MOTORCAR PARTS AMERICA INC
Form 10-K/A
October 19, 2007

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

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File No. 0-23538

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

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

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, $0.01 par value per share
Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
As of September 28, 2007, which was the last business day of the registrants most recently completed fiscal quarter, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $116,893,296 based on the closing inter-dealer quotation as tracked on the Pink Sheets.
There were 12,062, 280 shares of Common Stock outstanding as of October 18, 2007.

DOCUMENTS INCORPORATED BY REFERENCE: None

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EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A (Amendment) amends the Annual Report on Form 10-K (the Original Annual Report) for the year ended March 31, 2007, which was originally filed with the Securities and Exchange Commission (the SEC) on June 29, 2007. We are filing this Amendment in response to a comment letter received from the SEC in connection with its review of our registration statement on Form S- 1 (File No. 333-144887) and to add additional disclosure regarding a potential duty claim that might be asserted by the U.S. Bureau of Customs.

We have included as exhibits to this Amendment new certifications of our principal executive officer and principal financial officer.

Except as described above, no attempt has been made in this Amendment to modify or update other disclosures presented in the Original Annual Report. This Amendment does not reflect events occurring after the filing of the Original Annual Report or modify or update those disclosures, including the exhibits to the Original Annual Report affected by subsequent events. Accordingly, this Amendment should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Annual Report, including any amendments to those filings.

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MOTORCAR PARTS OF AMERICA, INC.
GLOSSARY

When the following terms appear in the text of this report, they have the meanings indicated below.

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

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

MOTORCAR PARTS OF AMERICA, INC.

Unless the context otherwise requires, all references in this Annual Report on Form 10-K to the Company, we, us, and our refer to Motorcar Parts of America, Inc. and its subsidiaries. This Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve risks and uncertainties. Our actual results may differ significantly from the results discussed in any forward-looking statements. Discussions containing such forward-looking statements may be found in the material set forth under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as within this Form 10-K generally.

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

PART I

Item 1. Business

General

We remanufacture and distribute alternators and starters for import and domestic cars and light trucks. These after-market replacement parts are sold throughout North America. We sell to most of the largest auto parts chains in the United States, including AutoZone, Pep Boys, O Reilly Automotive and CSK Automotive**.** We believe retail chains currently control approximately 44% of the after-market for remanufactured alternators and starters. Management believes that the retailers will continue to grow at a favorable pace as they expand their efforts to target the professional installer market segment. During the past two years, we have focused increased attention on the professional installer market and have begun to penetrate this segment of the market through sales to General Motors that are distributed to professional installers through its Service Parts Operation (GM SPO) and through the efforts that our existing customers are making to target the professional installer marketplace. Management believes the professional installer market continues to represent an opportunity for us to grow our business.

We have increasingly sought to enter into longer-term customer agreements, and we now have long-term agreements with substantially all of our major customers. While these agreements strengthen our customer relationships and business base, they require a significant amount of working capital to build inventory and increase production and typically include marketing and other allowances that adversely impact near-term revenue, profitability and cash flow. Certain agreements require us to incur expensive changeover expenses before we experience the benefit of increased profitability from new customers. To respond to our growing working capital needs and strengthen our financial position, in May 2007 we completed a private placement of common stock and warrants that resulted in gross proceeds before expenses of $40,061,000 and net proceeds of approximately $36,500,000.

While we have broadened our revenue base by adding new customers, due to the consolidation of the retail market and our strong presence in retail, we continue to derive a substantial portion of our revenue from a small number of major customers. During fiscal 2007, 2006 and 2005, sales to our five largest customers constituted approximately 96%, 96% and 97%, respectively, of our net sales.

To maintain or improve our margins over time while responding to customer pricing and delivery pressures, we have moved an increasing portion of our remanufacturing operations to lower cost countries outside the United States. During fiscal 2007, 2006 and 2005 approximately 64%, 32% and 15%, respectively, of our total production was produced by our subsidiaries in Mexico and Malaysia. By the end of fiscal 2008, we expect that approximately 95% of our remanufactured units will be produced outside the United States. We continue to transition the bulk of our remanufacturing, warehousing and shipping/receiving operations in Torrance, California to our facilities in Mexico.

