

MOTORCAR PARTS AMERICA INC

FORM 10-Q (Quarterly Report)

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-33861

MOTORCAR PARTS OF AMERICA, INC.

(Exact name of registrant as specified in its charter)

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

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

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

90503
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 18,635,099 shares of Common Stock outstanding at August 2, 2017.

MOTORCAR PARTS OF AMERICA, INC.

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MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

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

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

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>June 30, 2017</u> (Unaudited)	<u>March 31, 2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,120,000	\$ 9,029,000
Short-term investments	2,407,000	2,140,000
Accounts receivable — net	9,704,000	26,017,000
Inventory— net	82,246,000	67,516,000
Inventory unreturned	7,701,000	7,581,000
Prepaid expenses and other current assets	9,664,000	9,848,000
Total current assets	<u>119,842,000</u>	<u>122,131,000</u>
Plant and equipment — net	18,318,000	18,437,000
Long-term core inventory — net	264,726,000	262,922,000
Long-term core inventory deposits	5,569,000	5,569,000
Long-term deferred income taxes	13,642,000	13,546,000
Goodwill	2,551,000	2,551,000
Intangible assets — net	3,848,000	3,993,000
Other assets	6,398,000	6,990,000
TOTAL ASSETS	<u>\$ 434,894,000</u>	<u>\$ 436,139,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 82,953,000	\$ 85,960,000
Accrued liabilities	7,843,000	10,077,000
Customer finished goods returns accrual	13,877,000	17,667,000
Accrued core payment	11,728,000	11,714,000
Revolving loan	15,000,000	11,000,000
Other current liabilities	5,624,000	3,300,000
Current portion of term loan	3,064,000	3,064,000
Total current liabilities	<u>140,085,000</u>	<u>142,782,000</u>
Term loan, less current portion	16,155,000	16,935,000
Long-term accrued core payment	9,401,000	12,349,000
Long-term deferred income taxes	185,000	180,000
Other liabilities	13,814,000	15,212,000
Total liabilities	<u>179,640,000</u>	<u>187,458,000</u>
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; 18,635,099 and 18,648,854 shares issued and outstanding at June 30, 2017 and March 31, 2017, respectively	186,000	186,000
Additional paid-in capital	204,308,000	205,646,000
Retained earnings	57,916,000	50,290,000
Accumulated other comprehensive loss	(7,156,000)	(7,441,000)
Total shareholders' equity	<u>255,254,000</u>	<u>248,681,000</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 434,894,000</u>	<u>\$ 436,139,000</u>

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

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

	Three Months Ended	
	June 30,	
	2017	2016
Net sales	\$ 95,063,000	\$ 85,412,000
Cost of goods sold	69,224,000	65,021,000
Gross profit	25,839,000	20,391,000
Operating expenses:		
General and administrative	6,187,000	3,625,000
Sales and marketing	3,394,000	2,634,000
Research and development	1,002,000	869,000
Total operating expenses	10,583,000	7,128,000
Operating income	15,256,000	13,263,000
Interest expense, net	3,314,000	2,819,000
Income before income tax expense	11,942,000	10,444,000
Income tax expense	4,316,000	2,936,000
Net income	\$ 7,626,000	\$ 7,508,000
Basic net income per share	\$ 0.41	\$ 0.40
Diluted net income per share	\$ 0.39	\$ 0.39
Weighted average number of shares outstanding:		
Basic	18,655,304	18,545,621
Diluted	19,421,352	19,484,938

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

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

	Three Months Ended	
	June 30,	
	2017	2016
Net income	\$ 7,626,000	\$ 7,508,000
Other comprehensive income (loss), net of tax:		
Unrealized gain on short-term investments (net of tax of \$38,000, and \$15,000)	56,000	22,000
Foreign currency translation gain (loss)	229,000	(535,000)
Total other comprehensive gain (loss), net of tax	285,000	(513,000)
Comprehensive income	<u>\$ 7,911,000</u>	<u>\$ 6,995,000</u>

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

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

	Three Months Ended	
	June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 7,626,000	\$ 7,508,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	894,000	715,000
Amortization of intangible assets	145,000	145,000
Amortization of debt issuance costs	213,000	171,000
Amortization of interest on accrued core payments	143,000	191,000
Gain due to change in fair value of the warrant liability	(1,293,000)	(5,589,000)
Gain due to change in fair value of the contingent consideration	-	(16,000)
Net provision for inventory reserves	1,286,000	394,000
Net provision for customer payment discrepancies	284,000	189,000
Net (recovery of) provision for doubtful accounts	(9,000)	7,000
Deferred income taxes	(103,000)	(953,000)
Share-based compensation expense	834,000	729,000
Loss on disposal of plant and equipment	6,000	-
Changes in operating assets and liabilities:		
Accounts receivable	16,038,000	(2,796,000)
Inventory	(14,942,000)	(15,422,000)
Inventory unreturned	(120,000)	121,000
Prepaid expenses and other current assets	421,000	(2,163,000)
Other assets	608,000	(4,941,000)
Accounts payable and accrued liabilities	(5,254,000)	7,630,000
Customer finished goods returns accrual	(3,790,000)	(2,830,000)
Long-term core inventory	(2,878,000)	(2,975,000)
Accrued core payments	(3,077,000)	1,638,000
Other liabilities	2,324,000	4,408,000
Net cash used in operating activities	(644,000)	(13,839,000)
Cash flows from investing activities:		
Purchase of plant and equipment	(597,000)	(1,568,000)
Change in short-term investments	(173,000)	(133,000)
Net cash used in investing activities	(770,000)	(1,701,000)
Cash flows from financing activities:		
Borrowings under revolving loan	17,000,000	15,000,000
Repayments of revolving loan	(13,000,000)	(1,000,000)
Repayments of term loan	(782,000)	(782,000)
Payments for debt issuance costs	(398,000)	(382,000)
Payments on capital lease obligations	(190,000)	(83,000)
Exercise of stock options	295,000	987,000
Cash used to net share settle equity awards	(488,000)	(350,000)
Repurchase of common stock, including fees	(1,979,000)	-
Net cash provided by financing activities	458,000	13,390,000
Effect of exchange rate changes on cash and cash equivalents	47,000	(30,000)
Net decrease in cash and cash equivalents	(909,000)	(2,180,000)
Cash and cash equivalents — Beginning of period	9,029,000	21,897,000
Cash and cash equivalents — End of period	\$ 8,120,000	\$ 19,717,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net	\$ 2,964,000	\$ 2,423,000
Income taxes, net of refunds	249,000	70,000
Non-cash investing and financing activities:		
Plant and equipment acquired under capital lease	\$ 46,000	\$ 40,000

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Condensed Notes to Consolidated Financial Statements
June 30, 2017
(Unaudited)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018. This report should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2017, which are included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on June 14, 2017, as amended by the Form 10-K/A filed with the SEC on July 31, 2017.

