

MOTORCAR PARTS AMERICA INC

Form 10-Q/A

July 13, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q/A  
(Amendment No. 2)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006**

**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. 0-23538  
MOTORCAR PARTS OF AMERICA, INC.  
(Exact name of registrant as specified in its charter)**

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

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

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

90503  
Zip Code

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

There were 8,326,455 shares of Common Stock outstanding at August 9, 2006.

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EXPLANATORY NOTE**

Explanatory Note: This Form 10-Q/A Amendment No. 2 amends our report on Form 10-Q/A Amendment No. 1 for the period ended June 30, 2006 to restate our unaudited consolidated financial statements for the three months ended June 30, 2006 to correct an error resulting from the failure to recognize the impact of entering into a settlement agreement with a former officer of the Company. Under this agreement, the former officer agreed to reimburse us for a portion of the indemnification costs we paid in connection with the SEC and United States Attorney's Office's investigation of this former officer. This agreement required the creation of a shareholder note receivable that reduces shareholders' equity. Recording the shareholder note receivable reduced our general and administrative expenses for the three months ended June 30, 2006. The recording of this shareholder note receivable did not impact periods prior to April 1, 2006.

Except as required to effect this restatement, no attempt has been made in this Form 10-Q/A Amendment No. 2 to modify or update other disclosures presented in the report on Form 10-Q/A Amendment No. 1 for the three months ended June 30, 2006. Accordingly, this Form 10-Q/A Amendment No. 2, including the financial statements and notes thereto included herein, generally does not reflect events occurring after the date of the original filing of the Form 10-Q/A Amendment No. 1 or modify or update those disclosures affected by subsequent events. Consequently, all other information not affected by the restatement is unchanged and reflects the disclosures made at the time of the filing of the Form 10-Q/A on February 12, 2007. For a description of subsequent events, this Form 10-Q/A Amendment No. 2 should be read in conjunction with our filings made subsequent to the filing of the Form 10-Q/A Amendment No. 1, including our Form 10-Q for the six months ended September 30, 2006 filed on February 16, 2007, our Form 10-Q for the nine months ended December 31, 2006 filed on February 20, 2007, our Form 10-K for the year ended March 31, 2007 filed on June 29, 2007 and our Current Reports on Form 8-K filed since February 12, 2007.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

	<b>June 30, 2006 (Unaudited and Restated)</b>	<b>March 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 97,000	\$ 400,000
Short term investments	681,000	660,000
Accounts receivable net	14,209,000	13,902,000
Due from customer	2,005,000	
Inventory net	63,244,000	57,881,000
Deferred income tax asset	5,827,000	5,809,000
Inventory unreturned	8,804,000	8,171,000
Prepaid expenses and other current assets	1,748,000	918,000
Total current assets	96,615,000	87,741,000
Plant and equipment net	12,766,000	12,164,000
Other assets	1,444,000	1,231,000
<b>TOTAL ASSETS</b>	<b>\$ 110,825,000</b>	<b>\$ 101,136,000</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 24,467,000	\$ 21,882,000
Accrued liabilities	1,136,000	1,587,000
Accrued salaries and wages	2,651,000	2,267,000
Accrued workers compensation claims	3,832,000	3,346,000
Income tax payable	1,057,000	1,021,000
Line of credit	14,900,000	6,300,000
Deferred compensation	521,000	495,000
Deferred income	133,000	133,000
Other current liabilities	266,000	988,000
Credit due customer		1,793,000
Current portion of capital lease obligations	1,499,000	1,499,000
Total current liabilities	50,462,000	41,311,000
Deferred income, less current portion	355,000	388,000
Deferred income tax liability	771,000	562,000
Deferred gain on sale-leaseback	2,248,000	2,377,000
Other liabilities	46,000	46,000
Capitalized lease obligations, less current portion	4,520,000	4,857,000
<b>TOTAL LIABILITIES</b>	<b>58,402,000</b>	<b>49,541,000</b>