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The Automotive After-Market Industry

Two distinct groups of end-users buy replacement after-market automotive parts:
(1) individual do-it-yourself DIY consumers; and (2) professional do-it-for-me DIFM installers. The consumer mar
is typically supplied through retailers and retail arms of warehouse distributors. Professional installers generally purchase parts through local independent parts wholesalers, through national warehouse distributors and, at a growing rate, through commercial account programs with automotive parts retailers servicing the professional DIFM installers. We believe we are well-positioned for potential growth in both the DIY market through increased sales to our existing retail chain store customers and in the DIFM market through the efforts of our retail customers to expand their sales to professional installers and through our sales to GM SPO and warehouse distributors that service the professional marketplace.

The number of cars on the road in North America has steadily grown. Based on Frost and Sullivan s 2006 report, there were approximately 270 million vehicles in use in North America. (Frost and Sullivan is a leading consulting group researching and analyzing new market opportunities in the automotive after-market.) We believe, approximately 130 million of these vehicles are at least ten years old. As a result of the growth in the number of vehicles in use, particularly vehicles at their prime repair age of seven years old and older, we believe the automotive after-market for alternators and starters has the opportunity to grow at faster rates than we have experienced in recent years. The growth in recent years has been negatively affected by the increasing quality of alternators and starters, which defers the requirement for maintenance. However, we believe that the alternator and starter will still be replaced at least once in the life of a vehicle and that this build up of deferred maintenance bodes well for industry growth in the future. While we believe our market will continue to grow in the near-term, higher gasoline prices over a sustained period may result in lower vehicle miles being driven, which could defer the demand for replacement alternators and starters.

Company Products

During fiscal 2007, 2006 and 2005, sales of replacement alternators and starters for imported and domestic cars and light trucks constituted 99% of our total sales. Alternators and starters are non-elective replacement parts in all makes and models of vehicles and are required for a vehicle to operate. Currently, approximately 96% of our units are sold for resale under customer private labels. The balance is sold under our brand name, Quality Built to Last ®.

Our alternators and starters are produced to meet or exceed original manufacturer specifications. We remanufacture alternators and starters for virtually all import and domestic vehicles on the road in North America. Remanufacturing creates a supply of parts at a lower cost to the end user than newly manufactured parts and makes available automotive parts which are no longer being manufactured as new. Remanufacturing also relieves automotive repair shops of the need to rebuild worn parts on an individual basis and conserves material which would otherwise be used to manufacture new replacement parts. Our remanufactured parts are sold at competitively lower prices than most new replacement parts.

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

The technology and the specifications for the components used in our products, particularly alternators, have become more advanced in response to the installation in vehicles of an increasing number of electrical components such as navigation systems, steering wheel-mounted electronic controls, keyless entry devices, heated rear windows and seats, high-powered stereo systems and DVD players. As a result of this increased electrical demand, alternators require more advanced technology and higher grade components and per unit sales prices have increased accordingly. The increasing complexity of cars and light trucks and the number of different makes and models of these vehicles have resulted in a significant increase in the number of different alternators and starters required to service imported and domestic cars and light trucks. We now carry over 2,700 stock keeping units (SKUs) which cover applications for most import and domestic cars and light trucks on the road in North America.

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Customers: Customer Concentration

Our products are marketed throughout the United States and Canada. Currently, we serve four of the five largest retail automotive chain stores with an aggregate of approximately 7,200 retail outlets as well as small to medium-sized automotive warehouse distributors. The products we sell to one of the largest automobile manufacturers in the world are distributed to over 7,000 dealers and approximately 100 dedicated distributors.

We are substantially dependent upon sales to our major customers. During fiscal 2007, 2006 and 2005, sales to our five largest customers constituted approximately 96%, 96% and 97%, respectively, of our net sales, and sales to our largest customer AutoZone, constituted 64%, 70% and 71%, respectively, of our net sales. Any meaningful reduction in the level of sales to any of these customers, deterioration of any customer s financial condition or the loss of a customer could have a materially adverse impact upon us. In addition, the concentration of our sales and the competitive environment in which we operate has increasingly limited our ability to negotiate favorable prices and terms for our products.