The accompanying consolidated financial statements have been prepared on a consistent basis with, and there have been no material changes to, except as noted below, the accounting policies described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements that are presented in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

1. Company Background and Organization

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, (iii) brake master cylinders, and (iv) other products which include turbochargers and brake power boosters. The Company added turbochargers with its acquisition in July 2016. The Company began selling brake power boosters in August 2016. As a result of the Company’s acquisition in July 2017, its business will include developing and selling diagnostic equipment.

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 its 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. New Accounting Pronouncements

New Accounting Pronouncements Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued guidance codified in ASC 606, “Revenue Recognition - Revenue from Contracts with Customers” (“ASC 606”), which amends the guidance in the former ASC 605, “Revenue Recognition”. ASC 606 is effective for annual periods beginning after December 15, 2016, and interim periods within that reporting period for a public company. The Company may elect either a full retrospective transition method, which requires the restatement of all periods presented, or a modified retrospective transition method, which requires a cumulative effect recognized as of the date of initial application to be used in transition. 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. Accordingly, the updated standard is effective for the Company as of April 1, 2018 and the Company does not plan to early adopt. The Company is currently in the process of determining whether it will utilize the full or modified retrospective method of adoption allowed by the new standard and the impact on its consolidated financial statements and footnote disclosures. The Company will continue to provide enhanced disclosures as it continues its assessment.

Due to the impact the new standard may have on the Company’s business processes, systems, and controls, a project team has been formed to evaluate and guide the implementation process. To date, the Company has performed a preliminary assessment of key customer contracts and is in the process of comparing historical accounting policies and practices to the new standard, including (i) assessing the current net-of-core value revenue recognition policy, and whether the performance obligation(s) related to the sale of its products will include both the core and unit value; (ii) the assessment of potential variable consideration including the accounting for return rights, the core exchange program, warranty and various allowances provided to its customers; (iii) the classification of assets and liabilities related to core assets and liabilities and customer allowances, and (iv) principal versus agent considerations as amended through Accounting Standards Update (“ASU”) 2016-08, “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)”. The Company has also developed a method to finalize the assessments on key customer contracts and incorporate the remaining contracts into the assessment. The Company continues to evaluate the impact ASC 606, related amendments and interpretive guidance will have 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 will adopt this guidance in the first quarter of fiscal 2020. The Company is currently evaluating the impact the provisions of this guidance will have on its consolidated financial statements, but expects that it will result in a significant increase to its long-term assets and liabilities on the consolidated balance sheets.

Business Combinations

In January 2017, the FASB issued guidance which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. A reporting entity should apply the amendment prospectively. The Company is currently evaluating the impact the provisions of this guidance will have on its consolidated financial statements.

Goodwill Impairment

In January 2017, the FASB issued guidance which simplifies the test for goodwill impairment. This standard eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted. This guidance must be applied on a prospective basis. The Company is currently evaluating the impact the provisions of this guidance will have on its consolidated financial statements.

Modifications to Share-Based Payment Awards

In May 2017, the FASB issued guidance to provide clarity and reduce (i) the diversity in practice and (ii) the cost and complexity when applying the accounting guidance for equity-based compensation to a change to the terms or conditions of a share-based payment award. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. This guidance should be applied prospectively to an award modified on or after that adoption date. The Company is currently evaluating the impact the provisions of this guidance will have on its consolidated financial statements.

3. Goodwill and Intangible Assets

Goodwill

The following summarizes the changes in the Company's goodwill:

	Three Months Ended	
	June 30,	
	2017	2016
Balance at beginning of period	\$ 2,551,000	\$ 2,053,000
Goodwill acquired	-	-
Translation adjustment	-	-
Impairment	-	-
Balance at end of period	<u>\$ 2,551,000</u>	<u>\$ 2,053,000</u>

Intangible Assets

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

	Weighted Average Amortization Period	June 30, 2017		March 31, 2017	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Trademarks	11 years	\$ 705,000	\$ 207,000	\$ 705,000	\$ 191,000
Customer relationships	13 years	5,900,000	2,550,000	5,900,000	2,421,000
Total		\$ 6,605,000	\$ 2,757,000	\$ 6,605,000	\$ 2,612,000

Amortization expense for acquired intangible assets is as follows:

	Three Months Ended June 30,	
	2017	2016
Amortization expense	\$ 145,000	\$ 145,000

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

Year Ending March 31,

2018 - remaining nine months	\$ 435,000
2019	580,000
2020	580,000
2021	580,000
2022	580,000
Thereafter	1,093,000
Total	\$ 3,848,000

4. Accounts Receivable — Net

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

Accounts receivable — net is comprised of the following:

	June 30, 2017	March 31, 2017
Accounts receivable — trade	\$ 69,864,000	\$ 76,902,000
Allowance for bad debts	(4,131,000)	(4,140,000)
Customer allowances earned	(8,543,000)	(7,880,000)
Customer payment discrepancies	(807,000)	(751,000)
Customer returns RGA issued	(15,233,000)	(12,710,000)
Customer core returns accruals	(31,446,000)	(25,404,000)
Less: total accounts receivable offset accounts	(60,160,000)	(50,885,000)
Total accounts receivable — net	\$ 9,704,000	\$ 26,017,000

Warranty Returns

The Company allows its customers to return goods that their customers have returned to them, whether or not the returned item is 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 June 30, 2017 and March 31, 2017, the Company’s total warranty return accrual was \$12,849,000 and \$14,286,000, respectively, of which \$5,215,000 and \$5,303,000, respectively, was included in the customer returns RGA issued balance in the above table for expected credits to be issued against accounts receivable and \$7,634,000 and \$8,983,000, respectively, was included in the customer finished goods returns accrual in the consolidated balance sheets for estimated future warranty returns.