**SHAREHOLDERS EQUITY**

Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued		
Series A junior participating preferred stock; par value \$.01 per share, 20,000 shares authorized; none issued		
Common stock; par value \$.01 per share, 20,000,000 shares authorized; 8,324,455 and 8,316,105 shares issued and outstanding at June 30, 2006 and March 31, 2006, respectively	83,000	83,000
Additional paid-in capital	54,498,000	54,326,000
Shareholder note receivable	(682,000)	
Accumulated other comprehensive (loss) income	(155,000)	85,000
Accumulated deficit	(1,321,000)	(2,899,000)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>52,423,000</b>	<b>51,595,000</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<b>\$ 110,825,000</b>	<b>\$ 101,136,000</b>

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

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

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Restated)</b>	
Net sales	\$ 27,424,000	\$ 20,321,000
Cost of goods sold	20,258,000	17,798,000
Gross profit	7,166,000	2,523,000
Operating expenses:		
General and administrative	2,390,000	4,010,000
Sales and marketing	905,000	865,000
Research and development	416,000	314,000
Total operating expenses	3,711,000	5,189,000
Operating income (loss)	3,455,000	(2,666,000)
Interest expense net of interest income	822,000	548,000
Income (loss) before income tax expense (benefit)	2,633,000	(3,214,000)
Income tax expense (benefit)	1,055,000	(1,250,000)
Net income (loss)	\$ 1,578,000	\$ (1,964,000)
Basic net income (loss) per share	\$ 0.19	\$ (0.24)
Diluted net income (loss) per share	\$ 0.18	\$ (0.24)
Weighted average number of shares outstanding:		
basic	8,322,920	8,183,955
diluted	8,582,209	8,183,955

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

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

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Restated)</b>	
Cash flows from operating activities:		
Net income (loss)	\$ 1,578,000	\$ (1,964,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	649,000	498,000
Amortization of deferred gain on sale-leaseback	(129,000)	
Provision for (recovery of) inventory reserves and stock adjustments	(267,000)	24,000
Recovery of doubtful accounts	(14,000)	
Deferred income taxes	191,000	(881,000)
Share-based compensation expense	115,000	
Excess tax benefit from employee stock options exercised	(28,000)	
Shareholder note receivable	(682,000)	
Changes in current assets and liabilities:		
Accounts receivable	169,000	3,634,000
Due from customer	(2,005,000)	
Inventory	(5,560,000)	(8,296,000)
Inventory unreturned	(632,000)	(394,000)
Prepaid expenses and other current assets	(830,000)	(443,000)
Other assets	(213,000)	(252,000)
Accounts payable and accrued liabilities	3,004,000	6,629,000
Income tax payable	37,000	(369,000)
Deferred compensation	26,000	18,000
Deferred income	(33,000)	(33,000)
Credit due customer	(1,793,000)	(2,203,000)
Other current liabilities	(722,000)	54,000
Net cash used in operating activities	(7,139,000)	(3,978,000)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,278,000)	(1,437,000)
Change in short term investments	(21,000)	(28,000)
Net cash used in investing activities	(1,299,000)	(1,465,000)
Cash flows from financing activities:		
Net borrowings under line of credit	8,600,000	
Net payments on capital lease obligations	(310,000)	(122,000)
Exercise of stock options	57,000	
Excess tax benefit from employee stock options exercised	28,000	
Net cash provided by (used in) financing activities	8,375,000	(122,000)

Effect of exchange rate changes on cash	(240,000)	(1,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(303,000)	(5,566,000)
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	400,000	6,211,000
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 97,000	\$ 645,000

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 802,000	\$ 557,000
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Income taxes	\$ 804,000	\$
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Non-cash investing and financing activities:

Property acquired under capital lease	\$ 27,000	\$ 916,000
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Shareholder note receivable	\$ 682,000	\$
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The accompanying condensed notes to consolidated financial statements are an integral part hereof.