Customer Arrangements; Impact on Working Capital

We have long-term agreements with substantially all of our major customers. Under these agreements, which typically have initial terms of at least four years, we are designated as the exclusive or primary supplier for specified categories of remanufactured alternators and starters. Because of the very competitive nature of the market for remanufactured starters and alternators and the limited number of customers for these products, our customers have increasingly sought and obtained price concessions, significant marketing allowances and more favorable delivery and payment terms in consideration for our designation as a customer s exclusive or primary supplier. These incentives differ from contract to contract and can include (i) the issuance of a specified amount of credits against receivables in accordance with a schedule set forth in the relevant contract, (ii) support for a particular customer s research or marketing efforts provided on a scheduled basis, (iii) discounts granted in connection with each individual shipment of product and (iv) other marketing, research, store expansion or product development support. We have also entered into agreements to purchase certain customers Remanufactured Core inventory and to issue credits to pay for that inventory according to a schedule set forth in the agreement. These contracts typically require that we meet ongoing performance, quality and fulfillment requirements. An agreement with one customer grants the customer the right to terminate the agreement at any time for any reason. Our contracts with major customers expire at various dates ranging from December 2007 through December 2012.

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

To address our working capital needs, in May 2007, we sold 3,641,909 shares of common stock in a private placement to accredited investors at a price of $11.00 per share, resulting in aggregate gross proceeds before expenses of $40,061,000 and net proceeds of approximately $36,500,000. We also issued these investors warrants to purchase up to 546,283 shares of common stock, at an exercise price of $15.00 per share. We have the right to call these warrants under certain conditions.

Multi-Year Inventory Transactions

During the past three fiscal years, we entered into three agreements that required us to record on our books inventory held by our customers.

The inventory transaction with our largest customer has had a material impact on our reported results and working capital for the last three fiscal years. We entered into the initial four-year agreement with this customer in May 2004. Under this agreement, we became the primary supplier of import alternators and starters for eight of this customer s

distribution centers and agreed to sell this customer certain products on a pay-on-scan (POS) basis. Under the POS arrangement, we continued to carry the inventory that this retailer had on its shelf for resale until that inventory was sold to an end user. At that point, we were entitled to receive payment. As part of the 2004 agreement, we purchased approximately $24,000,000 of this customer s inventory through the issuance of credits against receivables from that customer. The last of these credits was issued in April 2006. The parties also agreed to use reasonable commercial efforts to convert the overall purchasing relationship to a POS arrangement by April 2006, and, if the POS conversion was not fully accomplished by that time, we agreed to convert $24,000,000 of this customer s inventory to a POS arrangement by purchasing this inventory through the issuance of credits of $1,000,000 per month over a 24-month period ending April 2008.

The POS conversion was not completed by April 2006, and the parties agreed to terminate the POS arrangement as of August 24, 2006. As part of the August 2006 agreement, the customer purchased those products previously shipped on a POS basis. This transaction, after the application of our revenue recognition policies, increased net sales by $19,795,000 for the fiscal year ended March 31, 2007. This agreement also extended the term of our primary supplier rights from May 2008 to August 2008.

Under this agreement, we purchased approximately $19,980,000 of the customer s Remanufactured Core inventory by issuing credits to the customer in that amount on August 31, 2006. In establishing the related long-term core inventory deposit, we valued these Remanufactured Cores at $11,918,000 based on the then current cost of long-term core inventory. The resulting $8,062,000 reduction in the carrying value of these Remanufactured Cores reduced our net sales for the fiscal year ended March 31, 2007 by the same amount. If our relationship with this customer is terminated, the customer is obligated to purchase any unreturned Remanufactured or Used Cores from us for cash either immediately or over a period of time as that customer liquidates its inventory. The amount of the payment is based upon the contractual per Remanufactured Core price. This contractual price exceeds the value used to establish the long-term core inventory deposit. As of March 31, 2007, the long-term core inventory deposit balance related to this agreement was approximately $19,629,000. Long-term core inventory deposit related to this August 31, 2006, transaction has not changed, but the total balance in the account has increased due to an additional subsequent Remanufactured Core purchases.

In March 2005, we entered into an agreement with another major customer. As part of this agreement, our designation as this customer s exclusive supplier of remanufactured import alternators and starters was extended from February 28, 2008 to December 31, 2012. In addition to customary marketing allowances, we agreed to acquire the customer s import alternator and starter Remanufactured Core inventory by issuing $10,300,000 of credits over a five-year period. The amount of credits issued is subject to adjustment if sales to the customer decrease in any quarter by more than an agreed upon percentage. As of March 31, 2007, approximately $5,613,000 of credits remains to be issued. The customer is obligated to purchase any unreturned Remanufactured or Used Cores in the customer s inventory upon termination of the agreement for any reason. As we issue credits to this customer, we establish a long-term core inventory deposit account for the value of the Remanufactured Core inventory estimated to be on hand with the customer and subject to purchase upon termination of the agreement, and reduce revenue by the amount by which the credit exceeds the estimated Remanufactured Core inventory value. As of March 31, 2007, the long-term core inventory deposit balance related to this agreement was approximately $1,938,000. We regularly review the long-term core inventory deposit account using the same asset valuation methodologies we use to value our unreturned Remanufactured Core inventory.