The following summarizes the changes in the Company’s warranty return accrual:

	Three Months Ended	
	June 30,	
	2017	2016
Balance at beginning of period	\$ 14,286,000	\$ 10,845,000
Charged to expense/additions	22,206,000	22,694,000
Amounts processed	(23,643,000)	(21,980,000)
Balance at end of period	<u>\$ 12,849,000</u>	<u>\$ 11,559,000</u>

5. Inventory

Inventory is comprised of the following:

	June 30, 2017	March 31, 2017
Non-core inventory		
Raw materials	\$ 22,537,000	\$ 21,515,000
Work-in-process	673,000	641,000
Finished goods	62,124,000	48,337,000
	<u>85,334,000</u>	<u>70,493,000</u>
Less allowance for excess and obsolete inventory	(3,088,000)	(2,977,000)
Total	<u>\$ 82,246,000</u>	<u>\$ 67,516,000</u>
Inventory unreturned	<u>\$ 7,701,000</u>	<u>\$ 7,581,000</u>
Long-term core inventory		
Used cores held at the Company's facilities	\$ 35,325,000	\$ 38,713,000
Used cores expected to be returned by customers	11,590,000	11,752,000
Remanufactured cores held in finished goods	33,981,000	27,667,000
Remanufactured cores held at customers' locations (1)	185,426,000	185,938,000
	<u>266,322,000</u>	<u>264,070,000</u>
Less allowance for excess and obsolete inventory	(1,596,000)	(1,148,000)
Total	<u>\$ 264,726,000</u>	<u>\$ 262,922,000</u>
Long-term core inventory deposits	<u>\$ 5,569,000</u>	<u>\$ 5,569,000</u>

(1) Remanufactured cores held at customers’ locations represent the core portion of the Company’s customers’ finished goods at the Company’s customers’ locations.

6. Significant Customer and Other Information

Significant Customer Concentrations

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

Sales	Three Months Ended June 30,	
	2017	2016
Customer A	40%	52%
Customer B	25%	14%
Customer C	16%	21%
Customer D	8%	3%

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

Accounts receivable - trade	June 30, 2017	March 31, 2017
Customer A	28%	33%
Customer B	14%	18%
Customer C	10%	12%
Customer D	24%	16%

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:

	Three Months Ended June 30,	
	2017	2016
Rotating electrical products	78%	72%
Wheel hub products	18%	22%
Brake master cylinders products	3%	6%
Other products	1%	-%
	100%	100%

Significant Supplier Concentrations

The Company had no suppliers that accounted for more than 10% of inventory purchases for the three months ended June 30, 2017 and 2016.

7. Debt

The Company has the following credit agreements.

Credit Facility

The Company is party to a \$145,000,000 senior secured financing, as amended, (the "Credit Facility") with the lenders party thereto, and PNC Bank, National Association, as administrative agent, consisting of (i) a \$120,000,000 revolving loan facility, subject to borrowing base restrictions and a \$15,000,000 sublimit for letters of credit (the "Revolving Facility") and (ii) a \$25,000,000 term loan facility (the "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. This amount was increased to \$15,000,000 under the April 2017 amendment to the Credit Facility.

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In April 2017, the Company entered into a consent and fourth amendment to the Credit Facility (the “Fourth Amendment”) which, among other things, (i) increased the borrowing base limit with respect to inventory located in Mexico, (ii) amended the definition and calculation of consolidated EBITDA to raise the limitation on the add-back for non-capitalized transaction expenses related to the expansion of operations in Mexico, (iii) increased the annual limit on permitted stock repurchases and dividends, and (iv) modifies certain other baskets (including increasing certain baskets for permitted acquisitions) and thresholds to, among other things, further accommodate the expansion of operations in Mexico.

The Term Loans require quarterly principal payments of \$781,250. 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 senior leverage ratio as of the applicable measurement date. There is also a facility fee of 0.25% to 0.375%, depending on the senior leverage ratio as of the applicable measurement date. The interest rate on the Company’s Term Loans and Revolving Facility was 3.56% and 4.65%, respectively, at June 30, 2017 and 3.29% and 3.55%, respectively, at March 31, 2017.

The Credit Facility, among other things, requires the Company to maintain certain financial covenants including a maximum senior leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all financial covenants as of June 30, 2017.

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.

The following summarizes information about the Company’s Term Loans at:

	<u>June 30, 2017</u>	<u>March 31, 2017</u>
Principal amount of term loan	\$ 19,531,000	\$ 20,312,000
Unamortized financing fees	(316,000)	(313,000)
Net carrying amount of term loan	19,215,000	19,999,000
Less current portion of term loan	(3,060,000)	(3,064,000)
Long-term portion of term loan	<u>\$ 16,155,000</u>	<u>\$ 16,935,000</u>

Future repayments of the Company’s Term Loans are as follows:

<u>Year Ending March 31,</u>	
2018 - remaining nine months	2,343,000
2019	3,125,000
2020	3,125,000
2021	10,938,000
Total payments	<u>\$ 19,531,000</u>

The Company had \$15,000,000 and \$11,000,000 outstanding under the Revolving Facility at June 30, 2017 and March 31, 2017, respectively. In addition, \$260,000 was reserved for standby letters of credit for workers’ compensation insurance and \$600,000 for commercial letters of credit at June 30, 2017. At June 30, 2017, \$104,140,000, subject to certain adjustments, was available under the 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 subsidiaries. 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 level 3 inputs and the Monte Carlo simulation model was \$10,586,000 and \$11,879,000 at June 30, 2017 and March 31, 2017, respectively. These amounts are included in other liabilities in the consolidated balance sheets. The warrant liability continues to be classified as a noncurrent liability at June 30, 2017 as the Company does not expect to settle this amount in cash. During the three months ended June 30, 2017 and 2016, a gain of \$1,293,000 and \$5,589,000, respectively, were recorded in general and administrative expenses due to the change in the fair value of this warrant liability.

