

MOTORCAR PARTS AMERICA INC  
Form DEF 14A  
February 28, 2012  
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## SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

## MOTORCAR PARTS OF AMERICA, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**MOTORCAR PARTS OF AMERICA, INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held On March 21, 2012**

To Our Shareholders:

We will hold our annual meeting of the shareholders of Motorcar Parts of America, Inc. (the Company) on March 21, 2012 at 10:00 a.m. (PT) at the offices of the Company at 2929 California Street, Torrance, California 90503. As further described in the accompanying Proxy Statement, at this meeting we will consider and act upon:

- (1) The election of the seven directors named in the accompanying proxy statement to our Board of Directors to serve for a term of one year or until their successors are duly elected and qualified;
- (2) The ratification of the appointment of Ernst & Young LLP as our independent registered public accountants for the fiscal year ended March 31, 2012;
- (3) The approval, on a non-binding advisory basis, of the compensation of our named executive officers (say on pay);
- (4) The approval, on a non-binding advisory basis, of the frequency of future advisory votes on the compensation of our named executive officers (say on frequency); and
- (5) The transaction of such other business as may come properly before the meeting or any meetings held upon adjournment or postponement of the meeting.

Our Board of Directors has fixed the close of business on February 9, 2012 as the record date for the determination of shareholders entitled to vote at the meeting or any meetings held upon adjournment or postponement of the meeting. Only record holders of our common stock at the close of business on that day will be entitled to vote. A copy of our Annual Report on Form 10-K for the year ended March 31, 2011 and the Form 10-K/A we filed with the Securities and Exchange Commission on July 29, 2011 are enclosed with this notice, but are not part of the proxy soliciting material.

We invite you to attend the meeting and vote in person. If you cannot attend, to assure that you are represented at the meeting, please sign and return the enclosed proxy card as promptly as possible in the enclosed postage prepaid envelope. If you attend the meeting, you may vote in person, even if you previously returned a signed proxy.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders**

**to be Held on March 21, 2012.**

Our proxy statement and our Annual Report on Form 10-K for the year ended March 31, 2011 (together with the Form 10-K/A we filed with the Securities and Exchange Commission on July 29, 2011) are available at <http://www.cstproxy.com/motorcarparts/2012>.

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By order of the Board of Directors

Michael M. Umansky,

*Secretary*

Torrance, California

February 27, 2012

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**MOTORCAR PARTS OF AMERICA, INC.**

**2929 California Street**

**Torrance, California 90503**

**PROXY STATEMENT**

**GENERAL INFORMATION**

We are sending you this proxy statement on or about February 27, 2012 in connection with the solicitation of proxies by our Board of Directors. The proxies are for use at our annual meeting of shareholders, which we will hold at 10:00 a.m. (PT) on March 21, 2012, at the offices of the Company at 2929 California Street, Torrance, California 90503. The proxies will remain valid for use at any meetings held upon adjournment or postponement of that meeting. The record date for the meeting is the close of business on February 9, 2012. All holders of record of our common stock at the close of business on the record date are entitled to notice of the meeting and to vote at the meeting and any meetings held upon adjournment or postponement of that meeting. Our principal executive offices are located at 2929 California Street, Torrance, California 90503, and our telephone number is (310) 212-7910.

A proxy form is enclosed. Whether or not you plan to attend the meeting in person, please date, sign and return the enclosed proxy as promptly as possible, in the postage prepaid envelope provided, to ensure that your shares will be voted at the meeting. If you are a shareholder of record, you may revoke your proxies at any time prior to the voting at the meeting by submitting a later dated proxy, giving timely written notice of revocation to our secretary or attending the meeting and voting in person. If you are a holder in street name, you may revoke your proxy by following the specific voting directions provided to you by your bank, broker or other intermediary to change or revoke any instructions you have already provided to your bank, broker or other intermediary.

Unless you instruct otherwise in the proxy, any proxy, if not revoked, will be voted at the meeting:

for our Board of Directors slate of nominees;

to ratify the appointment of Ernst & Young LLP as our independent registered public accountants for the fiscal year ended March 31, 2012;

for the approval on a non-binding advisory basis of the compensation of our named executive officers;

every year for the holding of future advisory votes on the compensation of our named executive officers; and

as recommended by our Board of Directors with regard to all other matters, in its discretion.

Our only voting securities are the outstanding shares of our common stock. At the record date, we had 12,533,321 shares of common stock outstanding and approximately 34 shareholders of record. If the shareholders of record present in person or represented by their proxies at the meeting hold at least a majority of our outstanding shares of common stock, a quorum will exist for the transaction of business at the meeting. Shareholders of record who abstain from voting, including brokers holding their customers' shares who cause abstentions to be recorded, are counted as present for quorum purposes.

For each share of common stock you hold on the record date, you are entitled to one vote on each of the matters that we will consider at this meeting. You are not entitled to cumulate your votes. Brokers holding shares of record for their customers generally are not entitled to vote on certain matters unless their customers give them specific voting instructions. If the broker does not receive specific instructions, the broker will

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note this on the proxy form or otherwise advise us that it lacks voting authority. The votes that the brokers would have cast if their customers had given them specific instructions are commonly called broker non-votes. Broker non-votes will be counted for purposes of determining whether a quorum is present, but will not be counted or deemed to be present or represented for the purpose of determining whether shareholders have approved a matter.

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With respect to the election of our director nominees, the seven candidates who receive the highest number of affirmative votes will be elected. Votes against a candidate and votes withheld from voting for a candidate will have no effect on the election.

The affirmative vote of a majority of the votes cast at the meeting by the holders of shares entitled to vote is required to approve Proposal No. 2 (ratification of Ernst & Young LLP as our independent registered public accountants for the fiscal year ended March 31, 2012). The affirmative vote of a majority of the votes cast at the meeting by the holders of shares entitled to vote is required to approve, on a non-binding advisory basis, Proposal No. 3 (advisory vote on the compensation of our named executive officers). With respect to Proposal No. 4 (advisory vote on the frequency of future advisory votes on the compensation of our named executive officers), although the vote is non-binding, our Board will consider the shareholders to have approved the frequency selected by a plurality of the votes cast; that is, the frequency receiving the highest number of affirmative votes cast at the meeting by the holder of shares entitled to vote. An abstention from voting on these matters will be treated as present for quorum purposes. However, since an abstention is not treated as a vote for or against these matters, it will have no effect on the outcome of the vote. Broker non-votes will not be counted and will have no effect on the outcome of the voting for these matters.

We will pay for the cost of preparing, assembling, printing and mailing this proxy statement and the accompanying form of proxy to our shareholders, as well as the cost of soliciting proxies relating to the meeting. We have requested banks and brokers to solicit their customers who beneficially own our common stock in nominee name. We will reimburse these banks and brokers for their reasonable out-of-pocket expenses regarding these solicitations. Our officers, directors and employees may supplement this solicitation of proxies by telephone and personal solicitation. We will pay no additional compensation to our officers, directors and employees for these activities. We have engaged MacKenzie Partners, Inc. as our proxy solicitor to solicit proxies for us, at an anticipated cost of approximately \$25,000. In addition to the use of the mails, solicitation may be made by our proxy solicitor or our employees personally or by telephone, facsimile or electronic transmission.

### **PROPOSAL NO. 1**

#### **ELECTION OF DIRECTORS**

We are asking our shareholders to elect seven members to serve on our Board of Directors for a one-year term of office or until their respective successors are elected and qualified. Our Board of Directors has nominated the seven individuals named below for election as directors. Each nominee has agreed to serve as a director if elected.

Each of our nominees, Selwyn Joffe, Mel Marks, Scott Adelson, Rudolph Borneo, Philip Gay, Duane Miller and Jeffrey Mirvis, is currently serving as a director. Our directors will hold office until the next annual meeting of shareholders, or until their successors are elected and qualified. All of our current Board of Directors members were elected at the last shareholders meeting.

The persons named as proxies in the accompanying form of proxy have advised us that at the meeting they will vote for the election of the nominees named below, unless a contrary direction is indicated. If any of these nominees becomes unavailable for election to our Board of Directors for any reason, the persons named as proxies have discretionary authority to vote for one or more alternative nominees designated by our Board of Directors.

No arrangement or understanding exists between any nominee and any other person or persons pursuant to which any nominee was or is to be selected as a director.

**The Board of Directors recommends that shareholders vote FOR each of the nominees named below.**

**Table of Contents****Information Concerning our Board of Directors and our Nominees to our Board of Directors**

The nominees for election to our Board of Directors, their ages and present positions with the Company, are as follows:

<b>Name</b>	<b>Age</b>	<b>Position with the Company*</b>
Selwyn Joffe	54	Chairman of the Board of Directors, President and Chief Executive Officer
Mel Marks	84	Director and Consultant
Scott J. Adelson	51	Director
Rudolph J. Borneo	70	Director, Chairman of the Compensation Committee and member of the Audit, Ethics and Nominating and Corporate Governance Committees
Philip Gay	54	Director, Chairman of the Audit Committee and Ethics Committee, and member of the Compensation and Nominating and Corporate Governance Committees
Duane Miller	64	Director, member of the Audit, Compensation, Ethics and Nominating and Corporate Governance Committees
Jeffrey Mirvis	48	Director, member of the Compensation Committee

**Selwyn Joffe** has been our Chairman of the Board of Directors, President and Chief Executive Officer since February 2003. He has been a director of our Company since 1994 and Chairman since November 1999. From 1995 until his election to his present positions, he served as a consultant to us. Prior to February 2003, Mr. Joffe was Chairman and Chief Executive Officer of Protea Group, Inc. a company specializing in consulting and acquisition services. From September 2000 to December 2001, Mr. Joffe served as President and Chief Executive Officer of Netlock Technologies, a company that specializes in securing network communications. In 1997, Mr. Joffe co-founded Palace Entertainment, Inc., a roll-up of amusement parks and served as its President and Chief Operating Officer until August 2000. Prior to the founding of Palace Entertainment, Inc., Mr. Joffe was the President and Chief Executive Officer of Wolfgang Puck Food Company from 1989 to 1996. Mr. Joffe is a graduate of Emory University with degrees in both Business and Law and is a member of the bar of the State of Georgia as well as a Certified Public Accountant. As our most senior executive, Mr. Joffe provides the Board of Directors with insight into our business operations, management and strategic opportunities. His history with our Company and industry experience have led the Board of Directors to conclude that he should serve as a director of our Company.

**Mel Marks** founded our Company in 1968. Mr. Marks served as our Chairman of the Board of Directors and Chief Executive Officer from that time until July 1999. Prior to founding our Company, Mr. Marks was employed for over 20 years by Beck/Arnley-Worldparts, a division of Echlin, Inc. (one of the largest importers and distributors of parts for imported cars), where he served as Vice President. Mr. Marks has continued to serve as a consultant and director to us since July 1999. Mr. Marks' 42-year history with our Company in addition to his wealth of industry knowledge and experience have led the Board of Directors to conclude that he should serve as a director of our Company.

**Scott J. Adelson** joined our Board of Directors on April 11, 2008. Mr. Adelson is also a director and member of the compensation committee of QAD Inc., a public software company, since April 2006. Mr. Adelson is a Senior Managing Director and Global Co-Head of Corporate Finance for Houlihan Lokey, a leading international investment bank. During his 20 plus years with the firm, Mr. Adelson has helped advise hundreds of companies on a diverse and in-depth variety of corporate finance issues, including mergers and acquisitions. Mr. Adelson has written extensively on a number of corporate finance and securities valuation subjects. He is an active member of Board of Directors of various middle-market businesses as well as several recognized non-profit organizations, such as the USC Entrepreneur Program. Mr. Adelson holds a bachelor degree from the University of Southern California and a Master of Business Administration degree from the University of Chicago, Graduate School of Business. Mr. Adelson's broad business skills and experience, leadership expertise, knowledge of complex global business and financial matters have led the Board of Directors to conclude that he should serve as a director of our Company.

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**Rudolph J. Borneo** joined our Board of Directors on November 30, 2004. Mr. Borneo retired from R.H. Macy's, Inc. on March 31, 2009. At the time of his retirement, his position was Vice Chairman and Director of Stores of Macy's West, a division of R.H. Macy's, Inc. Mr. Borneo served as President of Macy's California from 1989 to 1992 and President of R.H. Macy's West from 1992 until his appointment as Vice Chairman and Director of Stores in February 1995. In addition, Mr. Borneo is currently a director of Grill Concepts, Inc. and a member of the Board of Trustees of Monmouth University. Mr. Borneo is the Chairman of our Compensation Committee and a member of our Audit, Ethics and Nominating and Corporate Governance Committees. Mr. Borneo's extensive experience in management of employees, organizational management, general business and retail knowledge and financial literacy have led the Board of Directors to conclude that he should serve as a director of our Company.

**Philip Gay** joined our Board of Directors on November 30, 2004. He chairs our Audit and Ethics Committees and is a member of our Compensation and Nominating and Corporate Governance Committees. Mr. Gay currently serves as Managing Director of Triple Enterprises, a business advisory service firm that assists mid-cap sized companies with financing, mergers and acquisitions and strategic financing, which he had previously managed from March 2000 until June 2004. From June 2004 until June 2010, Mr. Gay served as President, Chief Executive Officer and a Director of Grill Concepts, Inc., a company that operates a chain of upscale casual restaurants throughout the United States. From March 2000 to November 2001, Mr. Gay served as an independent consultant with El Paso Energy from time to time and assisted El Paso Energy with its efforts to reduce overall operating and manufacturing overhead costs. Previously he has served as chief financial officer for California Pizza Kitchen (1987 to 1994) and Wolfgang Puck Food Company (1994 to 1996), and he has held various Chief Operating Officer and Chief Executive Officer positions at Color Me Mine and Diversified Food Group from 1996 to 2000. Mr. Gay is also a Certified Public Accountant, a former audit manager at Laventhol and Horwath and a graduate of the London School of Economics. Mr. Gay's leadership experience, general business knowledge, financial literacy and expertise, accounting skills and competency and overall financial acumen have led the Board of Directors to conclude that he should serve as a director of our Company.