In July 2006, we entered into an agreement with a new customer to become their primary supplier of alternators and starters. As part of this agreement, we agreed to acquire a portion of the customer s import alternator and starter Remanufactured Core inventory by issuing approximately $950,000 of credits over twenty quarters. As of March 31, 2007, approximately $855,000 of credits remained to be issued under the agreement. Certain promotional allowances were earned by the customer on an accelerated basis during the first year of the agreement. On May 22, 2007, this agreement was amended to eliminate our obligation to acquire a portion of the customer s import alternator and starter Remanufactured Core inventory, and the customer refunded approximately $95,000 in accounts receivable credits previously issued.

Competition

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

We believe that the reputation for quality and customer service that a supplier enjoys is a significant factor in a customer s purchase decision. We believe that these factors favor our company, which provides quality replacement automotive products, rapid and reliable delivery capabilities as well as promotional support. In this regard, there is increasing pressure from customers, particularly the largest customers, to provide efficient delivery to promptly meet customer orders. While this pressure increases our need to build inventory levels, we believe that our ability to provide efficient delivery distinguishes us from many of our competitors and provides a competitive advantage. Price and payment terms are very important competitive factors. The concentration of our sales among a small group of customers has increasingly limited our ability to negotiate favorable terms for sales of our products.

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

Company Operations

Production Process. Our remanufacturing process begins with the receipt of used alternators and starters, commonly known as Used Cores , from our customers or core brokers. The Used Cores are evaluated for inventory control purposes and then sorted by part number. Each Used Core is completely disassembled into its fundamental components. The components are cleaned in a process that employs customized equipment and cleaning materials in accordance with the required specifications of the particular component. All components known to be subject to major wear and those components determined not to be reusable or repairable are replaced by new components. Non-salvageable components of the Used Core are sold as scrap.

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

We continue to explore opportunities for improving efficiencies in our remanufacturing process. In the last few years, we have reorganized our remanufacturing processes to combine product families with similar configurations into dedicated factory work cells. This remanufacturing process, known as lean manufacturing , replaced the more traditional assembly line approach we had previously utilized and eliminated a large number of inventory moves and the need to track inventory movement through the remanufacturing process. This new process impacted all of our production in California and Malaysia and has been used at our Mexico facility since the beginning of operations. Because of this lean manufacturing approach, we have significantly reduced the time it takes to produce a finished product.

Offshore Remanufacturing. The majority of our remanufacturing operations are now conducted at our remanufacturing facilities in Tijuana, Mexico and Malaysia. We also operate a shipping and receiving warehouse and testing facility in Singapore. These foreign operations have quality control standards similar or identical to those currently implemented at our remanufacturing facilities in Torrance, California. Our foreign operations are growing in importance as we take advantage of lower production costs, and we expect to continue to grow the portion of our remanufacturing operations that is conducted outside the United States. In fiscal 2007, 2006 and 2005, our foreign

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operations produced approximately 64%, 32% and 15%, respectively, of our total production. Used Core receipt, sorting and storage and finished goods storage and distribution are currently performed at our facility in Torrance. We continue to transition the bulk of our remanufacturing, warehousing and shipping/receiving operations currently conducted in Torrance to our facilities in Mexico.

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

- Our customers purchase from us a remanufactured unit to be sold to their consumer.

- Our customers offer their consumers a credit to exchange their used unit (Used Core) at the time the consumer purchases a remanufactured unit.

- We, in turn, offer our customers a credit to send us these Used Cores. The credit reduces our accounts receivable.