8. Accounts Receivable Discount Programs

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

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

	Three Months Ended	
	June 30,	
	2017	2016
Receivables discounted	\$ 86,520,000	\$ 80,649,000
Weighted average days	342	341
Annualized weighted average discount rate	3.1%	2.7%
Amount of discount as interest expense	\$ 2,522,000	\$ 2,068,000

9. Net Income Per Share

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

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

	Three Months Ended	
	June 30,	
	2017	2016
Net income	\$ 7,626,000	\$ 7,508,000
Basic shares	18,655,304	18,545,621
Effect of potentially dilutive securities	766,048	939,317
Diluted shares	19,421,352	19,484,938
Net income per share:		
Basic net income per share	\$ 0.41	\$ 0.40
Diluted net income per share	\$ 0.39	\$ 0.39

The effect of dilutive options excludes 111,172 shares subject to options with exercise prices ranging from \$30.31 to \$34.17 per share for the three months ended June, 30, 2017 and 1,100 shares subject to options with an exercise price of \$34.17 per share for the three months ended June 30, 2016, which were anti-dilutive.

10. Income Taxes

The Company recorded income tax expense for the three months ended June 30, 2017 and 2016 of \$4,316,000, or an effective tax rate of 36.1%, and \$2,936,000, or an effective tax rate of 28.1%. The income tax rates for all periods were positively impacted by (i) non-taxable gains in connection with the fair value adjustment on the warrants, (ii) excess tax benefits on share-based compensation of \$170,000 and \$391,000 for the three months ended June 30, 2017 and 2016, respectively, and (iii) the benefit of lower statutory tax rates in foreign taxing jurisdictions. These positive impacts to income tax rates for all periods were partially offset by state income taxes and non-deductible executive compensation under Internal Revenue Code Section 162(m).

The Company is not under examination in any jurisdiction and the years ended March 31, 2017, 2016, and 2015 remain subject to examination. The Company believes no significant changes in the unrecognized tax benefits will occur within the next 12 months.

11. 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 currencies. 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 between the U.S. dollar and the foreign currencies. 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 \$26,808,000 and \$26,880,000 at June 30, 2017 and March 31, 2017, respectively. These contracts generally have a term of one 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 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 operations:

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized within General and Administrative Expenses	
	Three Months Ended	
	June 30,	
	2017	2016
Forward foreign currency exchange contracts	\$ 1,052,000	\$ (679,000)

The fair value of the forward foreign currency exchange contracts of \$1,479,000 and \$427,000 is included in prepaid and other current assets in the consolidated balance sheets at June 30, 2017 and March 31, 2017, respectively.

12. Fair Value Measurements

The following summarizes the Company's financial assets and liabilities measured at fair value, by level within the fair value hierarchy:

	June 30, 2017				March 31, 2017			
	Fair Value Measurements Using Inputs Considered as				Fair Value Measurements Using Inputs Considered as			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets								
Short-term investments								
Mutual funds	\$ 2,407,000	\$ 2,407,000	-	-	\$ 2,140,000	\$ 2,140,000	-	-
Prepaid expenses and other current assets								
Forward foreign currency exchange contracts	1,479,000	-	\$ 1,479,000	-	427,000	-	\$ 427,000	-
Liabilities								
Other current liabilities								
Deferred compensation	2,407,000	2,407,000	-	-	2,140,000	2,140,000	-	-
Other liabilities								
Warrant liability	10,586,000	-	-	\$ 10,586,000	11,879,000	-	-	\$ 11,879,000

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. During the three months ended June 30, 2017 and 2016, a gain of \$1,052,000 and a loss of \$679,000, respectively, were recorded in general and administrative expenses due to the change in the value of the forward foreign currency exchange contracts.

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. This warrant liability is included in other liabilities in the consolidated balance sheets. 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 three months ended June 30, 2017 and 2016, a gain of \$1,293,000 and \$5,589,000, respectively, were recorded in general and administrative expenses due to the change in the fair value of this warrant liability.

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

Supplier Warrant	
Risk free interest rate	1.03%
Expected life in years	0.25
Expected volatility	27.20%
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 warrant. The expected life is based on the remaining contractual term of the warrant and the expected volatility is based on the Company's daily historical volatility over a period commensurate with the remaining term of the warrant.

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

	Three Months Ended June 30,			
	2017		2016	
	Supplier Warrant	Contingent Consideration	Supplier Warrant	Contingent Consideration
Beginning balance	\$ 11,879,000	\$ -	\$ 15,643,000	\$ 330,000
Newly issued	-	-	-	-
Total (gain) loss included in net income (loss)	(1,293,000)	-	(5,589,000)	(16,000)
Exercises/settlements	-	-	-	-
Net transfers in (out) of Level 3	-	-	-	-
Ending balance	<u>\$ 10,586,000</u>	<u>\$ -</u>	<u>\$ 10,054,000</u>	<u>\$ 314,000</u>

During the three months ended June 30, 2017, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

The carrying amounts of cash and cash equivalents, 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 the variable nature of interest rates and current rates for instruments with similar characteristics.

13. Share-based Payments**Stock Options**

The Company granted options to purchase 163,100 and 182,800 shares of common stock during the three months ended June 30, 2017 and 2016, respectively. The cost associated with stock options is estimated using the Black-Scholes option-pricing model. This 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 assumptions were used to derive the weighted average fair value of the stock options granted:

	Three Months Ended June 30,	
	2017	2016
Weighted average risk free interest rate	1.90%	1.39%
Weighted average expected holding period (years)	5.82	5.85
Weighted average expected volatility	47.36%	47.41%
Weighted average expected dividend yield	-	-
Weighted average fair value of options granted	\$ 12.69	\$ 13.08

The following is a summary of stock option transactions:

	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2017	1,036,359	\$ 14.92
Granted	163,100	\$ 27.40
Exercised	(28,951)	\$ 10.15
Forfeited	(667)	\$ 29.66
Outstanding at June 30, 2017	<u>1,169,841</u>	\$ 16.77

At June 30, 2017, options to purchase 359,639 shares of common stock were unvested at the weighted average exercise price of \$28.60.