**Duane Miller** joined our Board of Directors on June 5, 2008. Mr. Miller is currently employed by the Genesee Regional Chamber of Commerce as Chief Operating Officer. Prior to joining the Genesee County Regional Chamber of Commerce, he was employed by the City of Flint, Michigan, as the Director of Government Operations, from February 2009 to August 2009. Mr. Miller retired from General Motors Corporation in April 2008 after 37 years of service. At the time of his retirement, Mr. Miller served as executive director, GM Service and Parts Operations (SPO) Field Operations where he was responsible for all SPO field activities, running GM Parts (original equipment), AC Delco (after-market) and GM Accessories business channels, as well as SPO's Global Independent Aftermarket. Mr. Miller served on the Board of Directors of OEConnection, an automotive ecommerce organization focused on applying technology to provide supply chain solutions and analysis. He currently serves on the Boards of Directors of McLaren Regional Medical Center in Flint, Michigan and Prima Civitas Foundation, headquartered in Lansing, Michigan. His experience also includes serving on the Boards of Directors of the Urban League of Flint, Michigan, the Boys and Girls Club of Flint, Michigan and the Flint/Genesee County Convention and Visitor's Bureau. Mr. Miller earned a Bachelor of Science degree in marketing from Western Michigan University, and attended the Executive Development Program at the University of California Berkeley Haas School of Business. Mr. Miller is a member of our Audit, Compensation, Ethics and Nominating and Corporate Governance Committees. Mr. Miller's significant experience with the automotive parts industry, combined with his organizational, management and business understanding, have led the Board of Directors to conclude that he should serve as a director of our Company.

**Jeffrey Mirvis** joined our Board of Directors on February 3, 2009. Mr. Mirvis is currently the Chief Executive Officer of MGT Industries, Inc. (MGT), a privately-held apparel company based in Los Angeles. As Chief Executive Officer of MGT, Mr. Mirvis successfully moved all production and sourcing to Asia. During his 11-year tenure as chief executive, Mr. Mirvis has gained valuable knowledge of manufacturing in Asia. Prior to joining MGT in 1990, Mr. Mirvis served as a commercial loan officer at Union Bank of California following his completion of the Union Bank of California's Commercial Lending Program. He earned a Bachelor of Arts degree in economics from the University of California at Santa Barbara. He currently serves as a board member of Wildwood School in Los Angeles, and has been a member of the board of the Jewish Federation in Los Angeles. Mr. Mirvis is a member of our Audit and Compensation Committees. Mr. Mirvis' international business experience, operational and production expertise, leadership experience and organizational management have led the Board of Directors to conclude he should serve as a director of our Company.

## **Code of Ethics**

Our Board of Directors formally approved the creation of our Ethics Committee on May 8, 2003 and adopted a Code of Business Conduct and Ethics, which applies to all our officers, directors and employees. The Ethics Committee is currently comprised of Philip Gay, who serves as Chairman, Rudolph Borneo and Duane Miller. The Code of Business Conduct and Ethics is filed with the Securities and Exchange Commission (the SEC), and a copy is posted on our website at [www.motorcarparts.com](http://www.motorcarparts.com). We intend to disclose future amendments to certain provisions of the code, or waivers of such provisions granted to executive officers and directors, on our website within four business days following the date of such amendment or waivers. We will provide a copy of the Code of Business Conduct and Ethics to any person without charge, upon request addressed to the Corporate Secretary at Motorcar Parts of America, Inc., 2929 California Street, Torrance, CA 90503.



**Table of Contents****Information about Our Non-Director Executive Officers and Significant Employees**

Our executive officers (other than executive officers who are also members of our Board of Directors) and significant employees, their ages and present positions with our Company, are as follows:

Name	Age	Position with the Company
Kevin Daly	52	Chief Accounting Officer
Steve Kratz	57	Chief Operating Officer
David Lee	42	Chief Financial Officer
Rich Mochulsky	53	Vice President, Sales
Michael Umansky	70	Vice President, Secretary and General Counsel

Our executive officers are appointed by and serve at the discretion of our Board of Directors. A brief description of the business experience of each of our executive officers other than executive officers who are also members of our Board of Directors and significant employees is set forth below.

**Kevin Daly** has been our Chief Accounting Officer since February 2008. Prior to this, Mr. Daly served as our Vice President, Controller since he joined us in January 2006. From May 2000 until he joined our Company, Mr. Daly served as Corporate Controller for Leiner Health Products Inc., a private label manufacturer of vitamins and over-the-counter pharmaceutical products based in Carson, California. From November 1994 until May 2000, Mr. Daly held various director level finance positions at Dexter Corporation. From November 1988 until October 1994, he held various positions in the finance and controller's departments of FMC Corporation, based in Chicago, Illinois. From June 1985 to November 1988, Mr. Daly served as Controller of Bio-logic Systems Corp. Mr. Daly is a Certified Public Accountant and worked in the firm of Laventhol & Horwath from 1981 to 1985. Mr. Daly has a Bachelor of Science degree in Accounting from the University of Illinois and a Master of Business Administration degree from the University of Chicago, Booth Graduate School of Business.

**Steve Kratz**, has been our Chief Operating Officer since May 2007. Prior to this, Mr. Kratz served as our Vice President-QA/Engineering since 2001. Mr. Kratz joined our Company in April 1988. Before joining us, Mr. Kratz was the General Manager of GKN Products Company, a division of Beck/Arnley-Worldparts. In addition to serving as our Chief Operating Officer, Mr. Kratz heads our quality assurance, research and development, engineering and information technology departments.

**David Lee** has been our Chief Financial Officer since February 2008. Prior to this, Mr. Lee served as our Vice President of Finance and Strategic Planning since January 2006, focusing primarily on financial management and strategic planning. Mr. Lee joined us in February 2005 as a Director of Finance and Strategic Planning. His primary responsibilities as Chief Financial Officer are treasury, budgeting and financial management. From August 2002 until he joined us in 2005, he served as corporate controller of Palace Entertainment, Inc., an amusement and water park organization. Prior to this, Mr. Lee held various corporate controller and finance positions for several domestic companies and served in the audit department of Deloitte LLP (formerly known as Deloitte & Touche LLP). Mr. Lee is a Certified Public Accountant. Mr. Lee earned his Bachelor of Arts degree in economics from the University of California, San Diego, and a Masters in Business Administration degree from the University of California Los Angeles Anderson School of Management.

**Rick Mochulsky** has been our Vice President, Sales since February 2011. As Vice President, Sales, Mr. Mochulsky oversees all domestic and international sales. Prior to this, Mr. Mochulsky served as our Vice President of Traditional Sales since joining the company in 2005. Prior to joining us in 2005, Mr. Mochulsky held a variety of sales and sales management positions in both public and privately held companies. Mr. Mochulsky began his automotive career in 1979 in Edmonton Alberta as a territory manager with the Dayco Rubber Company.

**Michael Umansky** has been our Vice President and General Counsel since January 2004 and is responsible for all legal matters. His responsibilities also include the oversight of Human Resources. His additional appointment as Secretary became effective September 1, 2005. Mr. Umansky was a partner of Stroock & Stroock & Lavan LLP, and the founding and managing partner of its Los Angeles office from 1975 until 1997 and was Of Counsel to that firm from 1998 to July 2001. Immediately prior to joining our Company, Mr. Umansky was in the private practice of law, and during 2002 and 2003, he provided legal services to us. From February 2000 until March 2001, Mr. Umansky was Vice President, Administration and Legal, of Hiho Technologies, Inc., a venture capital financed producer of workforce management software. Mr. Umansky is admitted to practice law in California and New York and is a graduate of The Wharton School of the University of Pennsylvania and Harvard Law School.



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There are no family relationships among our directors or named executive officers. There are no material proceedings to which any of our directors or executive officers or any of their associates, is a party adverse to us or any of our subsidiaries, or has a material interest adverse to us or any of our subsidiaries. To our knowledge, none of our directors or executive officers has been convicted in a criminal proceeding during the last ten years (excluding traffic violations or similar misdemeanors), and none of our directors or executive officers was a party to any judicial or administrative proceeding during the last ten years (except for any matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than ten percent of our common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Based solely on our review of copies of such forms received by us, or written representations from reporting persons that no such forms were required for those persons, we believe that our insiders complied with all applicable Section 16(a) filing requirements during the fiscal year ended March 31, 2011 with the following exceptions. Mr. Joffe filed a Form 4 related to a stock option exercise that was due on April 26, 2010 on April 28, 2010. Mr. Marks filed a Form 4 related to a stock option exercise that was due on April 27, 2010 on April 28, 2010.

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### **EXECUTIVE COMPENSATION**

#### **Compensation Discussion and Analysis**

*The following discussion and analysis of compensation arrangements of our named executive officers for fiscal 2011 should be read together with the compensation tables and related disclosures set forth below. This discussion contains certain forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt in the future may differ materially from currently planned programs as summarized in this discussion.*

#### *Executive Compensation Summary.*

The retention of experienced, highly-capable and dedicated executives is crucial to the long-term success of our Company. To achieve the goal of recruiting, retaining and motivating our executives, our Compensation Committee has developed an overall executive compensation program that rewards these employees for their contributions to our Company.

The primary objectives of our practices with respect to executive compensation are to:

provide appropriate incentives to our executive officers to implement our strategic business objectives and achieve the desired company performance;

reward our executive officers for their contribution to our success in building long-term shareholder value; and

provide compensation that will attract and retain superior talent and reward performance.

#### *Compensation Components.*

With our compensation objectives in mind, our executive officer compensation program consists of five primary elements: (1) base salary; (2) an annual bonus; (3) long-term incentive compensation in the form of stock options; (4) non-qualified deferred compensation arrangements; and (5) coverage under our broad-based employee benefit plans, such as our group health and 401(k) plans, and executive perquisites.

**Base Salary.** Base salary is the fixed component of our executive compensation intended to meet the objective of attracting and retaining the executive officers of superior talent that are necessary to manage and lead our Company.

**Annual Bonus.** We utilize annual bonuses that are designed to provide incentives to motivate the achievement of strategic business objectives, desired company performance and individual performance goals.

**Stock Option Program.** Equity awards are a part of our overall executive compensation program because we believe that our long-term performance will be enhanced through the use of equity awards that reward our executives for maximizing shareholder value over time. We have historically elected to use stock options that vest over time as the primary long-term equity incentive vehicle to promote retention of our key executives. Although we have not adopted formal stock ownership guidelines, our named directors and executive officers currently hold a significant portion of our fully-diluted common stock, substantially through the ownership of stock options. In determining the number of stock options to be granted to executives, we historically have taken into account the individual's position, scope of responsibility, ability to affect profits and shareholder value and the value of the stock options in relation to other elements of the individual executive's total compensation. In fiscal 2011, we adopted our 2010 Incentive Award Plan. Our Compensation Committee anticipates issuing equity-related grants under the 2010 Incentive Award Plan commencing in fiscal 2012.

**Deferred Compensation Benefits.** We offer a non-qualified deferred compensation plan to selected executive officers which provides unfunded, non-tax qualified deferred compensation benefits. We believe this program helps promote the retention of our senior executives. Participants may elect to contribute a portion of their compensation to the plan, and we make matching contributions of 25% of each participant's elective contributions to the plan up to 6% of the participant's compensation for the year. Contributions for fiscal 2011 and year-end account balances for those executive officers can be found in the Non-Qualified Deferred Compensation table.

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Other Benefits. We provide to our executive officers medical benefits that are generally available to our other employees. Executives are also eligible to participate in our other broad-based employee benefit plans, such as our long and short-term disability, life insurance and 401(k) plan. Historically, the value of executive perquisites, as determined in accordance with the rules of the SEC related to executive compensation, has not exceeded 10% of the base salary of any of our executives.

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### *Determination of Compensation Decisions.*

The Compensation Committee is responsible for establishing, developing and maintaining our executive compensation program. The role of the Compensation Committee is to oversee our compensation and benefits plans and policies, administer our equity incentive plans and review and approve all compensation decisions relating to all executive officers and directors. In order for the Compensation Committee to perform its function, the following process for determining executive compensation decisions has been followed.

Determining Goals. Prior to the beginning of each fiscal year, senior executives and department heads meet and establish the Objective Goals Strategies and Measures (the OGSM) for our Company. The OGSM sets forth performance goals for each department of our Company and certain employees for the upcoming fiscal year. The OGSM provides a basis for developing a base financial operating plan for the upcoming fiscal year. The OGSM and base financial operating plan are reviewed and approved by our Board of Directors.

On a quarterly basis, the Board of Directors reviews the actual financial performance of our Company against the goals set forth in the OGSM and the base financial operating plan. In addition, the members of the Board of Directors receive interim reports detailing the actual financial performance of our Company compared to these goals.

### Determining Executive Compensation.

Our method of determining compensation varies from case to case based on a discretionary and subjective determination of what is appropriate at the time. In determining specific components of compensation, the Compensation Committee considers individual performance, level of responsibility, skills and experience, and other compensation awards or arrangements.

Our general policy for setting base salaries of our named executive officers (the Senior Executives) is to only increase such salaries in the case of promotions or significant increases to an officer's duties and responsibilities. Such increases to base salaries are reviewed by the Compensation Committee on a case-by-case basis. The salary increases reflected in our Summary Compensation Table below reflect: (i) an adjustment to Steve Kratz's base salary in fiscal 2010 to provide for internal parity of salaries between him and other executives in our Company; and (ii) increased responsibilities assigned to Doug Schooner in fiscal 2010 requiring him to spend more time at our Tijuana facility. In making such determinations regarding base salaries for the Senior Executives, we take into account such factors as: the Senior Executive's scope of responsibilities and level of experience; salary data for comparable positions at the peer group companies based on reports of our outside consultant and salary survey data provided by our outside consultant; and internal equity of salaries of individuals in comparable positions at our Company.

At the end of the fiscal year, department heads assess their progress against the OGSM and base financial operating plan and evaluate their results. These self-assessments are reviewed by the Chief Executive Officer who then undertakes his own evaluation of the executives performance. This involves a two-step process whereby the Chief Executive Officer evaluates: (i) our Company's actual financial performance against the budget, taking into account events that may be beyond the control of any given Senior Executive's performance initiatives and (ii) each Senior Executive's performance against his OGSM goals. Performance is evaluated in a non-formulaic manner with no specific weighting given to the performance measures. The Chief Executive Officer considers both the financial performance of our Company and individual performance relative to each performance goal of the Senior Executives to develop bonus recommendations for each Senior Executive guided by the framework of our compensation consultant's most recent review.

The Compensation Committee reviews the performance evaluations of the Senior Executives and assesses the specific OGSM goals and execution of such goals for each Senior Executive. The Chief Executive Officer then presents his bonus recommendations for the Senior Executives to the Compensation Committee. The Compensation Committee then decides whether to approve or adjust these bonus recommendations. The Compensation Committee evaluates all of the factors considered by the Chief Executive Officer and reviews the compensation summaries for each Senior Executive, including base salary, bonus, equity awards (if any), deferred compensation benefits and other benefits. In determining specific components of compensation, the Compensation Committee considers individual performance, level of responsibility, skills and experience, and other compensation awards or arrangements. These measures are evaluated in a non-formulaic manner with no specific weighting given to any specific objectives that the executives were tasked with performing. Based on its review and evaluation, the Compensation Committee makes the final determination of the annual bonuses to be paid to the Senior Executives and reports its decisions to the entire Board of Directors.