Our customers are not obligated to send us all the Used Cores exchanged by their consumers. We have historically purchased approximately 15% to 20% of our Used Cores in the open market from core brokers who specialize in buying and selling Used Cores. Although the open market is not a primary source of Used Cores, it does offer us a supplemental source for maintaining stock balances, so that we can continue to meet our raw material demands. Not all Used Cores are reusable. Remanufacturing consumes, on average, more than one Used Core for each remanufactured unit produced. Although the yield rates depend upon both the product and customer specifications, our overall average yield rates are about 85%, meaning we use about 117 Used Cores to provide sufficient salvageable components to complete 100 remanufactured products. During the fiscal year ended March 31, 2007, we purchased approximately 28% of our Used Cores from core brokers. This increase in broker purchases was necessary to accommodate our offshore operations and the new business we obtained.

The price of a finished product sold to our customers is generally comprised of an amount for remanufacturing (unit value) and an amount separately invoiced for the Remanufactured Core included in the product (Remanufactured Core charge). The Remanufactured Core charge is equal to the credit we offer to induce the customer to use our core exchange program and send back the Used Cores to replenish the raw materials we need to produce additional finished goods. In accordance with our net-of-core-value revenue recognition policy, at the time a sale is recorded, we only recognize as revenue the unit value of the finished product. We also record as long-term core inventory the cost of Remanufactured Cores included in the finished goods that are shipped to customers and that we expect to be sent back to us as part of the core exchange program. During fiscal 2007, 2006 and 2005, approximately 96%, 93% and 96%, respectively, of the Remanufactured Cores we shipped as part of finished goods were replaced by similar Used Cores sent back to us under our core exchange program and resulting in the issuance of credits equal to the related Remanufactured Core value.

Other materials and components used in remanufacturing are purchased in the open market. Our main supplier provided approximately 22%, 21% and 17% of our raw materials purchased during the years ended March 31, 2007, 2006 and 2005, respectively, and we are dependent on that supplier s ability to provide us with product. No other supplier provided more than 10% of our raw material needs during these periods.

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

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

As is standard in the industry, we only accept returns from on-going customers. If a customer ceases doing business with us, we have no further obligation to accept additional product returns from that customer. Similarly, we accept product returns and grant appropriate credits from new customers from the time the new customer relationship is

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established. This obligation to accept returns from new customers does not result in decreased liquidity or increased expenses since we only accept one returned product for each unit sold to the new customer. The return must be received by us in the original box of the unit sold.

We provide for the anticipated returns of inventory in accordance with Statement of Financial Accounting Standards No. 48, Revenue Recognition When Right of Return Exists by reducing revenue and cost of sales for the unit value of goods sold based on a historical return analysis and information obtained from customers about current stock levels and anticipated stock adjustment returns.

Sales, Marketing and Distribution. We offer one of the widest varieties of alternators and starters available to the market, and we market and distribute our products throughout North America. Our products for the automotive retail chain market are primarily sold under our customers private labels. During fiscal 2004, we expanded our sales efforts beyond automotive retail chains to include warehouse distribution centers serving professional installers. Our products are sold under private label and our own Quality-Built brands. Products are shipped from our remanufacturing facility in Torrance, California and our fee warehouse facilities in Fairfield, New Jersey and Springfield, Oregon.

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

Included in sales are royalties we receive from the licensing of intellectual property developed over many years related to rotating electrical products (alternators and starters).

Employees. As of March 31, 2007, we had 580 employees in the United States (down from 833 at March 31, 2006, and 1,100 at March 31, 2005), substantially all of whom were located in Torrance, California. Of our U.S.-based employees, 104 are administrative personnel and 24 are sales personnel. In addition, at March 31, 2007, we employed 309 people in Singapore and Malaysia and 638 people at our remanufacturing facility in Tijuana, Mexico. A union represents all hourly employees covered by collective bargaining agreements at our Mexico facility. All other employees are non-union. We consider our relations with our employees to be satisfactory.

Seasonality of Business

Extreme weather conditions impact alternator and starter failures, resulting in a modest seasonal impact on our business. Due to their nature and design, as well as the limits of technology, alternators and starters traditionally failed when operating in extreme conditions. During the summer months, when the temperature typically increases over a sustained period of time, alternators were more likely to fail. Similarly, during winter months, starters were more likely to fail. Since alternators and starters are critical for the operation of the vehicle, failed units require immediate replacement. As a result, during the summer months we experienced an increase in alternator sales, and during the winter months we experienced an increase in starter sales. This seasonality impact has been diminished by the improvement in the quality of alternators and starters.