At June 30, 2017, there was \$4,338,000 of total unrecognized compensation expense related to unvested stock option awards. The compensation expense is expected to be recognized over a weighted average vesting period of approximately 2.3 years.

Restricted Stock Units (“RSU’s”)

During the three months ended June 30, 2017 and 2016, the Company granted 60,000 and 42,876 shares of RSU’s, respectively, with an estimated grant date fair value of \$1,644,000 and \$1,224,000, respectively, which was based on the closing market price on the grant date.

The following is a summary of non-vested RSU’s:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested at March 31, 2017	126,277	\$ 28.26
Granted	60,000	\$ 27.40
Vested	(43,843)	\$ 25.62
Forfeited	-	-
Non-vested at June 30, 2017	<u>142,434</u>	<u>\$ 28.71</u>

At June 30, 2017, there was \$3,532,000 of unrecognized compensation expense related to these awards, which will be recognized over the remaining vesting period of approximately 2.3 years.

14. Accumulated Other Comprehensive Income (Loss)

The following summarizes changes in accumulated other comprehensive income (loss):

	<u>Three Months Ended June 30, 2017</u>			<u>Three Months Ended June 30, 2016</u>		
	<u>Unrealized Gain on Short-Term Investments</u>	<u>Foreign Currency Translation</u>	<u>Total</u>	<u>Unrealized Gain (Loss) on Short-Term Investments</u>	<u>Foreign Currency Translation</u>	<u>Total</u>
Balance at beginning of period	\$ 528,000	\$ (7,969,000)	\$ (7,441,000)	\$ 332,000	\$ (5,184,000)	\$ (4,852,000)
Other comprehensive income (loss), net of tax	56,000	229,000	285,000	22,000	(535,000)	(513,000)
Amounts reclassified from accumulated other comprehensive loss, net of tax	-	-	-	-	-	-
Balance at end of period	<u>\$ 584,000</u>	<u>\$ (7,740,000)</u>	<u>\$ (7,156,000)</u>	<u>\$ 354,000</u>	<u>\$ (5,719,000)</u>	<u>\$ (5,365,000)</u>

15. Share Repurchase Program

As of June 30, 2017, the Company’s board of directors had approved a stock repurchase program of up to \$15,000,000 of its common stock. As of June 30, 2017, \$4,358,000 of the \$15,000,000 had been utilized and \$10,642,000 remained available to repurchase shares under the authorized share repurchase program. The Company retired the 69,261 shares repurchased under this program during the three months ended June 30, 2017. The Company’s share repurchase program does not obligate it to acquire any specific number of shares and shares may be repurchased in privately negotiated and/or open market transactions.

16. Subsequent Events

Credit Facility

In July 2017, the Company entered into a fifth amendment to the Credit Facility (the “Fifth Amendment”) which, among other things, amended the definition of permitted acquisitions, permitted indebtedness, and pledge agreements.

Acquisition

In July 2017, the Company completed the acquisition of all the equity interests of D&V Electronics Ltd. (“D&V”), a privately held developer and manufacturer of leading edge diagnostics systems for laboratory, endurance, and production based in Ontario, Canada. The acquisition was consummated pursuant to a share purchase agreement dated July 18, 2017. The assets and results of operations of D&V were not significant to the Company’s consolidated financial position or results of operations, and thus pro forma information is not presented.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis presents factors that Motorcar Parts of America, Inc. and its subsidiaries (“our,” “we” or “us”) believe are relevant to an assessment and understanding of our consolidated financial position and results of operations. This financial and business analysis should be read in conjunction with our March 31, 2017 audited consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on June 14, 2017, as amended by the Form 10-K/A filed with the SEC on July 31, 2017.

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, increases in the average accounts receivable collection period, the loss of sales to customers, delays in payments by 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, (iii) brake master cylinders, and (iv) other products which include turbochargers and brake power boosters. We added turbochargers with our acquisition in July 2016. We began selling brake power boosters in August 2016. As a result of our acquisition in July 2017, our business will include developing and selling diagnostic equipment.

The aftermarket for automobile parts is divided into two markets. The first 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 generally 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 we have one reportable segment for purposes of recording and reporting our financial results.

Results of Operations for the Three Months Ended June 30, 2017 and 2016

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

The following summarizes certain key operating data:

	Three Months Ended June 30,	
	2017	2016
Gross profit percentage	27.2%	23.9%
Cash flow used in operations	\$ (644,000)	\$ (13,839,000)
Finished goods turnover (annualized) (1)	5.0	5.4

(1) Annualized finished goods turnover for the fiscal quarter is calculated by multiplying cost of goods sold for the quarter by 4 and dividing the result by the average between beginning and ending non-core finished goods inventory values for the fiscal quarter. We believe this provides a useful measure of our ability to turn our inventory into revenues.

Net Sales and Gross Profit

The following summarizes net sales and gross profit:

	Three Months Ended June 30,	
	2017	2016
Net sales	\$ 95,063,000	\$ 85,412,000
Cost of goods sold	69,224,000	65,021,000
Gross profit	25,839,000	20,391,000
Gross profit percentage	27.2%	23.9%

Net Sales. Our net sales for the three months ended June 30, 2017 increased by \$9,651,000, or 11.3%, to \$95,063,000 compared to net sales for the three months ended June 30, 2016 of \$85,412,000. The increase in our net sales was attributable to higher sales of rotating electrical products and brake power boosters, which we began selling in August 2016. This increase in net sales was partially offset by a decrease in net sales of wheel hub products and brake master cylinder products.