Our Compensation Committee performs an annual review of our compensation policies, including the appropriate mix of base salary, bonuses and long-term incentive compensation. The Compensation Committee also reviews and approves all long-term incentive compensation and other benefits (including our 401(k) and our non-qualified deferred compensation plan).



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### Determining Chief Executive Officer Compensation.

The Compensation Committee is responsible for evaluating the performance of Mr. Joffe, our Chief Executive Officer, and setting his annual compensation. In determining these elements of compensation for Mr. Joffe, the Compensation Committee considered the contributions Mr. Joffe has made to our Company both from strategic and operational perspectives. The Compensation Committee reviews the key operating results and key strategic initiatives of our Company against the goals and base financial plan contained in the OGSM to determine if the Chief Executive Officer has achieved the goal of strategically enhancing our Company while maintaining favorable operating metrics. The Compensation Committee also takes into consideration the standard of living of the Los Angeles vicinity in which our corporate offices are located. The Compensation Committee separately reviews all relevant information, including reports provided by its outside consultant, and arrives at its decision for the Chief Executive Officer's total compensation. The Chief Executive Officer's performance is evaluated in a non-formulaic manner with no specific weighting given to any one of the performance measures. Mr. Joffe does not participate in any decision regarding his compensation. Our employment agreement with Mr. Joffe provides that we may increase, but not decrease, his base salary, which is set at \$500,000. See the Employment Agreements section below for a further discussion of certain compensation amounts payable to Mr. Joffe pursuant to his employment agreement. Upon making its determination, the Compensation Committee reports its decision concerning Mr. Joffe's compensation to the entire Board of Directors.

### Compensation Committee Consultant.

The Compensation Committee has retained Towers Watson as its outside compensation consultant. Towers Watson does not perform any other consulting work or any other services for our Company, reports directly to the Compensation Committee, and takes direction from the Chairman of the Compensation Committee. The Compensation Committee engaged Towers Watson to prepare a complete competitive assessment of our executive compensation practices in 2004, an updated assessment of the compensation of our Chief Executive Officer in 2006, a complete executive compensation assessment in 2009 and a complete executive compensation review in 2011.

The Compensation Committee considers analysis and advice from its outside consultant when making compensation decisions for the Chief Executive Officer and other Senior Executives. The outside consultant's work for the Compensation Committee includes data analysis, market assessments, and preparation of related reports.

### Peer Group.

While the Compensation Committee does not undertake a formalized benchmarking process, it does review the assessment provided by its outside consultant detailing the competitiveness of our executive compensation relative to our peer group when making its executive compensation decisions. Our peer group for compensation purposes includes Dorman Products Inc., Modine Manufacturing Co., Standard Motor Products Inc., Strattec Security Corp. and Superior Industries International Inc. The peer group is reviewed annually with the assistance of our outside consultant to ensure that the peer companies remain an appropriate basis for comparison.

### *Senior Executive Compensation Decisions (Other than the Chief Executive Officer).*

The Compensation Committee made decisions for each of the named executive officers (other than the Chief Executive Officer) following the process described above and established the following key individual performance goals for each such officer:

#### David Lee, Chief Financial Officer

Monitor all metrics that may have an impact on our financial performance

Maintain an effective treasury function, including budgeting and forecasting

Manage our cash flows

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Minimize the loan and interest expenses we incur

Manage our shareholder relations

Steve Kratz, Chief Operating Officer

Evaluate and manage the key operating metrics for us

Increase quality of our product

Implement strategies aimed at reducing our product costs and warranty rates

Manage our recovery operations

Improve our customer support services

Manage and improve the performance of our information technology systems

Kevin Daly, Chief Accounting Officer

Provide timely and accurate services and information to our management, Board of Directors and other stakeholders

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Maintain and improve top-level financial knowledge and accounting controls

Keep abreast of all financial accounting pronouncements that may affect our financial reporting

Michael Umansky, Vice President, Secretary and General Counsel

Limit our legal and other risk exposure

Manage any litigation

Control our legal and insurance costs

Maintain our compliance standards, including compliance with SEC rules and regulations

Manage our investor relations communications

Develop and protect intellectual property for our business processes

Advise on and implement any transactional business opportunities, including acquisitions, financings, SEC correspondence and customer contracts

Oversee certain administrative functions, including human resource functions.

Determine and negotiate all required insurance.

Supervise contractual obligations.

Doug Schooner, Vice President, Manufacturing

Maximize all manufacturing efficiencies to ensure fill rates to our customers

Ensure the quality of our products through the manufacturing process

Maintain appropriate levels of offshore production volume and capacity

Maintain a global manufacturing and multifunctional support group

Reorganize special order department to maintain ability of changing unit technology

Complete the reorganization of the production shop

Maintain our recovery remanufacturing process

Improve product costs

Rick Mochulsky, Vice President, Sales

Manage the sales function, including sales infrastructure, for our Company

Increase sales and profitability with our existing customers

Develop and pursue strategies and contacts that lead to new customer business

Ensure the appropriate structure to support and exceed customer needs

Tom Stricker, Vice President, Business Development

Define and create new areas for additional business growth

Identify, develop and pursue strategies and contacts that lead to new customer business

Based on our financial results in fiscal 2011 and the evaluation of each Senior Executive's performance against his individual goals in accordance with the process outlined above, the Compensation Committee approved the following base salaries and annual bonuses earned during fiscal 2011 for these Senior Executives:

Name	Base Salary	Bonus
David Lee	\$ 178,500	\$ 65,100
Kevin Daly	\$ 180,000	\$ 65,100
Steve Kratz	\$ 300,000	\$ 95,100
Rick Mochulsky	\$ 172,885	\$ 20,100
Michael Umansky	\$ 406,000	\$ 60,100
Doug Schooner	\$ 219,986	\$ 80,100
Tom Stricker	\$ 210,000	\$ 65,100

*Chief Executive Officer Compensation Decisions.*

The Compensation Committee made decisions for the Chief Executive Officer's compensation following the process described above and established the following key individual performance goals:

Overall responsibility for the financial results of the Company



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Develop key strategies in all areas aimed at driving our Company value

Strengthen our relationships with key customers through long-term arrangements

Ensure appropriate information is communicated to our Board of Directors

Ensure that the appropriate management team and corporate focus is in place

Develop an appropriate succession plan

Maintain the appropriate financial structure for our Company, including, but not limited to, budgets and operating focus

Make decisions on all key initiatives proposed by senior management

Build sales

Evaluate and propose systems and initiatives for continuous improvement in all disciplines of our business

Identify and drive any acquisitions

Prepare the infrastructure and develop plans to grow the Company

The Compensation Committee recognized that our Company is a complicated business to manage, particularly in light of its size and complex accounting issues, and that this complexity may not be adequately reflected in the Company's income levels. The Compensation Committee also recognized Mr. Joffe's contribution in establishing our Company's reputation and growth capacity. In addition, Mr. Joffe's contributions have been made during a period when several of our competitors have been under financial stress.

The Compensation Committee also considered the following items in determining the Chief Executive Officer's bonus amount for fiscal 2011: (i) significantly increased net sales, profitability and cash-flows for the Company in fiscal 2011; (ii) the healthy status of the Company's balance sheet, including inventory mix and leverage amounts; (iii) strong working relationships with our banks and customers; (iv) the positive strategic results of acquisition-related activities during fiscal 2011 and new business development; and (v) positive positioning of the Company to ensure its ability to pursue future growth opportunities.

The Compensation Committee considered Mr. Joffe's performance against his individual goals, the factors above and the aspects regarding the complexity of our business and competitive position in determining that Mr. Joffe's base salary would remain at its current annual level of \$500,000 during fiscal 2011 and his annual bonus would be \$700,000.

## **Tax Considerations**

Section 162(m) of the Internal Revenue Code of 1986, as amended, (the "Code") generally disallows a tax deduction for annual compensation in excess of \$1.0 million paid to our named executive officers. Qualifying performance-based compensation (within the meaning of Section 162(m) of the Code and regulations) is not subject to the deduction limitation if specified requirements are met. We generally intend to structure the performance-based portion of our executive compensation, when feasible, to comply with exemptions in Section 162(m) so that the compensation remains tax deductible to us. However, our Board of Directors or Compensation Committee may, in its judgment, authorize

compensation payments that do not comply with the exemptions in Section 162(m) when it believes that such payments are appropriate to attract and retain executive talent.

In limited circumstances, we may agree to make certain items of income payable to our named executive officers tax-neutral to them. Accordingly, we have agreed to gross-up certain payments to our Chief Executive Officer to cover any excise taxes (and related income taxes on the gross-up payment) that he may be obligated to pay with respect to the first \$3,000,000 of parachute payments (as defined in Section 280G of the Code) to be made to him upon a change of control of our Company.

#### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

#### **By Members of the Compensation Committee**

Rudolph Borneo, Chairman

Philip Gay

Duane Miller

Jeffrey Mirvis

#### **Compensation Risk Analysis**

The preceding Compensation Discussion and Analysis section generally describes our compensation policies, plans and practices that are applicable for our executives and management. Our Compensation Committee reviews the relationship between our risk management policies and practices, corporate strategy and compensation practices. Our Compensation Committee has determined that these plans and practices, as applied to all of our employees, including our executive officers, does not encourage excessive risk taking at any level of our Company. The Compensation Committee does not believe that risks arising from its compensation plans, policies or practices are reasonably likely to have a material adverse effect on our Company.

**Table of Contents****Summary Compensation Table**

The following table sets forth information concerning fiscal 2011, 2010 and 2009 compensation of our named executive officers. Mr. Mochulsky was included as a named executive officer because of his promotion in fiscal 2011.

Name & Principal Position	Fiscal Year	Salary	Bonus (1)	Stock Awards	Options Awards (2)	Nonqualified Deferred Compensation Earnings (3)	All Other Compensation (4)	Total
Selwyn Joffe, Chairman of the Board, President and CEO	2011	\$ 500,000	\$ 700,100	\$	\$	\$	\$ 189,572	\$ 1,389,672
	2010	500,000	600,100				323,416	1,423,516
	2009	500,000	500,100			5,889	165,164	1,171,153
David Lee Chief Financial Officer	2011	\$ 178,500	\$ 65,100	\$	\$	\$	\$ 64,871	\$ 308,471
	2010	178,500	60,600				55,392	294,492
	2009	178,500	50,100				38,819	267,419
Kevin Daly Chief Accounting Officer	2011	\$ 180,000	\$ 65,100	\$	\$	\$	\$ 24,725	\$ 269,825
	2010	180,000	59,100				22,684	261,784
	2009	180,000	50,100				20,888	250,988
Steve Kratz Chief Operating Officer	2011	\$ 300,000	\$ 95,100	\$	\$	\$	\$ 21,511	\$ 416,611
	2010	300,000	70,100				19,338	389,438
	2009	282,800	55,100				17,644	355,544
Rick Mochulsky Vice President, Sales	2011	\$ 172,885	\$ 20,100	\$	\$	\$	\$	\$ 192,985
Michael Umansky Vice President, Secretary and General Counsel	2011	\$ 406,000	\$ 60,100	\$	\$	\$ 30,360	\$ 55,307	\$ 551,767
	2010	406,000	60,100			61,110	86,449	613,659
	2009	406,000	40,100				47,706	493,806
Doug Schooner Vice President, Manufacturing	2011	\$ 219,986	\$ 80,100	\$	\$	\$ 307	\$ 65,467	\$ 365,860
	2010	219,986	60,100			72,219	118,566	470,871
	2009	213,600	50,100				54,667	318,367
Tom Stricker Vice President, Business Development	2011	\$ 210,000	\$ 65,100	\$	\$	\$	\$ 92,501	\$ 367,601
	2010	210,000	69,100				24,329	303,429
	2009	210,000	60,100			20,715	24,469	315,284

- (1) Bonus amounts for each named executive officer include a \$100 bonus paid to each of the Company's employees during December of each year, including the named executive officers.
- (2) Option award amounts represent the aggregate grant date fair value of options granted during the fiscal years ended March 31, 2011, 2010 and 2009.
- (3) The fiscal 2009 amounts shown for Mr. Umansky and Mr. Schooner do not reflect the year over year decrease in the aggregate value of the deferred compensation plan of \$19,303 and \$46,287, respectively.
- (4) The following chart is a summary of the items that are included in the All Other Compensation totals:

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Name	Automobile Expenses	Health Insurance Premiums	401K Employer s Contribution	Deferred Compensation Plan Employer s Contribution	Other (1)	Total
Selwyn Joffe	\$ 26,946	\$ 127,086	\$ 3,675	\$	\$ 31,865	\$ 189,572
David Lee	\$	\$ 61,265	\$ 3,606	\$	\$	\$ 64,871
Kevin Daly	\$	\$ 21,511	\$ 3,214	\$	\$	\$ 24,725
Steve Kratz	\$	\$ 21,511	\$	\$	\$	\$ 21,511
Rick Mochulsky	\$	\$ 31,195	\$ 1,190	\$	\$	\$ 32,385
Michael Umansky	\$ 1,625	\$ 42,785	\$ 3,673	\$ 7,224	\$	\$ 55,307
Doug Schooner	\$	\$ 61,265	\$ 4,075	\$ 127	\$	\$ 65,467
Tom Stricker	\$ 2,367	\$ 21,511	\$ 2,247	\$	\$ 66,376	\$ 92,501

- (1) The other amount shown for Mr. Joffe includes (i) \$26,865 for the realized value on exercise of stock options and (ii) \$5,000 for the transaction fees payable pursuant to his employment agreement related to the acquisition of certain assets of Automotive Importing Manufacturing, Inc.

**2011 Grants of Plan-Based Awards**

No options were granted to our named executive officers in fiscal 2011.