Governmental Regulation

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

Based upon the closing price of our common stock on September 29, 2006, we are now required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). A significant amount of management s time has been focused on Section 404 compliance work associated with the filing of this Form 10-K, and significant costs have

been incurred. We expect our SOX compliance work will continue to require significant commitment of management time and the incurrence of significant general and administrative expenses.

Evaluation of Strategic Options

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

Item 1A Risk Factors

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

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

Our sales are concentrated among a few major customers. During fiscal 2007, sales to our five largest customers constituted 96% of our net sales, and sales to our largest customer constituted 64% of our net sales. Because our sales are concentrated, and the market in which we operate is very competitive, we are under ongoing pressure from our customers to offer lower prices, extended payment terms, increased marketing allowances and other terms more favorable to these customers. These customer demands have put continued pressure on our operating margins and profitability, resulted in periodic contract renegotiation to provide more favorable prices and terms to these customers and significantly increased our working capital needs. In addition, this customer concentration leaves us vulnerable to any adverse change in the financial condition of any of our major customers. The loss or significant decline of sales to any of our major customers would reduce our net income and adversely affect our operating results.

Our contract with our largest customer is scheduled to expire in August 2008. At this point, we cannot provide assurance that this contract will be extended or estimate the impact any such contract extension would have on our reported results. If this contract is not renewed or we are required to provide significant customer concessions to renew this contract, our operating results would be materially and adversely impacted.

The expansion of our offshore remanufacturing and logistic activities has put downward pressure on our near-term operating results and exposed us to increased risks associated with political or economic instability in the foreign countries where we conduct operations.

To respond to customer pressures while maintaining or improving gross margins, we have expanded our overseas operations. Most recently, we established a remanufacturing operation near Tijuana, Mexico. While we anticipate that the remanufacturing costs in Mexico will ultimately be lower than those we have incurred in our Torrance, California facility, we have experienced remanufacturing inefficiencies associated with the ramp-up of our Mexican operations that adversely impacted our operating results during the years ended March 31, 2007 and 2006. In addition, we believe that we will continue to incur duplicative logistics and general and administrative costs as we transition more of our activities from Torrance to Mexico. These inefficiencies are expected to have an adverse impact on our operating results through at least fiscal 2008. It is also possible that we could experience disruptions in remanufacturing and logistics activities as a result of the wind-down of our Torrance remanufacturing activities that could have a material adverse impact on our operating results. The expansion of our overseas operations also increases our exposure to political or economic instability in the host countries and to currency fluctuations.

The complexity associated with the accounting for our operating results and the SEC s review of our previously issued financial statements and core accounting principles may continue to result in fluctuations in our reported operating results and additional future restatements of our previously issued financial statements.

Because we receive Used Cores, a critical remanufacturing component, through customer returns and we offer marketing allowances and other incentives that impact revenue recognition, the accounting for our operations is more complex than that for many businesses the same size or larger. Approximately three years ago, the SEC commenced a review of our previously-filed financial statements. As we responded to the SEC s questions, we undertook a comprehensive review of a number of our critical accounting policies, including several of our revenue

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recognition policies. This review resulted in the restatement of a number of our previously-issued annual and quarterly reports and required that we commit a significant level of management time and incur a significant level of professional fees. While we believe the SEC has completed this review, we have received no assurance in this regard. Our reported operating results could be subject to future accounting policy changes as a result of the SEC s review of our public reports. In May 2007, the SEC contacted us and indicated they were conducting a review of the accounting principles applied by public companies that use Used Cores acquired from customers in the production of their finished goods. We are cooperating with the SEC as their general review of these accounting issues proceeds. In addition, during the course of the preparation and review of our interim financial statements for the three and six months ended September 30, 2006, errors were identified in our application of generally accepted accounting principles. The correction of these errors required us to restate previously issued financial statements. In connection with our evaluation of our compliance with Section 404 of the Sarbanes-Oxley Act of 2002 for the current fiscal year, we have determined that there are material weaknesses in our internal controls over financial reporting.

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

In our remanufacturing processes, we obtain Used Cores, primarily through customer returns, and component parts from third-party manufacturers. Historically, the level of Used Core returns from customers together with purchases from core brokers have provided us with an adequate supply of this key component. If there was a significant disruption in the supply of Used Cores, whether as a result of increased Used Core acquisitions by existing or new competitors or otherwise, our operating activities would be materially and adversely impacted. In addition, a number of the other components used in the remanufacturing process are available from a very limited number of suppliers. In fiscal 2007, we received 22% of our raw materials from a single supplier. We are, as a result, vulnerable to any disruption in component supply, and any meaningful disruption in this supply would materially and adversely impact our operating results.