Gross Profit. Our gross profit percentage increased to 27.2% for the three months ended June 30, 2017 from 23.9% for the three months ended June 30, 2016. Gross profit for the three months ended June 30, 2017 was impacted by higher returns. Our gross profit for the three months ended June 30, 2016 was impacted by \$8,410,000 of customer allowances and initial return and stock adjustment accruals related to new business less cost of goods sold offset of \$355,000, and cost of goods sold impact of \$124,000 of start-up costs incurred related to a new product line.

Operating Expenses

The following summarizes operating expenses:

	Three Months Ended	
	June 30,	
	2017	2016
General and administrative	\$ 6,187,000	\$ 3,625,000
Sales and marketing	3,394,000	2,634,000
Research and development	1,002,000	869,000
Percent of net sales		
General and administrative	6.5%	4.2%
Sales and marketing	3.6%	3.1%
Research and development	1.1%	1.0%

General and Administrative. Our general and administrative expenses for the three months ended June 30, 2017 were \$6,187,000, which represents an increase of \$2,562,000, or 70.7%, from general and administrative expenses for the three months ended June 30, 2016 of \$3,625,000. The change was primarily due to (i) a \$1,293,000 gain recorded due to the change in the fair value of the warrant liability during the three months ended June 30, 2017 compared to a \$5,589,000 gain recorded during the three months ended June 30, 2016 and (ii) a \$1,052,000 gain recorded due to the change in the fair value of the forward foreign currency exchange contracts during the three months ended June 30, 2017 compared to a \$679,000 loss recorded during the three months ended June 30, 2016.

Sales and Marketing. Our sales and marketing expenses for the three months ended June 30, 2017 increased \$760,000, or 28.9%, to \$3,394,000 from \$2,634,000 for the three months ended June 30, 2016. The increase was due primarily (i) \$400,000 of increased commissions, (ii) \$229,000 for personnel added to support our growth initiatives, (iii) \$76,000 of increased outside services, and (iv) \$52,000 of increased travel.

Research and Development. Our research and development expenses increased by \$133,000, or 15.3%, to \$1,002,000 for the three months ended June 30, 2017 from \$869,000 for the three months ended June 30, 2016, due primarily to (i) \$94,000 for personnel added to support our growth initiatives and (ii) \$39,000 of increased travel.

Interest Expense

Interest Expense, net. Our interest expense, net for the three months ended June 30, 2017 increased \$495,000, or 17.6%, to \$3,314,000 from \$2,819,000 for the three months ended June 30, 2016. The increase in interest expense was due primarily to higher interest rates and increased use of our accounts receivable discount programs.

Provision for Income Taxes

Income Tax. Our income tax expense for the three months ended June 30, 2017 and 2016 was \$4,316,000, or an effective tax rate of 36.1%, and \$2,936,000, or an effective tax rate of 28.1%, respectively. The income tax rates for all periods were positively impacted by (i) non-taxable gains in connection with the fair value adjustment on the warrants, (ii) excess tax benefits on share-based compensation of \$170,000 and \$391,000 for the three months ended June 30, 2017 and 2016, respectively, and (iii) the benefit of lower statutory tax rates in foreign taxing jurisdictions. These positive impacts to income tax rates for all periods were partially offset by state income taxes and non-deductible executive compensation under Internal Revenue Code Section 162(m).

Liquidity and Capital Resources**Overview**

At June 30, 2017 and March 31, 2017, we had negative working capital (current assets minus current liabilities) of \$20,243,000 and \$20,651,000, respectively, and a ratio of current assets to current liabilities of 0.86:1.00 for both periods. The long-term classification of our core inventory, new business with existing and potential new customers, and the addition of any new product lines will continue to require the use of working capital to grow our business.

We generated cash during the three months ended June 30, 2017 from the use of receivable discount programs with certain of our major customers and their respective banks, as well as from our credit facility. The cash generated from these activities was used primarily to build our inventory levels to support anticipated higher sales.

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, and lease and capital expenditure obligations over the next 12 months.

Share Repurchase Program

As of June 30, 2017, our board of directors had approved a stock repurchase program of up to \$15,000,000 of our common stock. As of June 30, 2017, \$4,358,000 of the \$15,000,000 had been utilized and \$10,642,000 remained available to repurchase shares under the authorized share repurchase program. We retired the 69,261 shares repurchased under this program during the three months ended June 30, 2017. Our share repurchase program does not obligate us to acquire any specific number of shares and shares may be repurchased in privately negotiated and/or open market transactions.

Cash Flows

The following summarizes cash flows as reflected in the consolidated statements of cash flows:

	Three Months Ended June 30,	
	2017	2016
Cash provided by (used in):		
Operating activities	\$ (644,000)	\$ (13,839,000)
Investing activities	(770,000)	(1,701,000)
Financing activities	458,000	13,390,000
Effect of exchange rates on cash and cash equivalents	47,000	(30,000)
Net decrease in cash and cash equivalents	<u>\$ (909,000)</u>	<u>\$ (2,180,000)</u>
Additional selected cash flow data:		
Depreciation and amortization	\$ 1,039,000	\$ 860,000
Capital expenditures	597,000	1,568,000

Net cash used in operating activities was \$644,000 and \$13,839,000 during the three months ended June 30, 2017 and 2016, respectively. The significant changes in our operating activities were due primarily to (i) decreases in accounts receivable and accounts payable during the three months ended June 30, 2017 compared to increases during the three months ended June 30, 2016 and (ii) increased operating results (net income plus net add-backs for non-cash transactions in earnings). In addition, our prior year operating activities were impacted by payments made in connection with new business.

Net cash used in investing activities was \$770,000 and \$1,701,000 during the three months ended June 30, 2017 and 2016, respectively. This change was due primarily to the timing of cash used for the purchase of plant and equipment.

Net cash provided by financing activities was \$458,000 and \$13,390,000 during the three months ended June 30, 2017 and 2016, respectively. This change was due mainly to decreased borrowing and cash used to repurchase shares of our common stock under our share repurchase program.

Capital Resources

Debt

We are party to the following credit agreements.