**Table of Contents****Outstanding Equity Awards At Fiscal Year End****Option Awards**

The following table summarizes information regarding option awards granted to our named executive officers that remain outstanding as of March 31, 2011.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable vested	Number of Securities Underlying Unexercised Options (#) Unexercisable unvested	Option Exercise Price (\$)	Option Expiration Date
Selwyn Joffe	43,750		\$ 3.150	11/15/2011
	1,500		\$ 3.600	4/29/2012
	100,000		\$ 2.160	3/2/2013
	1,500		\$ 1.800	4/29/2013
	100,000		\$ 6.345	1/13/2014
	200,000		\$ 9.270	7/20/2014
	150,000		\$ 10.010	11/2/2015
	250,000		\$ 12.000	8/29/2016
David Lee	5,000		\$ 10.10	11/2/2015
	2,500		\$ 12.00	8/29/2016
Kevin Daly	5,000		\$ 10.15	1/3/2016
	2,500		\$ 12.00	8/29/2016
Steve Kratz	35,600		\$ 3.15	11/15/2011
	2,500		\$ 8.70	5/11/2014
	6,000		\$ 10.10	11/2/2015
	10,000		\$ 12.00	8/29/2016
Rick Mochulsky	5,000		\$ 10.01	11/2/2015
	2,000		\$ 11.50	8/27/2017
Michael Umansky	25,000		\$ 10.01	11/2/2015
	20,000		\$ 12.00	8/29/2016
Doug Schooner	12,000		\$ 8.70	5/11/2014
	12,000		\$ 10.01	11/2/2015
	20,000		\$ 12.00	8/29/2016
Tom Stricker	12,000		\$ 8.70	5/11/2014
	12,000		\$ 10.01	11/2/2015
	20,000		\$ 12.00	8/29/2016

**Nonqualified Deferred Compensation**

**Option Exercises and Stock Vested**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Selwyn Joffe	3,000	\$ 26,865		\$
David Lee		\$		\$
Kevin Daly		\$		\$
Steve Kratz		\$		\$
Rick Mochulsky		\$		\$
Michael Umansky		\$		\$
Doug Schooner		\$		\$
Tom Stricker	17,250	\$ 66,376		\$

**Table of Contents****Nonqualified Deferred Compensation**

The following table sets forth certain information regarding contributions, earnings and account balances under our Amended and Restated Executive Deferred Compensation Plan, our only defined contribution plan that provides for the deferral of compensation on a basis that is not-tax qualified, for each of the named executive officers as of fiscal year ended March 31, 2011. A description of the material terms and conditions of the Amended and Restated Executive Deferred Compensation Plan follows.

Name	Executive Contributions in Last FY(1)	Registrants contribution in last FY(2)	Aggregate Earnings in Last FY	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FY
Selwyn Joffe	\$	\$	\$	\$	\$
David Lee	\$	\$	\$	\$	\$
Kevin Daly	\$	\$	\$	\$	\$
Steve Kratz	\$	\$	\$	\$	\$
Rick Mochulsky	\$	\$	\$	\$	\$
Michael Umansky	\$ 28,897	\$ 7,224	\$ 23,135	\$	\$ 302,259
Doug Schooner	\$ 508	\$ 127	\$ 180	\$ (206,850)	\$ 1,610
Tom Stricker	\$	\$	\$	\$	\$

- (1) The amounts set forth in this column are included in the Salary and Bonus columns, as applicable, in our Summary Compensation Table.
- (2) See description of the Non-Qualified Deferred Compensation Plan in the Grants of Plan Based Awards section. The following table shows our contribution to each named executive officer's account:

Name	Contribution	Interest (a)	Total
Selwyn Joffe	\$	\$	\$
David Lee	\$	\$	\$
Kevin Daly	\$	\$	\$
Steve Kratz	\$	\$	\$
Rick Mochulsky	\$	\$	\$
Michael Umansky	\$ 7,224	\$	\$ 7,224
Doug Schooner	\$ 127	\$	\$ 127
Tom Sticker	\$	\$	\$

- (a) No interest is paid by the registrant.  
*Nonqualified Deferred Compensation Plan*

We maintain the Motorcar Parts of America, Inc. Amended and Restated Executive Deferred Compensation Plan, an unfunded, non-qualified deferred compensation plan for a select group of management or highly compensated employees, including our named executive officers. Participants in the plan may elect to defer up to 100% of their gross W-2 compensation. We make matching contributions of 25% of each participant's elective contributions to the plan, up to 6% of the participant's compensation for the plan year. The plan is designed to defer taxation to the participant on contributions and notional earnings thereon until distribution thereof in accordance with a participant's previously made distribution elections. Insurance annuity contracts provide funding for the plan, however, the annuity contracts are owned by us and remain subject to claims of our general creditors.

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### **Employment Agreements**

On February 14, 2003, we entered into an employment agreement with Selwyn Joffe pursuant to which he is employed full-time as our President and Chief Executive Officer in addition to serving as our Chairman of the Board of Directors. This agreement, which was negotiated on our behalf by Mel Marks, the then Chairman of the Compensation Committee, and unanimously approved by our Board of Directors, was originally scheduled to expire on March 31, 2006. The February 14, 2003 agreement provided for an annual base salary of \$500,000, and participation in our executive bonus program. Mr. Joffe remains entitled to receive a transaction fee of 1.0% of the total consideration of any transaction, including any transaction resulting in a change of control, his efforts bring to us that we previously agreed to provide to him as part of a prior consulting agreement with Protea Group, Mr. Joffe's company. Mr. Joffe also participates in the stock option plans approved by the shareholders and also receives other benefits including those generally provided to other employees.

On April 22, 2005, we entered into an amendment to our employment agreement with Mr. Joffe. Under the amendment, Mr. Joffe's term of employment was extended from March 31, 2006 to March 31, 2008. His base salary, bonus arrangements, 1% transaction fee right and fringe benefits remained unchanged. This amendment was unanimously approved by our Board of Directors.

Before the amendment, Mr. Joffe had the right to terminate his employment upon a change of control and receive his salary and benefits through March 31, 2006. Under the amendment, upon a change of control (which has been redefined pursuant to the amendment), Mr. Joffe will be entitled to a sale bonus equal to the sum of (i) two times his base salary plus (ii) two times his average bonus earned for the two years immediately prior to the change of control. The amendment also grants Mr. Joffe the right to terminate his employment with effect on or after the one year anniversary of a change of control and to then receive salary and benefits for a one year period following such termination plus a bonus equal to the average bonus Mr. Joffe earned during the two years immediately prior to his voluntary termination.

If Mr. Joffe is terminated without cause or resigns for good reason (as defined in the amendment), the registrant must pay Mr. Joffe (i) his base salary, (ii) his average bonus earned for the two years immediately prior to termination (or, if such termination occurs within the first three months of our fiscal year, for the second and third years preceding the year in which such termination occurs), and (iii) all other benefits payable to Mr. Joffe pursuant to the employment agreement, as amended, through the later of two years after the date of termination of employment or March 31, 2008. Under the amendment, Mr. Joffe is also entitled to an additional gross-up payment to offset the excise taxes (and related income taxes on the gross-up payment) that he may be obligated to pay with respect to the first \$3,000,000 of parachute payments (as defined in Section 280G of the Code) to be made to him upon a change of control. The amendment has redefined the term for cause to apply only to misconduct in connection with Mr. Joffe's performance of his duties. Pursuant to the amendment, any options that have been or may be granted to Mr. Joffe will fully vest upon his termination for any reason other than for cause or without good reason and be exercisable for a two-year period following the termination, and Mr. Joffe agreed to waive the right he previously had under the employment agreement to require the registrant to purchase his option shares and any underlying options if his employment were terminated for any reason. The amendment further provides that Mr. Joffe's agreement not to compete with us terminates at the end of his employment term.

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In December 2006, our employment agreement with Mr. Joffe was amended to extend the term of this agreement from March 31, 2008 to August 30, 2009. This amendment was unanimously approved by our Board of Directors.

On March 27, 2008, our employment agreement with Mr. Joffe was further amended to extend the term of this agreement from August 30, 2009 to August 31, 2012. All other terms and conditions of Mr. Joffe's employment remained unchanged. This amendment was unanimously approved by our Board of Directors.

On December 31, 2008, we entered into an amended and restated employment agreement with Mr. Joffe. Mr. Joffe's previous employment agreement was amended and restated primarily to add language that satisfies the requirements of the final treasury regulations issued pursuant to Section 409A of the Code with respect to certain of the payments that may be provided to Mr. Joffe pursuant to the employment agreement. The restated agreement does not increase the amounts payable to Mr. Joffe as salary, bonus, severance or other compensation, nor does it extend the term of employment, but it does clarify that if we terminate the restated agreement without cause, either directly or constructively, Mr. Joffe will be entitled to receive severance payments until the later of (i) that date which is two years after the termination date or (ii) the date upon which the restated agreement would otherwise have expired. All other substantive terms and conditions of Mr. Joffe's employment remain unchanged. The restated agreement was unanimously approved by our Board of Directors.

In conformity with our policy, all of our directors and officers execute confidentiality and nondisclosure agreements upon the commencement of employment. The agreements generally provide that all inventions or discoveries by the employee related to our business and all confidential information developed or made known to the employee during the term of employment shall be our exclusive property and shall not be disclosed to third parties without our prior approval.

**Potential Payments Upon Termination or Change in Control Table**

The following table provides an estimate of the inherent value of Mr. Joffe's employment agreement described above, assuming the agreements were terminated on March 31, 2011, the last day of fiscal 2011. Please refer to Employment Agreements for more information.

<b>Benefit</b>	<b>Termination by Company for Cause(1)</b>	<b>Death(2)</b>	<b>Disability (3)</b>	<b>Voluntary Termination by Mr. Joffe for Good Reason or Termination by Company w/o Cause(4)</b>	<b>Change in Control</b>	<b>After Change in Control: Voluntary Termination by Mr. Joffe(5)</b>
Salary Contribution	\$	\$	\$	\$ 1,000,000	\$	\$ 500,000
Bonus	\$ 700,100	\$ 700,100	\$ 700,100	\$ 1,400,200	\$	\$ 700,100
Stock Options(6)	\$	\$	\$	\$	\$	\$
Healthcare	\$	\$	\$ 24,000	\$ 48,000	\$	\$ 24,000
Transaction Fee(7)	\$	\$	\$	\$	\$	\$
Sale Bonus(8)	\$	\$	\$	\$	\$ 2,400,200	\$
Automobile Allowance(9)	\$	\$	\$	\$ 36,000	\$	\$ 18,000
Accrued Vacation Payments	\$ 89,726	\$ 89,726	\$ 89,726	\$ 166,649	\$	\$ 89,726

- (1) Upon a termination for cause, Mr. Joffe will be entitled to his accrued salary, bonus and transaction fees (as described in footnote 7), if any, and benefits owing to him through the day of his termination.
- (2) Mr. Joffe's employment term will end on the date of his death. Upon such event, Mr. Joffe's estate will be entitled to receive his accrued salary, bonus and transaction fees (as described in footnote 7), if any, and benefits, including accrued but unused vacation time, owing to Mr. Joffe through the date of his death. In addition, Mr. Joffe's estate will assume Mr. Joffe's rights under the 1994 Stock Option Plan and the related rights under the employment agreement.
- (3) If during the employment term, Mr. Joffe becomes disabled and is terminated by us, Mr. Joffe will be entitled to receive his accrued salary, bonus, and transaction fees (as described in footnote 7), if any, and benefits owing to Mr. Joffe through the date of termination. In addition, Mr. Joffe will be entitled to receive the benefits payable pursuant to a disability insurance policy, which we pay Mr. Joffe \$24,000

annually to be used by Mr. Joffe to purchase the same for his benefit.

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- (4) Upon a termination by Mr. Joffe for good reason or by us without cause, Mr. Joffe will be entitled to receive his base salary, his average bonus earned for the two years immediately preceding his termination (or, if such termination occurs within the first three months of our fiscal year, for the second and third years preceding the year in which such termination occurs), all vacation, healthcare and disability benefits, automobile allowance, and any accrued transaction fees (as described in footnote 7). The payments are to be paid through the later of that date which is two years after the termination date or August 31, 2012.
- (5) If a change in control occurs, Mr. Joffe will have the right to voluntarily terminate the employment agreement with effect on or after the one year anniversary of the change in control upon giving at least 90 days prior written notice. Upon Mr. Joffe's voluntary termination, one year after the change in control occurs, he will be entitled to receive for one year after his termination date, his base salary, his average bonus earned for the two years immediately preceding his termination, accrued vacation payments, healthcare and disability benefits, automobile allowance, and any accrued transaction fees (as described in footnote 7).
- (6) Upon the termination of the employment agreement, for any reason other than termination by us for cause or termination by Mr. Joffe without good reason, any options which are not fully vested will immediately vest and remain exercisable by Mr. Joffe for a period of two years or, if shorter, until the ten year anniversary of the date of grant of each such option. The inherent value shown in the table is the additional compensation expense we would have recorded upon the immediate vesting of all options which were not fully vested at March 31, 2011.
- (7) In the event that one or more proposed transactions occur during the term of Mr. Joffe's employment agreement, Mr. Joffe will be entitled to receive a transaction fee, as additional compensation with respect to each proposed transaction. We will pay Mr. Joffe a transaction fee upon the closing of a proposed transaction in an amount equal to 1% of the total consideration. Since no transaction fee was accrued as of March 31, 2011 and there were no proposed transactions on which to estimate a 1% fee as of March 31, 2011, zero amounts were entered.
- (8) Upon a change in control, Mr. Joffe will be entitled to receive a sale bonus equal to the sum of (i) two times Mr. Joffe's salary plus (ii) two times Mr. Joffe's average bonus earned for the two years immediately prior to the year in which the change in control occurs. The sale bonus will be paid to Mr. Joffe in a lump sum on the closing date of the change in control transaction. If Mr. Joffe terminates his employment after this change of control, he will also be entitled to the compensation and other benefits described in footnote 5 above.
- (9) Mr. Joffe is entitled to receive an automobile allowance until March 31, 2011 in the amount of \$1,500 per month, payable monthly. In addition, all costs of operating the automobile, including fuel, oil, insurance, repairs, maintenance and other expenses, are our responsibility.

**Equity Based Employee Benefit Plans**

2010 Incentive Award Plan. On December 10, 2010, our Board of Directors approved our 2010 Incentive Award Plan (the "2010 Plan"). On January 14, 2011, our shareholders approved the 2010 Plan. The purpose of the 2010 Plan is to enhance the value of our Company and promote our success by linking the individual interests of our employees to the interests of our shareholders and by providing our employees with an incentive for outstanding performance to generate superior returns to our shareholders. The 2010 Plan is also intended to provide the Company with flexibility in its ability to motivate, attract, and retain the services of employees upon whose judgment, interest, and performance our success is largely dependent. The 2010 Plan does not provide for awards to non-employee directors or consultants of the Company.