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

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

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

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

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

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

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Our operating results may continue to fluctuate significantly.

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

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

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

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

While our recently completed private placement of common stock and warrants has strengthened our capital position, we expect that our indebtedness may increase substantially from time to time for various reasons, including fluctuations in operating results, marketing allowances provided to customers, capital expenditures and possible acquisitions. Our indebtedness could materially affect our business because (i) a portion of our cash flow must be used to service debt rather than finance our operations, (ii) it may eventually impair our ability to obtain financing in the future and (iii) it may reduce our flexibility to respond to changes in business and economic conditions or take advantage of business opportunities that may arise.

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

As of June 1, 2007, Mel Marks, our founder and Board member, held 14.5% of our outstanding common stock, and we believe other members of the Marks family held an additional 4.6% of our outstanding stock. As a result of his holdings, Mel Marks has the ability to exercise substantial influence over us and his interests (and those of his family) may conflict with the interests of other shareholders.

Our common stock is thinly traded and this market does not provide shareholders with a meaningful degree of liquidity.

Our common stock is currently traded on the Pink Sheets. Trading on the Pink Sheets can be sporadic, and the average trading volume is approximately 3,000 to 4,000 shares per day. As a result, Pink Sheet trading does not provide any meaningful liquidity to investors. While we will continue to seek exchange listing for our shares, our efforts to date have not been successful, and there is no assurance that our current efforts will succeed.

Our rights agreement contains provisions that could hinder or prevent a change in control of our company.

In February 1998, we established a rights plan, which expires in February 2008. Under this plan, in certain circumstances, including the acquisition of 20% of our outstanding common stock, each right not owned by the person acquiring this stock interest would entitle its holder to receive, upon exercise, shares of common stock having a value equal to twice the exercise price of the right. These rights make it more difficult for a third party to acquire a controlling interest in us without our Board s approval. As a result, the existence of the rights could have an adverse impact on the market for our common stock.

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

Based upon the closing price of our common stock on September 29, 2006, we are now required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). Section 404 requires our management to assess the effectiveness of our internal control over financial reporting at the end of each fiscal year and certify whether or not internal control over financial reporting is effective. Our independent accountants are also required to express an opinion with respect to the effectiveness of our internal controls. In connection with our evaluation of Section 404 compliance for the current fiscal year, we have determined that there are material weaknesses in our internal controls over financial reporting.

Unfavorable currency exchange rate fluctuations could adversely affect us.

We are exposed to market risk from material movements in foreign exchange rates between the U.S. dollar and the currencies of the foreign countries in which we operate. As a result of our growing operations in Mexico, our primary risk relates to changes in the rates between the U.S. dollar and the Mexican peso. To mitigate this currency risk, in August 2005 we began to enter into forward foreign exchange contracts to exchange U.S. dollars for Mexican pesos. The extent to which we use forward foreign exchange contracts is periodically reviewed in light of our estimate of market conditions and the terms and length of anticipated requirements. The use of derivative financial instruments allows us to reduce our exposure to the risk that the eventual net cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in the exchange rates. We do not engage in currency speculation or hold or issue financial instruments for trading purposes. These contracts expire in a year or less. Any change in the fair value of foreign exchange contracts is accounted for as an increase or offset to general and administrative expenses in current period earnings.

Item 1B Unresolved Staff Comments

We have not received any written comments from the SEC staff regarding our periodic or current reports under the Securities Exchange Act of 1934 that were issued more than 180 days before the end of fiscal 2007, which we believe remain unresolved.

Item 2 Properties

We lease all of the real property used in our operations. We presently lease approximately 227,000 square feet of warehouse, production and administrative space in Torrance, California. In fiscal 2007, we experienced a significant increase in unit demand from our existing and new customers. As a result, in November 2006, we entered into an amendment to the lease that extended the lease term for an additional five year period ending March 31, 2012. Under the amendment, we have the right to cancel the lease with respect to approximately 80,000 square feet of the leased space in the first and the second year of the extended lease period. The amendment also gives us an option to extend the lease for an additional five years beginning April 1, 2012. We also lease approximately 4,005 square feet adjacent to our main Torrance facility that is used as additional office and record storage space. The lease on this second building has terms which coincide with the lease on the main Torrance building. We expect to continue to use our Torrance facility for receiving, distribution and other logistics related activities until we can transition this portion of our remanufacturing operations to our facility in Mexico.