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**MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements**  
**June 30, 2006 (Restated) and 2005**  
**(Unaudited)**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending March 31, 2007. Amounts related to disclosures of March 31, 2006 balances were derived from the Company's audited consolidated financial statements as of March 31, 2006. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K/A for the year ended March 31, 2006, filed on February 12, 2007.

**NOTE A Company Background and Organization**

Motorcar Parts of America, Inc. and its subsidiaries (the Company or MPA) remanufacture and distribute alternators and starters for import and domestic cars and light trucks. These replacement parts are sold for use on vehicles after initial vehicle purchase. These automotive parts are sold to automotive retail chain stores and warehouse distributors throughout the United States and Canada. The Company also sells after-market replacement alternators and starters to a major automotive manufacturer.

The Company obtains used alternators and starters, commonly known as cores, primarily from its customers (retailers) as trade-ins and by purchasing them from vendors (core brokers). The retailers grant credit to the consumer when the used part is returned to them, and the Company in turn provides a credit to the retailer upon return to the Company. These cores are an essential material needed for the remanufacturing operations. The Company has remanufacturing, warehousing and shipping/receiving operations for alternators and starters in California, Singapore, Malaysia and Mexico. In addition, the Company has a warehouse distribution facility in Nashville, Tennessee and fee warehouse distribution centers in New Jersey and Oregon.

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

**NOTE B Restatement of Financial Statements for the Three Months Ended June 30, 2006**

The consolidated balance sheet as of June 30, 2006, the consolidated statement of operations for the three months ended June 30, 2006 and the consolidated statement of cash flows for the three months ended June 30, 2006 have been restated to correct an error resulting from the failure to recognize the impact of entering into a settlement agreement with a former officer of the Company. Under this agreement, the former officer agreed to reimburse the Company for a portion of the indemnification costs the Company paid in connection with the SEC and United States Attorney's Office's investigation of this former officer. This agreement required the creation of a shareholder note receivable that reduces shareholders' equity. Recording the shareholder note receivable reduced the Company's general and administrative expenses for the three months ended June 30, 2006. The estimated tax effect of this error is also reflected in the restatement. The condensed notes to the financial statements for the period ending June 30, 2006 are also restated as required to give effect to the correction of this error. (See Note M Litigation.)

The impact of this restatement has been reflected throughout the consolidated financial statements and accompanying notes as follows:

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## Consolidated Balance Sheet

		<b>June 30, 2006 (Unaudited)</b>	
	<b>Previously Reported</b>	<b>Adjustment</b>	<b>Restated</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 97,000		\$ 97,000
Short term investments	681,000		681,000
Accounts receivable net	14,209,000		14,209,000
Due from customer	2,005,000		2,005,000
Inventory net	63,244,000		63,244,000
Deferred income tax asset, as previously reported	5,827,000		5,827,000
Inventory unreturned	8,804,000		8,804,000
Prepaid expenses and other current assets	1,748,000		1,748,000
Total current assets	96,615,000		96,615,000
Plant and equipment net	12,766,000		12,766,000
Other assets	1,444,000		1,444,000
<b>TOTAL ASSETS</b>	<b>\$ 110,825,000</b>		<b>\$ 110,825,000</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 24,467,000		\$ 24,467,000
Accrued liabilities	1,136,000		1,136,000
Accrued salaries and wages	2,651,000		2,651,000
Accrued workers compensation claims	3,832,000		3,832,000
Income tax payable	1,057,000		1,057,000
Line of credit	14,900,000		14,900,000
Deferred compensation	521,000		521,000
Deferred income	133,000		133,000
Other current liabilities	266,000		266,000
Credit due customer			
Current portion of capital lease obligations	1,499,000		1,499,000
Total current liabilities	50,462,000		50,462,000
Deferred income, less current portion	355,000		355,000
Deferred income tax liability, as previously reported	498,000		
Reimbursement of indemnification costs on settlement		\$ 273,000	
Deferred income tax liability, as restated			771,000
Deferred gain on sale-leaseback	2,248,000		2,248,000
Other liabilities	46,000		46,000
Capitalized lease obligations, less current portion	4,520,000		4,520,000
<b>TOTAL LIABILITIES</b>	<b>58,129,000</b>	<b>273,000</b>	<b>58,402,000</b>
<b>SHAREHOLDERS EQUITY</b>			