Eligibility: Administration. Employees of our Company or any of its affiliates will be eligible to receive awards under the 2010 Plan. The 2010 Plan will be administered by our Compensation Committee, which may delegate its duties and responsibilities to subcommittees of our directors and/or officers, subject to certain limitations that may be imposed under applicable law or regulation, including Section 162(m) of the Code, Section 16 of the Exchange Act and/or stock exchange rules, as applicable. The plan administrator will have the authority to grant and set the terms of all awards under, make all determinations and interpretations under, prescribe all forms for use with, and adopt rules for the administration of, the 2010 Plan, subject to its express terms and conditions.

Limitation on Awards and Shares Available. An aggregate of 750,000 shares of our common stock are available for issuance under awards granted pursuant to the 2010 Plan, which shares may be treasury shares, authorized but unissued shares, or shares purchased in the open market. The number of authorized shares will be reduced by 1 share for each share issued pursuant to a stock option or stock appreciation right ("SAR") and by 2.5 shares for each share subject to a full-value equity award (which generally includes awards other than stock options and SARs, such as restricted stock and restricted stock units).

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The following types of shares will be added back to the available share limit under the 2010 Plan: (x) shares subject to awards that are forfeited, expire or are settled for cash, and (y) shares repurchased by the Company at the same price paid by a participant pursuant to the Company's repurchase right with respect to restricted stock awards. However, the following types of shares will not be added back to the available share limit under the 2010 Plan: (A) shares tendered by a participant or withheld by the Company in payment of the exercise price of an option; (B) shares withheld to satisfy any tax withholding obligation with respect to an award; (C) shares subject to a SAR that are not issued in connection with the stock settlement of the SAR on exercise thereof; and (D) shares purchased on the open market with the cash proceeds from the exercise of options.

Awards granted under the 2010 Plan upon the assumption of, or in substitution for, awards authorized or outstanding under a qualifying equity plan maintained by an entity with which the Company enters into a merger or similar corporate transaction will not reduce the shares authorized for grant under the 2010 Plan. The maximum number of shares of our common stock that may be subject to one or more awards granted to any one participant pursuant to the 2010 Plan during any calendar year is 400,000, and the maximum amount that may be paid in cash pursuant to the 2010 Plan to any one participant during any calendar year is \$5,000,000.

**Awards.** The 2010 Plan provides for the grant of stock options, including incentive stock options ( ISOs ) and nonqualified stock options ( NSOs ), restricted stock, restricted stock units ( RSUs ), performance awards, dividend equivalent rights, stock payments, deferred stock, deferred stock units, SARs and cash awards. No determination has been made as to the types or amounts of awards that will be granted to specific individuals pursuant to the 2010 Plan. Certain awards under the 2010 Plan may constitute or provide for a deferral of compensation, subject to Section 409A of the Code, which may impose additional requirements on the terms and conditions of such awards. All awards will be set forth in award agreements, which will detail all terms and conditions of the awards, including any applicable vesting and payment terms. Awards other than cash awards will generally be settled in shares of our common stock, but the plan administrator may provide for cash settlement of any award. A brief description of each award type follows.

*Stock Options.* Stock options provide for the purchase of shares of our common stock in the future at an exercise price set on the grant date. ISOs, by contrast to NSOs, may provide tax deferral beyond exercise and favorable capital gains tax treatment to their holders if certain holding period and other Code requirements are satisfied. The exercise price of a stock option may not be less than 100% of the fair market value of the underlying share on the date of grant (110% in the case of ISOs granted to certain significant shareholders), except with respect to certain substitute options granted in connection with a corporate transaction. The term of a stock option may not be longer than ten years (or five years in the case of ISOs granted to certain significant shareholders). Vesting conditions determined by the plan administrator may apply to stock options, may include continued service, performance and/or other conditions.

*Stock Appreciation Rights.* SARs entitle their holder, upon exercise, to receive from us an amount equal to the appreciation of the shares subject to the award between the grant date and the exercise date. The exercise price of a SAR may not be less than 100% of the fair market value of the underlying share on the date of grant (except with respect to certain substitute SARs granted in connection with a corporate transaction) and the term of a SAR may not be longer than ten years. Vesting conditions determined by the plan administrator may apply to SARs, and may include continued service, performance and/or other conditions.

*Restricted Stock; Deferred Stock; RSUs; Performance Awards.* Restricted stock is an award of nontransferable shares of our common stock that remain forfeitable unless and until specified conditions are met, and which may be subject to a purchase price. For shares of restricted stock with performance-based vesting, dividends which are paid prior to vesting will only be paid to the extent that the performance-based vesting conditions are subsequently satisfied and the shares vest. Deferred stock and RSUs are contractual promises to deliver shares of our common stock in the future, which may also remain forfeitable unless and until specified conditions are met. Delivery of the shares underlying these awards may be deferred under the terms of the award or at the election of the participant, if the plan administrator permits such a deferral. Performance awards are contractual rights to receive a range of shares of our common stock, cash, or a combination of cash and shares, in the future based on the attainment of specified performance goals, in addition to other conditions which may apply to these awards. Conditions applicable to restricted stock, deferred stock, RSUs and performance shares may be based on continuing service with us or our affiliates, the attainment of performance goals and/or such other conditions as the plan administrator may determine.

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*Stock Payments.* Stock payments are awards of fully *vested* shares of our common stock that may, but need not be, made in lieu of base salary, bonus, fees or other cash compensation otherwise payable to any individual who is eligible to receive awards.

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*Dividend Equivalent Rights.* Dividend *equivalent* rights represent the right to receive the equivalent value of dividends paid on shares of our common stock and may be granted alone or in tandem with awards other than stock options or SARs. Dividend equivalents are credited as of dividend payments dates during the period between the date an award is granted and the date such award vests, is exercised, is distributed or expires, as determined by the plan administrator. Dividend equivalents with respect to an award with performance-based vesting that are based on dividends paid prior to the vesting of such award will only be paid to the extent that the performance-based vesting conditions are subsequently satisfied and the award vests.

**Performance Awards.** All awards may be granted as performance awards (in addition to those identified above as performance awards), meaning that any such award will be subject to vesting and/or payment based on the attainment of specified performance goals. The plan administrator will determine whether performance awards are intended to constitute qualified performance-based compensation ( QPBC ) within the meaning of Section 162(m) of the Code, in which case the applicable performance criteria will be selected from the list below in accordance with the requirements of Section 162(m) of the Code.

Section 162(m) of the Code imposes a \$1,000,000 cap on the compensation deduction that we may take in respect of compensation paid to our covered employees (which should include our CEO and our next four most highly compensated employees other than our CFO), but excludes from the calculation of amounts subject to this limitation any amounts that constitute QPBC. In order to constitute QPBC under Section 162(m) of the Code, in addition to certain other requirements, the relevant amounts must be payable only upon the attainment of pre-established, objective performance goals set by our Compensation Committee during the first ninety days of the relevant performance period and linked to shareholder-approved performance criteria.

For purposes of the 2010 Plan, one or more of the following performance criteria will be used in setting performance goals applicable to QPBC, and may be used in setting performance goals applicable to other performance awards: (i) net earnings (either before or after one or more of the following: (A) interest, (B) taxes, (C) depreciation and (D) amortization); (ii) gross or net sales or revenue; (iii) net income (either before or after taxes); (iv) adjusted net income; (v) operating earnings or profit; (vi) cash flow (including, but not limited to, operating cash flow and free cash flow); (vii) return on assets; (viii) return on capital; (ix) return on stockholders' equity; (x) total stockholder return; (xi) return on sales; (xii) gross or net profit or operating margin; (xiii) costs; (xiv) funds from operations; (xv) expenses; (xvi) working capital; (xvii) earnings per share; (xviii) adjusted earnings per share; (xix) price per share of Common Stock; (xx) regulatory body approval for commercialization of a product; (xxi) implementation or completion of critical projects; (xxii) market share; and (xxiii) economic value, any of which may be measured either in absolute terms or as compared to any incremental increase or decrease or as compared to results of a peer group or to market performance indicators or indices. The 2010 Plan also permits the plan administrator to provide for objectively determinable adjustments to the applicable performance criteria in setting performance goals for QPBC awards.

**Certain Transactions.** The plan administrator has broad discretion to equitably adjust the provisions of the 2010 Plan, as well as the terms and conditions of existing and future awards, to prevent the dilution or enlargement of intended benefits and facilitate necessary or desirable changes in the event of certain transactions and events affecting our common stock, such as stock dividends, stock splits, mergers, acquisitions, consolidations and other corporate transactions. In addition, in the event of certain non-reciprocal transactions with our shareholders known as equity restructurings, the plan administrator will make equitable adjustments to the 2010 Plan and outstanding awards. In the event of a change in control of the company (as defined in the 2010 Plan), the surviving entity must assume outstanding awards or substitute economically equivalent awards for such outstanding awards; however, if the surviving entity refuses to assume or substitute for outstanding awards, then the administrator may cause all awards will vest in full immediately prior to the transaction. If the surviving entity assumes or substitutes for outstanding awards, and a participant undergoes a termination of employment by reason of Involuntary Termination or Good Reason (both as defined in the 2010 Plan) on or within two years following the change in control, then all of the participant's awards assumed or substituted for will vest in full. Individual award agreements may provide for additional accelerated vesting and payment provisions.

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**Foreign Participants; Transferability; Participant Payments.** The plan administrator may modify award terms, establish subplans and/or adjust other terms and conditions of awards, subject to the share limits described above, in order to facilitate grants of awards subject to the laws and/or stock exchange rules of countries outside of the United States. With limited exceptions for estate planning, domestic relations orders, certain beneficiary designations and the laws of descent and distribution, awards under the 2010 Plan are generally non-transferable prior to vesting and are exercisable only by the participant. With regard to tax withholding, exercise price and purchase price obligations arising in connection with awards under the 2010 Plan, the plan administrator may, in its discretion, accept cash or check, shares of our common stock that meet specified conditions, a market sell order or such other consideration as it deems suitable.

**Plan Amendment and Termination.** The Board of Directors may amend or terminate the 2010 Plan at any time; however, except in connection with certain changes in capital structure, shareholder approval will be required for any amendment that increases the number of shares available under the 2010 Plan or reprices any stock option or SAR (including any grant of cash or another award in respect of any stock option or SAR when the option or SAR price per share exceeds the fair market value of the underlying shares). No award may be granted pursuant to the 2010 Plan after the tenth anniversary of the date on which we adopt the 2010 Plan.

**Federal Income Tax Consequences.** The following is a general summary under current law of the material federal income tax consequences to participants in the 2010 Plan. This summary deals with the general tax principles that apply and is provided only for general information. Some kinds of taxes, such as state, local and foreign income taxes, are not discussed.

***Incentive Stock Options.*** The grant of an ISO will not be a taxable event for the grantee or result in a business expense deduction for us. A grantee will not recognize taxable income upon exercise of an ISO (except that the alternative minimum tax may apply), and any gain realized upon a disposition of our common stock received pursuant to the exercise of an ISO will be taxed as long-term capital gain if the grantee holds the shares of common stock for at least two years after the date of grant and for one year after the date of exercise (the holding period requirement). We will not be entitled to any business expense deduction with respect to the exercise of an ISO, except as discussed below.

For the exercise of an option to qualify for the foregoing tax treatment, the grantee generally must be our employee or an employee of our subsidiary from the date the option is granted through a date within three months prior to the date of exercise of the option.

If all of the foregoing requirements are met except the holding period requirement mentioned above, the grantee will recognize ordinary income upon the disposition of the common stock in an amount generally equal to the excess of the fair market value of the common stock at the time the option was exercised over the option exercise price (but not in excess of the gain realized on the sale). The balance of the realized gain, if any, will be a capital gain. We will be allowed a business expense deduction to the extent the grantee recognizes ordinary income, subject to our compliance with Section 162(m) of the Code and to certain reporting requirements.

***Non-Qualified Options.*** The grant of a NSO will not be a taxable event for the grantee or result in a compensation expense deduction for us. Upon exercising a NSO, a grantee will recognize ordinary income in an amount equal to the difference between the exercise price and the fair market value of the common stock on the date of exercise. Upon a subsequent sale or exchange of shares acquired pursuant to the exercise of a NSO, the grantee will have taxable capital gain or loss, measured by the difference between the amount realized on the disposition and the tax basis of the shares of common stock (generally, the amount paid for the shares plus the amount treated as ordinary income at the time the option was exercised).

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If we comply with applicable reporting requirements and, subject to the restrictions of Section 162(m) of the Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Restricted Stock.* A grantee who is awarded shares of restricted stock will not recognize any taxable income for federal income tax purposes in the year of the award, provided that the shares of common stock are subject to restrictions requiring the restricted stock to be nontransferable and subject to a substantial risk of forfeiture. However, the grantee may elect under Section 83(b) of the Code to recognize compensation income in the year of the award in an amount equal to the fair market value of the common stock on the date of the award, less the purchase price, if any, determined without regard to the restrictions. If the grantee does not make such a Section 83(b) election, the fair market value of the common stock on the date the restrictions lapse, less the purchase price, if any, will be treated as compensation income to the grantee and will be taxable in the year the restrictions lapse. If we comply with applicable reporting requirements and, subject to the restrictions of Section 162(m) of the Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Restricted Stock Units.* There are no immediate tax consequences of receiving an award of restricted stock units under the 2010 Plan. A grantee who is awarded restricted stock units will be required to recognize ordinary income in an amount equal to the fair market value of shares issued to such grantee at the end of the restriction period or, if later, the date on which shares are delivered in respect of the RSUs. If the delivery date of the shares is deferred more than a short period after vesting, employment taxes will be due in the year of vesting. If we comply with applicable reporting requirements and, subject to the restrictions of Section 162(m) of the Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Dividend Equivalent Awards.* Grantees who receive dividend equivalent awards will be required to recognize ordinary income equal to the amount distributed to the grantee pursuant to the award. If we comply with applicable reporting requirements and, subject to the restrictions of Section 162(m) of the Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Stock Appreciation Rights.* There are no immediate tax consequences of receiving an award of SARs under the Incentive Award Plan. Upon exercising a SAR, a grantee will recognize ordinary income in an amount equal to the difference between the exercise price and the fair market value of the common stock on the date of exercise. If we comply with applicable reporting requirements and with the restrictions of Section 162(m) of the Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Performance Share Awards.* Grantees who receive performance share awards generally will not realize taxable income at the time of the grant of the performance shares, and we will not be entitled to a deduction at that time. When the award is paid, whether in cash or common stock, the grantee will have ordinary income, and, if we comply with applicable reporting requirements and, subject to the restrictions of Section 162(m) of the Code, we will be entitled to a corresponding deduction.