Credit Facility

We are a party to a \$145,000,000 senior secured financing, as amended, (the “Credit Facility”) with the lenders party thereto, and PNC Bank, National Association, as administrative agent, consisting of (i) a \$120,000,000 revolving loan facility, subject to borrowing base restrictions and a \$15,000,000 sublimit for letters of credit (the “Revolving Facility”) and (ii) a \$25,000,000 term loan facility (the “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. This amount was increased to \$15,000,000 under the April 2017 amendment to the Credit Facility.

In April 2017, we entered into a consent and fourth amendment to the Credit Facility (the “Fourth Amendment”) which, among other things, (i) increased the borrowing base limit with respect to inventory located in Mexico, (ii) amended the definition and calculation of consolidated EBITDA to raise the limitation on the add-back for non-capitalized transaction expenses related to the expansion of operations in Mexico, (iii) increased the annual limit on permitted stock repurchases and dividends, and (iv) modifies certain other baskets (including increasing certain baskets for permitted acquisitions) and thresholds to, among other things, further accommodate the expansion of operations in Mexico.

The Term Loans require quarterly principal payments of \$781,250. 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 senior leverage ratio as of the applicable measurement date. There is also a facility fee of 0.25% to 0.375%, depending on the senior leverage ratio as of the applicable measurement date. The interest rate on the Company’s Term Loans and Revolving Facility was 3.56% and 4.65%, respectively, at June 30, 2017 and 3.29% and 3.55%, respectively, at March 31, 2017.

The Credit Facility, among other things, requires us to maintain certain financial covenants including a maximum senior leverage ratio and a minimum fixed charge coverage ratio. We were in compliance with all financial covenants as of June 30, 2017.

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

	Calculation as of June 30, 2017	Financial covenants required under the Credit Facility
Maximum senior leverage ratio	0.34	2.50
Minimum fixed charge coverage ratio	2.09	1.15

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.

We had \$15,000,000 and \$11,000,000 outstanding under the Revolving Facility at June 30, 2017 and March 31, 2017, respectively. In addition, \$260,000 was reserved for standby letters of credit for workers’ compensation insurance and \$600,000 for commercial letters of credit at June 30, 2017. At June 30, 2017, \$104,140,000, subject to certain adjustments, was available under the Revolving Facility.

WX Agreement

In August 2012, we entered into a Revolving Credit/Strategic Cooperation Agreement (the “WX Agreement”) with Wanxiang America Corporation (the “Supplier”) and the discontinued subsidiaries. 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 level 3 inputs and the Monte Carlo simulation model was \$10,586,000 and \$11,879,000 at June 30, 2017 and March 31, 2017, respectively. These amounts are included in other liabilities in the consolidated balance sheets. The warrant liability continues to be classified as a noncurrent liability at June 30, 2017 as we do not expect to settle this amount in cash. During the three months ended June 30, 2017 and 2016, a gain of \$1,293,000 and \$5,589,000, respectively, were recorded in general and administrative expenses due to the change in the fair value of this warrant liability.

Receivable Discount Programs

We use receivable discount programs with certain 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 discount arrangements allows us to accelerate receipt of payment on customers’ receivables. While these arrangements have reduced our working capital needs, 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 discounting arrangements expands, if customers extend their payment to us, or if the discount period is extended to reflect more favorable payment terms to customers.

The following is a summary of the receivable discount programs:

	Three Months Ended	
	June 30,	
	2017	2016
Receivables discounted	\$ 86,520,000	\$ 80,649,000
Weighted average days	342	341
Annualized weighted average discount rate	3.1%	2.7%
Amount of discount as interest expense	\$ 2,522,000	\$ 2,068,000

Off-Balance Sheet Arrangements

At June 30, 2017, 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.

Capital Expenditures and CommitmentsCapital Expenditures

Our capital expenditures were \$597,000 and \$1,568,000 for the three months ended June 30, 2017 and 2016, respectively. These capital expenditures primarily represent the purchase of equipment for our office, manufacturing and warehouse facilities. We expect our fiscal 2018 capital expenditures to be approximately \$7,500,000 to support our current operations. In addition, we expect to invest approximately \$11,000,000 in capital expenditures in connection with the expansion of our operations in Mexico during fiscal 2018. We expect to use our working capital and/or incur additional capital lease obligations to finance these capital expenditures.

Subsequent Events

Credit Facility

In July 2017, we entered into a fifth amendment to the Credit Facility (the “Fifth Amendment”) which, among other things, amended the definition of permitted acquisitions, permitted indebtedness, and pledge agreements.

Acquisition

In July 2017, we completed the acquisition of all the equity interests of D&V Electronics Ltd. (“D&V”), a privately held developer and manufacturer of leading edge diagnostics systems for laboratory, endurance, and production based in Ontario, Canada. The acquisition was consummated pursuant to a share purchase agreement dated July 18, 2017. The assets and results of operations of D&V were not significant to our consolidated financial position or results of operations, and thus pro forma information is not presented.

Litigation

There have been no material changes to our litigation matters that are presented in our Annual Report on Form 10-K for the year ended March 31, 2017, which was filed on June 14, 2017 and as amended by the Form 10-K/A filed with the SEC on July 31, 2017.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates that are presented in our Annual Report on Form 10-K for the year ended March 31, 2017, which was filed on June 14, 2017, except as discussed below.

New Accounting Pronouncements Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued guidance codified in ASC 606, “Revenue Recognition - Revenue from Contracts with Customers” (“ASC 606”), which amends the guidance in the former ASC 605, “Revenue Recognition”. ASC 606 is effective for annual periods beginning after December 15, 2016, and interim periods within that reporting period for a public company. An entity may elect either a full retrospective transition method, which requires the restatement of all periods presented, or a modified retrospective transition method, which requires a cumulative effect recognized as of the date of initial application to be used on transition. 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. Accordingly, the updated standard is effective for us as of April 1, 2018 and we do not plan to early adopt. We are currently in the process of determining whether we will utilize the full or modified retrospective method of adoption allowed by the new standard and the impact on our consolidated financial statements and footnote disclosures. We will continue to provide enhanced disclosures as we continue our assessment.