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Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued			
Series A junior participating preferred stock; par value \$.01 per share, 20,000 shares authorized; none issued			
Common stock; par value \$.01 per share, 20,000,000 shares authorized; 8,324,455 shares issued and outstanding at June 30, 2006	83,000		83,000
Additional paid-in capital	54,498,000		54,498,000
Shareholder note receivable		(682,000)	(682,000)
Accumulated other comprehensive loss	(155,000)		(155,000)
Accumulated deficit, as previously reported	(1,730,000)		
Reimbursement of indemnification costs on settlement		409,000	
Accumulated deficit, as restated			(1,321,000)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>52,696,000</b>	<b>(273,000)</b>	<b>52,423,000</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<b>\$ 110,825,000</b>	<b>\$</b>	<b>\$ 110,825,000</b>

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## Consolidated Statement of Operations

	<b>Three Months Ended June 30, 2006</b>		
	<b>(Unaudited)</b>		
	<b>Previously Reported</b>	<b>Adjustment</b>	<b>Restated</b>
Net sales	\$ 27,424,000		\$ 27,424,000
Cost of goods sold	20,258,000		20,258,000
Gross profit	7,166,000		7,166,000
Operating expenses:			
General and administrative, as previously reported	3,072,000		
Reimbursement of indemnification costs on settlement		\$ (682,000)	
General and administrative, as restated			2,390,000
Sales and marketing	905,000		905,000
Research and development	416,000		416,000
Total operating expenses	4,393,000	(682,000)	3,711,000
Operating income	2,773,000	682,000	3,455,000
Interest expense net	822,000		822,000
Income before income tax expense	1,951,000	682,000	2,633,000
Income tax expense, as previously reported	782,000		
Reimbursement of indemnification costs on settlement		273,000	
Income tax expense, as restated			1,055,000
Net income	\$ 1,169,000	\$ 409,000	\$ 1,578,000
Basic income per share	\$ 0.14	\$ 0.05	\$ 0.19
Diluted income per share	\$ 0.14	\$ 0.04	\$ 0.18
Weighted average shares outstanding:			
basic	8,322,920		8,322,920
diluted	8,582,209		8,582,209

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## Consolidated Statement of Cash Flows

	<b>Three Months Ended June 30, 2006</b>		
	<b>(Unaudited)</b>		
	<b>Previously Reported</b>	<b>Adjustment</b>	<b>Restated</b>
Cash flows from operating activities:			
Net income, as previously reported	\$ 1,169,000		
Reimbursement of indemnification costs on settlement		\$ 409,000	
Net income, as restated			\$ 1,578,000
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	649,000		649,000
Amortization of deferred gain on sale-leaseback	(129,000)		(129,000)
Recovery of inventory reserves and stock adjustments	(267,000)		(267,000)
Recovery of doubtful accounts	(14,000)		(14,000)
Deferred income taxes, as previously reported	(82,000)		
Reimbursement of indemnification costs on settlement		273,000	
Deferred income taxes, as restated			191,000
Share-based compensation expense	115,000		115,000
Excess tax benefit from employee stock options exercised	(28,000)		(28,000)
Shareholder note receivable		(682,000)	(682,000)
Changes in current assets and liabilities:			
Accounts receivable	169,000		169,000
Due from customer	(2,005,000)		(2,005,000)
Inventory	(5,560,000)		(5,560,000)
Inventory unreturned	(632,000)		(632,000)
Prepaid expenses and other current assets	(830,000)		(830,000)
Other assets	(213,000)		(213,000)
Accounts payable and accrued liabilities	3,004,000		3,004,000
Income tax payable	37,000		37,000
Deferred compensation	26,000		26,000
Deferred income	(33,000)		(33,000)
Credit due to customer	(1,793,000)		(1,793,000)
Other liabilities			