*Stock Payment Awards.* Grantees who receive a stock payment in lieu of a cash payment that would otherwise have been made will be taxed as if the cash payment has been received, and, if we comply with applicable reporting requirements and subject to the restrictions of Section 162(m) of the Code, we will have a deduction in the same amount.

*Deferred Stock.* A grantee receiving deferred stock generally will not have taxable income upon the issuance of the deferred stock and we will not then be entitled to a deduction. However, when shares underlying the deferred stock are issued to the grantee, he or she will realize ordinary income and, if we comply with applicable reporting requirements and subject to the restrictions of Section 162(m) of the Code, we will be entitled to a deduction in an amount equal to the difference between the fair market value of the shares at the date of issuance over the purchase price, if any, paid for the deferred stock. Employment taxes with respect to these awards will generally be due in the year of vesting.

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*Performance Awards.* The award of a performance or annual incentive award will have no federal income tax consequences for us or for the grantee. The payment of the award is taxable to a grantee as ordinary income. If we comply with applicable reporting requirements and, subject to the restrictions of Section 162(m) of the Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Section 409A of the Code.* Certain types of awards under the 2010 Plan, including, but not limited to RSUs and deferred stock, may constitute, or provide for, a deferral of compensation subject to Section 409A of the Code. Unless certain requirements set forth in Section 409A of the Code are complied with, holders of such awards may be taxed earlier than would otherwise be the case (*e.g.*, at the time of vesting instead of the time of payment) and may be subject to an additional 20% penalty tax (and, potentially, certain interest penalties). To the extent applicable, the 2010 Plan and awards granted under the 2010 Plan are intended to be structured and interpreted to comply with Section 409A of the Code and the Department of Treasury regulations and other interpretive guidance that may be issued under Section 409A of the Code.

*Section 162(m) of the Code.* In general, under Section 162(m) of the Code, income tax deductions of publicly-held corporations may be limited to the extent total compensation for certain executive officers exceeds \$1 million (less the amount of any excess parachute payments as defined in Section 280G of the Code) in any taxable year of the corporation. However, under Section 162(m) of the Code, the deduction limit does not apply to certain performance-based compensation. Stock options and SARs will satisfy the performance-based exception if (a) the awards are made by a qualifying compensation committee, (b) the plan sets the maximum number of shares that can be granted to any person within a specified period and (c) the compensation is based solely on an increase in the stock price after the grant date. The 2010 Plan has been designed to permit the plan administrator to grant stock options and SARs which will qualify as performance-based compensation. In addition, other performance-based awards under the 2010 Plan may be intended to constitute QPBC, as discussed above.

*2003 Long-Term Incentive Plan.* Upon the receipt of the approval of our shareholders of the 2010 Plan, the 2010 Plan replaced our 2003 Long-Term Incentive Plan on January 14, 2011 and no further grants of awards under will be made under the 2003 Long-Term Incentive Plan. On October 31, 2003, our Board of Directors adopted our 2003 Long-Term Incentive Plan. The purpose of the 2003 Long-Term Incentive Plan is to foster and promote our long-term financial success and interests and to materially increase the value of the equity interests in the Company by: (a) encouraging the long-term commitment of selected key employees, (b) motivating superior performance of key employees by means of long-term performance related incentives, (c) encouraging and providing key employees with a formal program for obtaining an ownership interest in the Company, (d) attracting and retaining outstanding key employees by providing incentive compensation opportunities competitive with other major companies, and (e) enabling participation by key employees in our long-term growth and financial success. The plan is administered by our Compensation Committee. Our Compensation Committee has the full power and authority to construe and interpret the 2003 Long-Term Incentive Plan and may, from time to time, adopt such rules and regulations of carrying out the 2003 Long-Term Incentive Plan as it may deem appropriate. The decisions of the Compensation Committee are final, conclusive and binding upon all parties.

Under the 2003 Long-Term Incentive Plan, the Compensation Committee has the authority to grant to our key employees and consultants the following types of awards ( Incentive Awards ): (i) stock options in the form of ISOs qualified under section 422 of the Code, or NSOs, or both ( Options ); (ii) SARs; (iii) restricted stock ( Restricted Stock ); (iv) performance-based awards; and (v) supplemental payments dedicated to payment of any income taxes that may be payable in conjunction with the 2003 Long-Term Incentive Plan. All of our employees are eligible to participate in the 2003 Long-Term Incentive Plan. A total of 1,200,000 shares of common stock had been reserved for grants of Incentive Awards under the 2003 Long-Term Incentive Plan.

The Compensation Committee may limit an optionee's right to exercise all or any portion of an Option until one or more dates subsequent to the date of grant. The Compensation Committee also has the right, in its sole discretion, to accelerate the date on which all or any portion of an Option may be exercised. The 2003 Long-Term Incentive Plan also provides that, under certain circumstances, if any employee is terminated within two years after a Change of Control (as defined in the 2003 Long-Term Incentive Plan), each Option or SAR then outstanding shall immediately become vested and immediately exercisable in full, all restrictions and conditions of all Restricted Stock then outstanding shall be deemed satisfied and the restriction period to have expired, and all Performance Shares and Performance Units shall become vested, deemed earned in full and properly paid. In the event of a change of control, however, our Board of Directors may, after notice to the participant, require the participant to cash-out his or her rights by transferring them to the Company in exchange for their equivalent cash value.

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If we terminate an employee's employment for any reason other than death, disability, retirement, involuntary termination or termination for good reason, any Incentive Award outstanding at the time and all rights there under will terminate, and unless otherwise established by the Compensation Committee, no further vesting shall occur and the participant shall be entitled to exercise his or her rights (if any) with respect to the portion of the Incentive Award vested as of the date of termination for a period of 30 calendar days after such termination date; provided, however, that if an Employee is terminated for cause, this employee's right to exercise his or her rights (if any) with respect to the vested portion of his or her Incentive Award shall terminate as of the date of termination of employment. In the event of termination for death, disability, retirement, or in connection with a change in control, an Incentive Award may be only exercised as provided in an individual's incentive agreement, or as determined by the Compensation Committee.

Options. No ISO may be granted with an exercise price per share less than the fair market value of the common stock at the date of grant. NSO may be granted at any exercise price. The exercise price of an Option may be paid in cash, by an equivalent method acceptable to the Compensation Committee, or, at the Compensation Committee's discretion, by delivery of already owned shares of common stock having a fair market value equal to the exercise price, or, at the Compensation Committee's discretion, by delivery of a combination of cash and already owned shares of common stock. However, if the optionee acquired the stock to be surrendered directly or indirectly from us, he or she must have owned the stock to be surrendered for at least six months prior to tendering such stock for the exercise of an Option.

An eligible employee may receive more than one ISO, but the maximum aggregate fair market value of the common stock (determined when the ISO is granted) with respect to which ISOs are first exercisable by such employee in any calendar year cannot exceed \$100,000. In addition, no ISO may be granted to an employee owning directly or indirectly stock possessing more than 10% of the total combined voting power of all classes of our stock (a 10% shareholder), unless the exercise price is not less than 110% of the fair market value of the shares subject to such ISO on the date of grant. Awards of NSO are not subject to these special limitations.

Except as otherwise provided by the Compensation Committee, awards under the 2003 Long-Term Incentive Plan are not transferable other than as designated by the participant by will or by the laws of descent and distribution. The expiration date of an ISO is determined by the Compensation Committee at the time of the grant, but in no event may an ISO be exercisable after the expiration of 10 years from the date of grant of the ISO (five years in the case of an ISO granted to a 10% shareholder).

SARs. SARs may be granted under the 2003 Long-Term Incentive Plan in conjunction with all or part of an Option, or separately. The exercise price of the SAR shall not be less than the fair market value of the common stock on the date of the grant of the option to which it relates or the date of grant of an independent SAR. The SAR granted in conjunction with an Option will be exercisable only when the underlying Option is exercisable and once an SAR has been exercised, the related portion of the Option underlying the SAR will terminate. Within thirty (30) calendar days of the exercise of an SAR, the Company will pay to the participant in cash, common stock, or a combination thereof (the method of payment to be at the discretion of the Compensation Committee), an amount equal to the excess of the fair market value of the common stock on the exercise date over the option price, multiplied by the number of SARs being exercised.

The Compensation Committee, either at the time of grant or at the time of exercise of any NSO or SAR, may provide for a supplemental payment ( Supplemental Payment ) by the Company to the participant with respect to the exercise of any NSO or SAR, in an amount specified by the Compensation Committee, but which shall not exceed the amount necessary to pay the income tax payable with respect to both the exercise of the NSO and/or SAR and the receipt of the Supplemental Payment, based on the assumption that the participant is taxed at the maximum effective income tax rate on such amounts. The Compensation Committee shall have the discretion to grant Supplemental Payments that are payable in cash, common stock, or a combination of both, as determined by the Compensation Committee at the time of payment.

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**Restricted Stock.** Restricted Stock awards may be granted under the 2003 Long-Term Incentive Plan, and the provisions applicable to a grant of Restricted Stock may vary among participants. In making an award of Restricted Stock, the Compensation Committee will determine the periods during which the Restricted Stock is subject to forfeiture. During the restriction period, the Participant may not sell, transfer, pledge or assign the Restricted Stock, but will be entitled to vote the Restricted Stock. The Compensation Committee, at the time of vesting of Restricted Stock, may provide for a Supplemental Payment by the Company to the participant in an amount specified by the Compensation Committee that shall not exceed the amount necessary to pay the income tax payable with respect to both the vesting of the Restricted Stock and receipt of the Supplemental Payment, based on the assumption that the participant is taxed at the maximum effective income tax rate on such amount.

**Performance Units.** The Compensation Committee may grant Incentive Awards representing a contingent right to receive cash ( Performance Units ) or shares of common stock ( Performance Shares ) at the end of a performance period. The Compensation Committee may grant Performance Units and Performance Shares in such a manner that more than one performance period is in progress concurrently. For each performance period, the Compensation Committee shall establish the number of Performance Units or Performance Shares and the contingent value of any Performance Units or Performance Shares, which may vary depending on the degree to which performance objectives established by the Compensation Committee are met. The Compensation Committee may modify the performance measures and objectives as it deems appropriate.

The basis for payment of Performance Units or Performance Shares for a given performance period shall be the achievement of those financial and non-financial performance objectives determined by the Compensation Committee at the beginning of the performance period. If minimum performance is not achieved for a performance period, no payment shall be made and all contingent rights shall cease. If minimum performance is achieved or exceeded, the value of a Performance Unit or Performance Share shall be based on the degree to which actual performance exceeded the pre-established minimum performance standards, as determined by the Compensation Committee. The amount of payment shall be determined by multiplying the number of Performance Units or Performance Shares granted at the beginning of the performance period by the final Performance Unit or Performance Share value. Payments shall be made, in the discretion of the Compensation Committee, solely in cash or common stock, or a combination of cash and common stock, following the close of the applicable performance period.

The Compensation Committee, at the date of payment with respect to such Performance Units or Performance Shares, may provide for a Supplemental Payment by us to the participant in an amount specified by the Compensation Committee, which shall not exceed the amount necessary to pay the income tax payable with respect to the amount of payment made with respect to such Performance Units or Performance Shares and receipt of the Supplemental Payment, based on the assumption that the participant is taxed at the maximum effective income tax rate on such amount.

**Non-Employee Director Option Plan.** The purpose of our Non-Employee Director Stock Option Plan is to foster and promote our long-term financial success and interests and to materially increase the value of the equity interests in the Company by: (a) increasing our ability to attract and retain talented men and women to serve on our Board of Directors, (b) increasing the incentives that these non-employee directors have to help us succeed and (c) providing our non-employee directors with an increased opportunity to share in our long-term growth and financial success.

Under the Non-Employee Director Stock Option Plan, each non-employee director will be granted options to purchase 25,000 shares of our common stock upon their election to our Board of Directors. In addition, each non-employee director will be awarded an option to purchase an additional 3,000 shares of our common stock for each full year of service on our Board of Directors. The exercise price for each of these options will be equal to the fair market value of our common stock on the date the option is granted. The exercise price of an option is payable only in cash or an equivalent acceptable to our Compensation Committee. The Non-Employee Director Stock Option Plan also permits the cashless exercise of options granted under the Non-Employee Director Stock Option Plan. Options awarded under the Non-Employee Director Stock Option Plan are not transferable other than as designated by the grantee by will or by the laws of descent and distribution unless otherwise provided in the option agreements pursuant to which such Options are awarded. Other than the options described in this paragraph, no non-employee director shall be eligible to receive any equity interest in the Company in consideration of such non-employee director's service on our board.

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Each of these options will have a ten-year term. One-third of the options will be exercisable immediately upon grant, and one-half of the remaining portion of each option grant will vest and become exercisable on the first and second anniversary dates of the date of grant. Any options which remain unvested at the time a non-employee director's service as a member of our board terminates shall terminate upon such termination of service unless such termination results from such non-employee director's death or occurs upon a change of control, in which case all of such unvested options shall immediately vest upon such death or Change of Control (as defined in the Non-Employee Director Stock Option Plan). In the event of a Change of Control (as defined in the Non-Employee Director Stock Option Plan), we may, after notice to the grantee, require the grantee to "cash out" his rights by transferring them to the Company in exchange for their equivalent "cash value".

A total of 275,000 shares of common stock have been reserved for grants of stock options under the Non-Employee Director Stock Option Plan. The Non-Employee Director Stock Option Plan will terminate on October 30, 2014 (unless extended) unless terminated earlier by our Board of Directors.

**Tax Consequences.** Under current tax laws, the grant of an option generally will not be a taxable event to the optionee, and we will not be entitled to a deduction with respect to such grant. Upon the exercise of an option, the non-employee director optionee will recognize ordinary income at the time of exercise equal to the excess of the then fair market value of the shares of common stock received over the exercise price. The taxable income recognized upon exercise of a nonqualified option will be treated as compensation income subject to withholding, and we will be entitled to deduct as a compensation expense an amount equal to the ordinary income an optionee recognizes with respect to such exercise. When common stock received upon the exercise of a nonqualified option subsequently is sold or exchanged in a taxable transaction, the holder thereof generally will recognize capital gain (or loss) equal to the difference between the total amount realized and the fair market value of the common stock on the date of exercise; the character of such gain or loss as long-term or short-term capital gain or loss will depend upon the holding period of the shares following exercise.

**Amendment and Termination.** Our Board of Directors may from time to time amend, and our Board of Directors may terminate, the Non-Employee Director Stock Option Plan, provided that no such action shall adversely affect any material vested benefits or rights under the Non-Employee Director Stock Option Plan without the consent of the non-employee director affected by such action. In addition, no amendment may be made without the approval of our shareholders if shareholder approval is necessary in order to comply with applicable law.

