015:

|                                  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|----------------------------------|------------------|-------------------|------------------|-------------------|
| Net sales                        | \$62,975,000     | \$70,840,000      | \$83,992,000     | \$83,904,000      |
| Cost of goods sold               | 45,159,000       | 52,420,000        | 59,564,000       | 62,995,000        |
| Gross profit                     | 17,816,000       | 18,420,000        | 24,428,000       | 20,909,000        |
| Operating expenses:              |                  |                   |                  |                   |
| General and administrative       | 5,392,000        | 9,812,000         | 12,628,000       | 10,031,000        |
| Sales and marketing              | 1,826,000        | 1,837,000         | 2,281,000        | 1,907,000         |
| Research and development         | 522,000          | 539,000           | 601,000          | 611,000           |
| Total operating expenses         | 7,740,000        | 12,188,000        | 15,510,000       | 12,549,000        |
| Operating income                 | 10,076,000       | 6,232,000         | 8,918,000        | 8,360,000         |
| Other expense:                   |                  |                   |                  |                   |
| Interest expense, net            | 3,413,000        | 3,339,000         | 3,165,000        | 3,148,000         |
| Income before income tax expense | 6,663,000        | 2,893,000         | 5,753,000        | 5,212,000         |
| Income tax expense               | 2,714,000        | 1,418,000         | 2,826,000        | 2,110,000         |
| Net income                       | \$3,949,000      | \$1,475,000       | \$2,927,000      | \$3,102,000       |
| Basic net income per share       | \$0.26           | \$0.09            | \$0.16           | \$0.17            |
| Diluted net income per share     | \$0.25           | \$0.09            | \$0.16           | \$0.16            |

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year shown elsewhere in the Annual Report on Form 10-K.

Table of Contents

## Schedule II — Valuation and Qualifying Accounts

## Accounts Receivable — Allowance for doubtful accounts

| Years Ended<br>March 31, | Description                     | Balance at<br>beginning of<br>period | Charge to<br>(recovery of)<br>bad debts<br>expense | Amounts<br>written off | Balance at<br>end of<br>period |
|--------------------------|---------------------------------|--------------------------------------|--|------------------------|--------------------------------|
| 2016                     | Allowance for doubtful accounts | \$ 629,000                           | \$ 4,404,000                                       | \$ 749,000             | \$ 4,284,000                   |
| 2015                     | Allowance for doubtful accounts | \$ 854,000                           | \$ 184,000   | \$ 409,000             | \$ 629,000                     |
| 2014                     | Allowance for doubtful accounts | \$ 1,019,000                         | \$ (47,000 )                                       | \$ 118,000             | \$ 854,000                     |

## Accounts Receivable — Allowance for customer-payment discrepancies

| Years Ended<br>March 31, | Description                                  | Balance at<br>beginning of<br>period | Charge to<br>(recovery of)<br>discrepancies<br>expense | Amounts<br>Processed | Balance at<br>end of<br>period |
|--------------------------|--|--------------------------------------|--|----------------------|--------------------------------|
| 2016                     | Allowance for customer-payment discrepancies | \$ 852,000                           | \$ (299,000 )  | \$ (150,000)         | \$ 703,000                     |
| 2015                     | Allowance for customer-payment discrepancies | \$ 577,000                           | \$ 91,000  | \$ (184,000)         | \$ 852,000                     |
| 2014                     | Allowance for customer-payment discrepancies | \$ 514,000                           | \$ (10,000 )   | \$ (73,000 )         | \$ 577,000                     |

## Inventory — Allowance for excess and obsolete inventory

| Years Ended<br>March 31, | Description                                 | Balance at<br>beginning of<br>period | Provision for<br>excess and<br>obsolete<br>inventory | Amounts<br>written off | Balance at<br>end of<br>period |
|--------------------------|---|--------------------------------------|--|------------------------|--------------------------------|
| 2016                     | Allowance for excess and obsolete inventory | \$ 2,675,000                         | \$ 4,518,000   | \$ 3,567,000           | \$ 3,626,000                   |
| 2015                     | Allowance for excess and obsolete inventory | \$ 2,708,000                         | \$ 1,635,000   | \$ 1,668,000           | \$ 2,675,000                   |
| 2014                     | Allowance for excess and obsolete inventory | \$ 2,498,000                         | \$ 1,620,000   | \$ 1,410,000           | \$ 2,708,000                   |