Due to the impact the new standard may have on our business processes, systems, and controls, a project team has been formed to evaluate and guide the implementation process. To date, we have performed a preliminary assessment of key customer contracts and are in the process of comparing historical accounting policies and practices to the new standard, including (i) assessing the current net-of-core value revenue recognition policy, and whether the performance obligation(s) related to the sale of our products will include both the core and unit value; (ii) the assessment of potential variable consideration including the accounting for return rights, the core exchange program, warranty and various allowances provided to our customers; (iii) the classification of assets and liabilities related to core assets and liabilities and customer allowances, and (iv) principal versus agent considerations as amended through Accounting Standards Update (“ASU”) 2016-08, “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)”. We have also developed a method to finalize the assessments on key customer contracts and incorporate the remaining contracts into the assessment. We continue to evaluate the impact ASC 606, related amendments and interpretive guidance will have on our 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. We are currently evaluating the impact the provisions of this guidance will have on 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 required to adopt this guidance in the first quarter of fiscal 2020. We are currently evaluating the impact the provisions of this guidance will have on our consolidated financial statements, but expect that it will result in a significant increase to our long-term assets and liabilities on the consolidated balance sheets.

Business Combinations

In January 2017, the FASB issued guidance which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. A reporting entity should apply the amendment prospectively. We are currently evaluating the impact the provisions of this guidance will have on our consolidated financial statements.

Goodwill Impairment

In January 2017, the FASB issued guidance which simplifies the test for goodwill impairment. This standard eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted. This guidance must be applied on a prospective basis. We are currently evaluating the impact the provisions of this guidance will have on our consolidated financial statements.

Modifications to Share-Based Payment Awards

In May 2017, the FASB issued guidance to provide clarity and reduce (i) the diversity in practice and (ii) the cost and complexity when applying the accounting guidance for equity-based compensation to a change to the terms or conditions of a share-based payment award. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. This guidance should be applied prospectively to an award modified on or after that adoption date. We are currently evaluating the impact the provisions of this guidance will have on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K as of March 31, 2017, which was filed with the SEC on June 14, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures designed 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 communicated to management, including our chief executive officer, chief financial officer, and chief accounting officer, 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(e) 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 June 30, 2017.

Inherent Limitations Over Internal Controls

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 States 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;
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.

Changes in Internal Control Over Financial Reporting

There were no changes in MPA’s internal control over financial reporting during the first quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, MPA’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to our litigation matters that are presented in our Annual Report on Form 10-K for the year ended March 31, 2017, which was filed on June 14, 2017 and as amended by the Form 10-K/A filed with the SEC on July 31, 2017.

Item 1A. Risk Factors

There have been no material changes in the risk factors set forth in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended March 31, 2017, filed on June 14, 2017 and as amended by the Form 10-K/A filed with the SEC on July 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Limitation on Payment of Dividends

The Credit Facility permits the payment of up to \$15,000,000 of dividends per calendar year, subject to a minimum availability threshold and pro forma compliance with financial covenants.

Purchases of Equity Securities by the Issuer

Shares repurchased during the three months ended June 30, 2017 were as follows:

<u>Periods</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)</u>
April 1 - April 30, 2017:				
Open market and privately negotiated purchases	-	\$ -	-	\$ 12,621,000
May 1 - May 31, 2017:				
Open market and privately negotiated purchases	-	\$ -	-	12,621,000
June 1 - June 30, 2017:				
Open market and privately negotiated purchases	69,261	\$ 28.57	69,261	10,642,000
Total	<u>69,261</u>		<u>69,261</u>	<u>\$ 10,642,000</u>

(1) As of June 30, 2017, \$4,658,000 of the \$15,000,000 had been utilized and \$10,642,000 remained available to repurchase shares under the authorized share repurchase program. We retired the 69,261 shares repurchased under this program during the three months ended June 30, 2017. Our share repurchase program does not obligate us to acquire any specific number of shares and shares may be repurchased in privately negotiated and/or open market transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) 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.
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.
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 Motorcar Parts of America, Inc.	Incorporated by reference to Exhibit 3.1 to 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 Current Report on Form 8-K filed on April 9, 2014.
3.8	Amendment to the Amended and Restated By-Laws of Motorcar Parts of America, Inc., as adopted on June 9, 2016	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed on June 14, 2016.
3.9	Amendment to the Amended and Restated By-Laws of the Company	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed on February 22, 2017.
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.

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Number	Description of Exhibit	Method of Filing
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	Fifth Amendment to Loan Agreement, dated as of July 18, 2017, 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 July 24, 2017.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
31.3	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Filed herewith.
101.1	The following financial information from Motorcar Parts of America, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in Extensible Business Reporting Language ("XBRL") and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows; and (v) the Condensed Notes to Consolidated Financial Statements	Filed herewith.

SIGNATURES

Pursuant to the requirements 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: August 9, 2017

By: /s/ David Lee
David Lee
Chief Financial Officer

Dated: August 9, 2017

By: /s/ Kevin Daly
Kevin Daly
Chief Accounting Officer

CERTIFICATIONS

I, Selwyn Joffe, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Selwyn Joffe

Selwyn Joffe
Chief Executive Officer

CERTIFICATIONS

I, David Lee, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ David Lee

David Lee
Chief Financial Officer

CERTIFICATIONS

I, Kevin Daly, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Kevin Daly

Kevin Daly
Chief Accounting Officer

**CERTIFICATE OF CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND CHIEF
ACCOUNTING OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), I, Selwyn Joffe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Selwyn Joffe

Selwyn Joffe
Chief Executive Officer
August 9, 2017

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), I, David Lee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Lee

David Lee
Chief Financial Officer
August 9, 2017

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), I, Kevin Daly, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin Daly

Kevin Daly
Chief Accounting Officer
August 9, 2017

The foregoing certifications are being furnished to the Securities and Exchange Commission as part of the accompanying report on Form 10-Q. A signed original of each of these statements has been provided to Motorcar Parts of America, Inc. and will be retained by Motorcar Parts of America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