**Table of Contents****2011 Director Compensation**

We use a combination of cash and equity incentives to compensate our non-employee directors. Directors who are also our employees received no compensation for their service on our Board of Directors in fiscal 2011. To determine the appropriate level of compensation for our non-employee directors, we take into consideration the significant amount of time and dedication required by the directors to fulfill their duties on our Board of Directors and Board of Directors committees as well as the need to continue to attract highly qualified candidates to serve on our Board of Directors. In addition, our compensation arrangement with Mel Marks reflects his 49 years of relevant experience in the industry and our Company. The information provided in the following table reflects the compensation received by our directors for their service on our Board of Directors in fiscal 2011.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards (1)	All Other Compensation	Total
Philip Gay	\$ 90,000	\$	\$ 14,375	\$	\$ 104,375
Rudolph Borneo	\$ 51,000	\$	\$ 14,375	\$	\$ 65,375
Scott J. Adelson	\$ 38,000	\$	\$ 7,902	\$	\$ 45,902
Duane Miller	\$ 53,000	\$	\$ 7,371	\$	\$ 60,371
Jeffrey Mirvis	\$ 43,000	\$	\$ 17,877	\$	\$ 60,877
Mel Marks	\$	\$	\$	\$ 350,000	\$ 350,000

(1) Option award amounts reflect the aggregate grant date fair value of option awards.

We have supplemental compensatory arrangements with Mel Marks, our founder, largest shareholder and member of our Board of Directors. In August 2000, our Board of Directors agreed to engage Mel Marks to provide consulting services to our Company. Mr. Marks is paid an annual consulting fee of \$350,000 per year. We can terminate our consulting arrangement with Mr. Marks at any time.

We pay Mr. Gay \$90,000 per year for serving on our Board of Directors, as well as assuming the responsibility for being Chairman of our Audit and Ethics Committees.

In addition, each of our non-employee directors, other than Messrs. Marks and Gay, receives annual compensation of \$20,000 and is paid a fee of \$2,000 for attending each Board of Directors meeting, \$2,000 for attending each Audit Committee meeting and \$500 for any other Board of Directors committee meeting attended. Each director is also reimbursed for reasonable out-of-pocket expenses incurred to attend Board of Directors or Board of Directors committee meetings.

Under our Non-Employee Director Stock Option Plan, each non-employee director is granted options to purchase 25,000 shares of our common stock upon their election to our Board of Directors. In addition, each non-employee director is awarded an option to purchase an additional 3,000 shares of our common stock for each full year of service on our Board of Directors.

**Indemnification of Executive Officers and Directors**

Article Seven of our Restated Certificate of Incorporation provides, in part, that to the extent required by New York Business Corporation Law, or NYBCL, no director shall have any personal liability to us or our shareholders for damage for any breach of duty as such director, provided that each such director shall be liable under the following circumstances: (a) in the event that a judgment or other final adjudication adverse to such director establishes that his acts or omissions were in bad faith, involved intentional misconduct or a knowing violation of law or that such director personally gained in fact a financial profit or other advantage to which such director was not legally entitled or that such director's acts violated Section 719 of the NYBCL or (b) for any act or omission prior to the adoption of Article Seven of our Restated Certificate of Incorporation.

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Article Nine of our Amended and Restated Bylaws provide that we shall indemnify any person, by reason of the fact that such person is or was a director or officer of our Company or served any other corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise in any capacity at our request, against judgments, fines, amounts paid in settlement and reasonable expenses, including attorney's fees incurred as a result of an action or proceeding, or any appeal therefrom, provided, however, that no indemnification shall be made to, or on behalf of, any director or officer if a judgment or other final adjudication adverse to such director or officer establishes that (a) his or her acts were committed in bad faith or were the result of active and deliberate dishonesty and, in either case, were material to the cause of action so adjudicated, or (b) he or she personally gained in fact a financial profit or other advantage to which he or she was not legally entitled.

We may purchase and maintain insurance for our own indemnification and for that of our directors and officers and other proper persons as described in Article Nine of our Amended and Restated Bylaws. We maintain and pay premiums for directors' and officers' liability insurance policies.

We are incorporated under the laws of the State of New York and Sections 721-726 of Article 7 of the NYBCL provide for the indemnification and advancement of expenses to directors and officers. Section 721 of the NYBCL provides that indemnification and advancement of expenses provisions contained in the NYBCL shall not be deemed exclusive of any rights which a director or officer seeking indemnification or advancement of expenses may be entitled, provided no indemnification may be made on behalf of any director or officer if a judgment or other final adjudication adverse to the director or officer establishes that his or her acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or that he or she personally gained in fact a financial profit or other advantage to which he or she was not legally entitled.

Section 722 of the NYBCL permits, in general, a New York corporation to indemnify any person made, or threatened to be made, a party to an action or proceeding by reason of the fact that he or she was a director or officer of that corporation, or served another entity in any capacity at the request of that corporation, against any judgment, fines, amounts paid in settlement and reasonable expenses, including attorney's fees actually and necessarily incurred as a result of such action or proceeding, or any appeal therein, if such person acted in good faith, for a purpose he or she reasonably believed to be in, or, in the case of service of another entity, not opposed to, the best interests of that corporation and, in criminal actions or proceedings, who in addition had no reasonable cause to believe that his or her conduct was unlawful. However, no indemnification may be made to, or on behalf of, any director or officer in a derivative suit in respect of (a) a threatened action or a pending action that is settled or otherwise disposed of or (b) any claim, issue or matter for which the person has been adjudged to be liable to the corporation, unless and only to the extent that a court in which the action was brought, or, if no action was brought, any court of competent jurisdiction, determines upon application that the person is fairly and reasonably entitled to indemnify for that portion of settlement and expenses as the court deems proper.

Section 723 of the NYBCL permits a New York corporation to pay in advance of a final disposition of such action or proceeding the expenses incurred in defending such action or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amount as, and to the extent, required by statute. Section 724 of the NYBCL permits a court to award the indemnification required by Section 722.

Section 725 provides for repayment of such expenses when the recipient is ultimately found not to be entitled to indemnification. Section 726 provides that a corporation may obtain indemnification insurance indemnifying itself and its directors and officers.

The foregoing is only a summary of the described sections of the NYBCL and our Restated Certificate of Incorporation, as amended, and Amended and Restated Bylaws and is qualified in its entirety by the reference to such sections and charter documents.

## **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee of our Board of Directors determines the compensation of our officers and directors. None of our executive officers currently serves on the compensation committee or board of directors of any other company of which any members of our Board of Directors or our Compensation Committee is an executive officer.

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**STOCK PERFORMANCE GRAPH**

**Performance Graph**

The following graph compares the cumulative return to holders of common stock for the five years ending March 31, 2011 with the NASDAQ Composite Index and an index for our peer group. The peer group is comprised of other automotive after-market companies: Aftermarket Technologies Corporation, Dorman Products, Inc., and Standard Motor Products, Inc. The comparison assumes \$100 was invested at the close of business on March 31, 2006 in our common stock and in each of the comparison groups, and assumes reinvestment of dividends.

**Comparison of 5 Year Cumulative Total Return**

**Assumes Initial Investment of \$100**

**March 2011**

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND  
MANAGEMENT**

The following table sets forth, as of February 9, 2012, certain information as to the common stock ownership of each of our named executive officers, directors, all executive officers and directors as a group and all persons known by us to be the beneficial owners of more than five percent of our common stock. The percentage of common stock beneficially owned is based on 12,533,321 shares of common stock outstanding as of February 9, 2012.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage of ownership held by that person, shares of common stock subject to options held by that person that are currently exercisable or will become exercisable within 60 days of February 9, 2012 are deemed outstanding, while these shares are not deemed outstanding for determining the percentage ownership of any other person. Unless otherwise indicated in the footnotes below, the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Unless otherwise indicated in the footnotes below, the address of the stockholder is c/o Motorcar Parts of America, Inc. 2929 California Street, Torrance, CA 90503.

Name and Address of Beneficial Shareholder	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Mel Marks (2)	862,290	6.9%
Wellington Management Company, LLP (3)	687,288	5.5%
280 Congress Street, Boston, MA 02210		
Rutabaga Capital Management, LLC (3)	684,574	5.5%
64 Broad St., 3 <sup>rd</sup> Floor, Boston, MA 02109		
Royce and Associates, LLC (3)	659,932	5.3%
745 Fifth Avenue, New York, NY 10151		
Selwyn Joffe (4)	856,000	6.4%
Scott Adelson (5)	41,000	*
Rudolph Borneo (6)	63,000	*
Philip Gay (7)	43,000	*
Duane Miller (8)	31,000	*
Jeffrey Mirvis (9)	37,000	*
Doug Schooner (10)	44,092	*
Tom Stricker (11)	44,000	*
Steve Kratz (12)	18,500	*
Rich Mochulsky (13)	7,000	*
Michael Umansky (14)	45,000	*
David Lee (15)	9,500	*
Kevin Daly (16)	10,500	*
Directors and executive officers as a group 14 persons (17)	2,111,882	16.4%

\* Less than 1% of the outstanding common stock.

- (1) The listed shareholders, unless otherwise indicated in the footnotes below, have direct ownership over the amount of shares indicated in the table.
- (2) Includes 508,456 shares held by Melmarks Enterprises LLLP, a limited liability limited partnership that is controlled by Mr. Marks.

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- (3) Based on information contained in filings made by such stockholders with the SEC on as reported in each such stockholder's most recent Schedule 13F filing. Since there may have been subsequent purchases or sales of securities, this information may not reflect the current holdings by these stockholders.
- (4) Includes 200,000 shares issuable upon exercise of currently exercisable options under the 1994 Stock Option Plan; and 3,000 shares issuable upon exercise of currently exercisable options granted under the Non-Employee Director Plan and 600,000 shares issuable upon exercise of options under the 2003 Long Term Incentive Plan.
- (5) Includes 31,000 shares issuable upon exercise of currently exercisable options granted under the 2004 Non-Employee Director Stock Option Plan.
- (6) Includes 43,000 shares issuable upon exercise of currently exercisable options granted under the 2004 Non-Employee Director Stock Option Plan.
- (7) Represents 43,000 shares issuable upon exercise of currently exercisable options granted under the 2004 Non-Employee Director Stock Option Plan.
- (8) Represents 31,000 shares issuable upon exercise of currently exercisable options granted under the 2004 Non-Employee Director Stock Option Plan.
- (9) Includes 31,000 shares issuable upon exercise of currently exercisable options granted under the 2004 Non-Employee Director Stock Option Plan.
- (10) Represents 44,000 shares issuable upon exercise of currently exercisable options under the 2003 Long Term Incentive Plan, and includes 92 shares of common stock held by The Schooner 2003 Family Trust. Mr. Schooner expressly disclaims ownership of the shares held by The Schooner 2003 Family Trust.
- (11) Represents 44,000 shares issuable upon exercise of currently exercisable options under the 2003 Long Term Incentive Plan.
- (12) Represents 18,500 shares issuable upon exercise of currently exercisable options under the 2003 Long Term Incentive Plan.
- (13) Represents 7,000 shares issuable upon exercise of currently exercisable options under the 2003 Long Term Incentive Plan.
- (14) Represents 45,000 shares issuable upon exercise of currently exercisable options under the 2003 Long Term Incentive Plan.
- (15) Includes 7,500 shares issuable upon exercise of currently exercisable options under the 2003 Long Term Incentive Plan.
- (16) Includes 7,500 shares issuable upon exercise of currently exercisable options under the 2003 Long Term Incentive Plan.
- (17) Includes 200,000 shares issuable upon exercise of currently exercisable options granted under the 1994 Stock Option Plan; 3,000 shares issuable upon exercise of currently exercisable options granted under the Non-Employee Director Plan; 773,500 shares issuable upon exercise of currently exercisable options granted under the 2003 Long Term Incentive Plan; and 179,000 shares issuable upon exercise of currently exercisable options granted under the 2004 Non-Employee Director Stock Option Plan.

Information regarding our securities authorized for issuance under our equity compensation plan is found in Item 5 "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities", Equity Compensation Plan Information.

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**Certain Relationships and Related Transactions, and Director Independence**

We have entered into a consulting agreement with Mel Marks, our founder, member of our Board of Directors and largest shareholder. We currently pay Mel Marks a consulting fee of \$350,000 per year under this arrangement. We have also agreed to pay Mr. Gay, a member of our Board of Directors, \$90,000 per year for his service as a member of our Board of Directors and Chairman of our Audit Committee. For additional information, see the discussion under the caption *Executive Compensation* 2011 Director Compensation .

During fiscal 2010, we paid Houlihan Lokey \$8,200 for reimbursement of out-of-pocket expenses. Scott J. Adelson, a member of our board of directors, is a Senior Managing Director for Houlihan Lokey.

We do not have a written policy applicable to any transaction, arrangement or relationship between us and a related party. Our practice with regards to related party transactions has been for our Board of Directors, or a committee thereof, to review, approve and/or ratify such transactions as they arise. In making its determination to approve or ratify a transaction, our Board of Directors, or a committee thereof, would consider such factors as (i) the extent of the related party's interest in the transaction, (ii) if applicable, the availability of other sources of comparable products or services, (iii) whether the terms of the related party transaction are no less favorable than terms generally available in unaffiliated transactions under like circumstances, (iv) the benefit to us, and (v) the aggregate value of the transaction.

**Corporate Governance, Board of Directors and Committees of the Board of Directors**

*Board Independence.* Each of Duane Miller, Jeffrey Mirvis, Philip Gay, and Rudolph J. Borneo are independent within the meaning of the applicable SEC rules and the NASDAQ listing standards.

*Board Leadership Structure.* The Board of Directors does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as the Board of Directors believes it is in the best interests of our Company to make that determination based on the position and direction of our Company and the membership of the Board of Directors. The roles of Chairman of the Board and Chief Executive Officer are currently held by the same person, Selwyn Joffe. The Board of Directors believes that Mr. Joffe's service as both Chairman of the Board and Chief Executive Officer is in the best interest of our Company and its stockholders. Mr. Joffe possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing our Company and its business and is in the best position to develop agendas that ensure that our Board of Directors' time and attention are focused on the most critical matters. We believe that our Company has been well served by this model because the combined role of Chairman of the Board and Chief Executive Officer has ensured that our directors and senior management act with a common purpose and in the best interest of our Company. This model enhances our ability to communicate clearly and consistently with our stockholders, employees, customers and suppliers. Although we have not designated a lead director, our Chairman of the Board works closely with the chairs of each of our committees on a variety of matters and our other directors, and all of our committee members are independent within the meaning of the applicable SEC rules and NASDAQ listing standards.

*Board's Role in Risk Oversight.* Our Board of Directors as a whole has responsibility for risk oversight, with certain categories of risk being reviewed by particular committees of the Board of Directors, which report to the full Board of Directors as needed. The Audit Committee reviews the financial risks, including internal control, audit, financial reporting and disclosure matters, by discussing these risks with management and our internal and external auditors. The Compensation Committee reviews risks relating to our executive compensation plans and arrangements. The Nominating and Corporate Governance Committee reviews risks related to our governance structure and processes and risks arising from related person transactions. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed about such risks.

*Board Attendance and Committees.* Our Board of Directors met 12 times during fiscal 2011. Each of our then directors attended 75% or more of the total number of meetings of the Board of Directors during fiscal 2011. Each of our directors attended 75% or more of the total number of committee meetings for the committees of the Board of Directors on which he served during fiscal 2011. Our last annual meeting of shareholders was held on January 14, 2011. All of our then directors attended our last annual meeting of shareholders. Each director is encouraged to attend each meeting of the Board of Directors and the annual meeting of our shareholders.

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Our Board of Directors has a standing Audit Committee, Compensation Committee, Ethics Committee and Nominating and Corporate Governance Committee. Our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee have written charters which can be found on our website at [www.motorcarparts.com](http://www.motorcarparts.com) and are available in print to any shareholder who requests a copy by writing to our Corporate Secretary, Motorcar Parts of America, Inc., 2929 California Street, Torrance, California 90503.

*Audit Committee.* The current members of our Audit Committee are Philip Gay, Rudolph Borneo, Duane Miller, and Jeffrey Mirvis with Mr. Gay serving as chairman. Our Board of Directors has determined that all of the Audit Committee members are independent within the meaning of the applicable SEC rules and NASDAQ listing standards. Our Board of Directors has also determined that Mr. Gay is a financial expert within the meaning of the applicable SEC rules. The Audit Committee oversees our auditing procedures, receives and accepts the reports of our independent registered public accountants, oversees our internal systems of accounting and management controls and makes recommendations to the Board of Directors concerning the appointment of our auditors. The Audit Committee met five times in fiscal 2011.

*Compensation Committee.* The current members of our Compensation Committee are Rudolph Borneo, Philip Gay, Duane Miller and Jeffrey Mirvis, with Mr. Borneo serving as chairman. The Compensation Committee is responsible for developing our executive compensation policies. The Compensation Committee is also responsible for evaluating the performance of our Chief Executive Officer and other senior officers and making determinations concerning the salary, bonuses and stock options to be awarded to these officers. No member of the Compensation Committee has a relationship that would constitute an interlocking relationship with the executive officers or directors of another entity. For further discussion of our Compensation Committee, see Compensation Committee Interlocks and Insider Participation . The Compensation Committee met twice in fiscal 2011.

*Ethics Committee.* The current members of our Ethics Committee are Philip Gay, who serves as Chairman, Rudolph Borneo and Duane Miller. The Ethics Committee is responsible for implementing our Code of Business Conduct and Ethics. No issues arose which required our Ethics Committee to meet in fiscal 2011.

*Nominating and Corporate Governance Committee.* We formed a Nominating and Corporate Governance Committee in June 2006. The current members of our Nominating and Corporate Governance Committee are Rudolph Borneo, Philip Gay and Duane Miller. Each of the members of the Nominating and Corporate Governance Committee is independent within the meaning of applicable SEC rules. Our Nominating and Corporate Governance Committee is responsible for nominating candidates to our Board of Directors. Our Nominating and Corporate Governance Committee did not meet in fiscal 2011.

In evaluating potential director nominees, including those identified by shareholders, for recommendation to our Board of Directors, our Nominating and Corporate Governance Committee seeks individuals with talent, ability and experience from a wide variety of backgrounds to provide a diverse spectrum of experience and expertise relevant to a diversified business enterprise such as ours. Our Company does not maintain a separate policy regarding the diversity of its board members. However, the Nominating and Corporate Governance Committee considers individuals with diverse and varied professional and other experiences for membership. A candidate should represent the interests of all shareholders, and not those of a special interest group, have a reputation for integrity and be willing to make a significant commitment to fulfilling the duties of a director. Our Nominating and Corporate Governance Committee will screen and evaluate all recommended director nominees based on the criteria set forth above, as well as other relevant considerations. Our Nominating and Corporate Governance Committee will retain full discretion in considering its nomination recommendations to our Board of Directors.

**PROPOSAL NO. 2**

**RATIFICATION OF APPOINTMENT OF**

**INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

The Audit Committee of our Board of Directors has selected Ernst & Young LLP as the independent registered public accountants to audit our consolidated financial statements for the fiscal year ending March 31, 2012. Representatives of Ernst & Young LLP are expected to be present at the annual meeting of shareholders. These representatives will have an opportunity to make a statement and will be available to respond to questions regarding appropriate matters. Our Board of Directors believes it is appropriate to submit for ratification by our shareholders the appointment of Ernst & Young LLP as our independent registered public accountants for the fiscal year ending

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March 31, 2012. Your ratification of the appointment of Ernst & Young LLP as our independent registered public accountants for the fiscal year ending March 31, 2012 does not preclude the Audit Committee from terminating its engagement of Ernst & Young LLP and retaining new independent registered public accountants, if it determines that such an action would be in our best interest.

**The Board of Directors recommends that shareholders vote FOR this proposal.**

**AUDIT COMMITTEE REPORT**

The Audit Committee of the Board of Directors oversees our auditing procedures, receives and accepts the reports of our internal systems of accounting and management controls and makes recommendations to the Board of Directors as to the selection and appointment of our auditors.

The Audit Committee recommended to the Board of Directors the approval of the independent accountants engaged to conduct the independent audit. The Audit Committee met with management and the independent accountants to review and discuss the March 31, 2011 consolidated financial statements. The Audit Committee also discussed with the independent accountants the matters required by Statement on Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Audit Committee reviewed written disclosures from the independent accountants required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and discussed with the independent accountants their firm's independence.

Based upon the Audit Committee's discussions with management and the independent accountants and the Audit Committee's review of the representations of management and the independent accountants, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended March 31, 2011 that has been filed with the SEC and mailed with this proxy statement.

The following table summarizes the total fees we paid to our independent certified public accountants, Ernst & Young LLP, for professional services provided during the following fiscal years ended March 31:

	<b>2011</b>	<b>2010</b>
Audit Fees	\$ 1,143,000	\$ 1,168,000
Audit Related Fees		
Tax Fees	126,000	45,000
All Other Fees	300,000	
<b>Total</b>	<b>\$ 1,569,000</b>	<b>\$ 1,213,000</b>

Audit fees in fiscal 2011 and 2010 consisted of (i) the audit of our annual financial statements, (ii) the reviews of our quarterly financial statements, and (iii) audit of internal control over financial reporting.

Tax fees in fiscal 2011 related primarily to the preparation of federal and state tax returns, transfer pricing, and other state income tax research. Tax fees in fiscal 2010 related primarily to the transfer pricing, consultation in response to the Company's IRS examination, and tax accounting method charges.

Other fees billed in fiscal 2011 consisted of professional services for due diligence work related to our acquisitions.

Our Audit Committee must pre-approve all audit and non-audit services to be performed by our independent auditors and will not approve any services that are not permitted by SEC rules. All of the audit and non-audit related fees in fiscal 2011 and 2010 were pre-approved by the Audit Committee.

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**By Members of the Audit Committee**

Philip Gay, Chairman

Rudolph Borneo

Duane Miller

Jeffrey Mirvis

**PROPOSAL NO. 3**

**ADVISORY VOTE ON THE COMPENSATION OF OUR  
NAMED EXECUTIVE OFFICERS**

Our Board is committed to a compensation philosophy and program that promotes our ability to attract, retain and motivate individuals who can achieve superior financial results. As part of that commitment, and in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), our shareholders are being asked to approve in an advisory resolution the compensation of our named executive officers as reported in this proxy statement.

This proposal is our say on pay proposal. It gives you the opportunity to let us know how you view the overall compensation of our named executive officers and the policies and practices described in this proxy statement. It is not intended to address any specific item of compensation. In considering how to vote on this proposal, we encourage you to review all the relevant information in this proxy statement our CD&A, the compensation tables, and the rest of the narrative disclosures regarding our executive compensation program. Your vote will not directly affect or otherwise limit any compensation or award arrangement of any of the named executive officers. Because your vote is advisory, it is non-binding on our Board; however, our Board will take into account the outcome of the vote on the say on pay proposal when considering future compensation.

Accordingly, in compliance with the Dodd-Frank Act, we ask you to approve the following resolution:

RESOLVED, that the shareholders of Motorcar Parts of America, Inc. approve on an advisory basis, the compensation of the Company's named executive officers set forth in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables and narrative in this proxy statement.

**Vote Required**

A majority of the votes cast by holders entitled to vote at the meeting must vote FOR this proposal to approve, on a non-binding advisory basis, the compensation of our named executive officers. The enclosed form of proxy provides a means for you to vote For, Against or to Abstain on this proposal. Each properly executed proxy received in time for the meeting will be voted as specified therein. Abstentions will have no effect on the outcome of the vote on this proposal.

**Board of Recommendation**

OUR BOARD RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.

**PROPOSAL NO. 4**

**ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES  
ON THE COMPENSATION OF OUR NAMED  
EXECUTIVE OFFICERS**

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The Dodd-Frank Act also gives you the opportunity to cast a non-binding advisory vote on how often the Company should include a say on pay proposal in its proxy materials for future annual or other meetings where directors are to be elected and for which the Company must include executive compensation information. You may vote to have the say on pay proposal included every 1 year, every 2 years or every 3 years. You may also abstain from voting.

Our Board is recommending that we hold a say on pay vote every year. In formulating its recommendation, the Board considered that an annual advisory vote on executive compensation will allow our shareholders to provide us

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with direct and prompt input on our compensation philosophy, policies, and practices as disclosed in the proxy statement every year. Shareholders should be aware, however, that because the say on pay vote occurs in the midst of the compensation year, and because the different elements of our executive compensation programs are designed to operate in an integrated and complementary manner, it may not be feasible or appropriate to change our executive compensation programs in consideration of any given year's say on pay vote prior to the next annual meeting of shareholders. However, our Board believes that a say on pay vote every 1 year is consistent with our efforts to engage in an ongoing dialogue with our shareholders on executive compensation and corporate governance matters.

### **Vote Required**

Because this advisory vote has three possible substantive responses (every 1 year, every 2 years or every 3 years), we will consider our shareholders to have approved the frequency selected by a plurality of the votes cast by holders entitled to vote at the meeting. The enclosed form of proxy provides a means for you to vote Every 1 Year, Every 2 Years, Every 3 Years or to Abstain on this proposal. Each properly executed proxy received in time for the meeting will be voted as specific therein. Abstentions will have no effect on the outcome of the vote on this proposal.

### **Board Recommendations**

OUR BOARD RECOMMENDS THAT SHAREHOLDERS VOTE TO HOLD FUTURE ADVISORY VOTES ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS EVERY 1 YEAR.

## **MISCELLANEOUS**

### **Shareholder Proposals**

To be considered for inclusion in next year's proxy statement, shareholder proposals submitted in accordance with SEC's Rule 14a-8 must be received at our principal executive offices no later than the close of business on October 30, 2012. Proposals should be addressed to Corporate Secretary, Motorcar Parts of America, Inc., 2929 California Street, Torrance, California 90503.

Our Amended and Restated By-Laws require that any shareholder proposal that is not submitted for inclusion in next year's proxy statement under SEC Rule 14a-8, but is instead sought to be presented directly at the next annual meeting of shareholders, must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the one-year anniversary of the preceding year's annual meeting of shareholders unless the date of the next annual meeting of shareholders is more than 30 days before the anniversary date of the preceding year's meeting of shareholders, in which case such proposals must be received at our principal executive offices not later than the ~~90~~ day prior to the next annual meeting of shareholders. As a result, proposals, including director nominations, submitted pursuant to the provisions of our Amended and Restated By-Laws must be received no earlier than September 16, 2012 nor later than October 16, 2012 if the date of the next annual meeting of shareholders is not more than 30 days before the anniversary date of this annual meeting of shareholder. SEC rules permit management to vote proxies in its discretion in certain cases if the shareholder does not comply with these deadlines, and in certain other cases notwithstanding the shareholder's compliance with these deadlines.

### **Shareholder Communication with our Board**

Any communications from shareholders to our Board of Directors must be addressed in writing and mailed to the attention of the Board of Directors, c/o Corporate Secretary, 2929 California Street, Torrance, California 90503. The Corporate Secretary will compile the communications, summarize lengthy or repetitive communications and forward these communications to the directors, in accordance with the judgment of our Chairman of the Board. Any matter relating to our financial statements, accounting practices or internal controls should be addressed to the Audit Committee Chairman.

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### **Other Matters**

We do not intend to bring before the meeting for action any matters other than those specifically referred to in this Proxy Statement, and we are not aware of any other matters which are proposed to be presented by others. If any other matters or motions should properly come before the meeting, the persons named in the Proxy intend to vote on any such matter in accordance with their best judgment, including any matters or motions dealing with the conduct of the meeting.

### **Annual Report on Form 10-K**

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011, together with the Form 10-K/A we filed with the Securities and Exchange Commission on July 29, 2011, is being mailed to each shareholder of record together with this proxy statement.

### **Proxies**

All shareholders are urged to fill in their choices with respect to the matters to be voted on, sign, date and promptly return the enclosed form of Proxy.

### **Householding of Proxy Materials**

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as "householding," potentially means extra convenience for shareholders and cost savings for companies.

This year, a number of brokers with account holders who are our shareholders will be "householding" our proxy materials. A single proxy statement may be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once you have received notice from your broker that it will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you notify your broker or us that you no longer wish to participate in "householding." If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement and annual report in the future you may (i) notify your broker or (ii) direct your written request to: Motorcar Parts of America, Inc. Attn: Corporate Secretary, 2929 California Street, Torrance, California 90503, telephone: (310) 212-7910. Shareholders who currently receive multiple copies of the proxy statement at their address and would like to request "householding" of their communications should contact their broker. In addition, we will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the annual report and proxy statement to a shareholder at a shared address to which a single copy of the documents was delivered.

By order of the Board of Directors

Michael M. Umansky,  
*Secretary*

February 27, 2012

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