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

In addition, we occupy nearly 50,000 square feet of leased remanufacturing, warehousing, and office space under eight separate leases which expire on various dates through March 31, 2009, in Singapore and Malaysia.

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The Nashville, Tennessee area facilities we lease consist of two locations. We currently lease approximately 2,067 square feet of office space under a lease that expires on May 31, 2012. In April 2005, we entered in an agreement to lease approximately 82,600 square feet of warehouse and office space for a term of five years and two months. We currently intend to close this warehouse facility during the second quarter of fiscal 2008 and are seeking to sub-lease the facility.

We believe the facilities we are retaining are sufficient to satisfy our foreseeable warehousing, production, distribution and administrative office space requirements.

Item 3 Legal Proceedings

In fiscal 2003, the SEC filed a civil suit against us and our former chief financial officer, Peter Bromberg, arising out of the SEC s investigation into our fiscal 1997 and 1998 financial statements (Complaint). Simultaneously with the filing of the SEC Complaint, we agreed to settle the SEC s action without admitting or denying the allegations in the Complaint. Under the terms of the settlement, we are subject to a permanent injunction barring us from future violations of the antifraud and financial reporting provisions of the federal securities laws. No monetary fine or penalty was imposed upon us in connection with this settlement with the SEC. The United States Attorney s Office has informed us that it does not intend to pursue criminal charges against the Company arising from the events involved in the SEC Complaint.

On May 20, 2004, the SEC and the United States Attorney s Office announced that Peter Bromberg was sentenced to ten months, including five months of incarceration and five months of home detention, for making false and misleading statements about our financial condition and performance in our 1997 and 1998 Forms 10-K filed with the SEC.

In December 2003, the SEC and the United States Attorney s Office filed charges against Richard Marks, our former President and Chief Operating Officer. Mr. Marks agreed to plead guilty to the criminal charges, and on June 17, 2005 he was sentenced to nine months of incarceration, nine months of home detention, 18 months of probation and fined $50,000. In settlement of the SEC s civil fraud action, Mr. Marks paid over $1.2 million in fines and was permanently barred from serving as an officer or director of a public company.

Based upon the terms of agreements we previously entered into with Mr. Marks, we paid the costs he incurred in connection with the SEC and United States Attorney s Office s investigation. During fiscal 2006, 2005 and 2004, we incurred costs of approximately $368,000, $556,000 and $966,000, respectively, pursuant to this indemnification arrangement. Following the conclusion of these investigations, we sought reimbursement from Mr. Marks of certain of the legal fees and costs we advanced. In June 2006, we entered into a Settlement Agreement and Mutual Release with Mr. Marks. Under this agreement, Mr. Marks is obligated to pay us $682,000 on January 15, 2008 and to pay interest at the prime rate plus one percent on June 15, 2007 and January 15, 2008. Mr. Marks made the June interest payment on June 22, 2007. As required by this agreement, Mr. Marks pledged 80,000 shares of our common stock to secure this payment obligation. If at any time the market price of the stock pledged by Mr. Marks is less than 125% of Mr. Marks obligation, he is required to pledge additional stock to maintain no less than the 125% coverage level. Richard Marks is the son of Mel Marks, our founder, largest shareholder and member of our Board. The settlement with Mr. Richard Marks was unanimously approved by a Special Committee of the Board consisting of Messrs. Borneo, Gay and Siegel. At March 31, 2007, we recorded a shareholder note receivable for the $682,000 Mr. Marks owes to us. The note is classified in shareholders equity as it is collateralized by our common stock. We reduced our general and administrative expenses by $682,000 and recorded related interest income of $75,000 during the year ended March 31, 2007.

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

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Item 4 Submission of Matters to a Vote of Security Holders

None.

PART II

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

Our Common Stock is currently traded on the Pink Sheets under the trading symbol MPAA.PK. The trading on the Pink Sheets can be sporadic and does not constitute an established trading market for our Common Stock. The following table sets forth the high and low bid quotations for our Common Stock during each quarter of fiscal 2007 and 2006 as tracked on the Pink Sheets. The quotations reflect inter-dealer prices and may not necessarily represent actual transactions and do not include any retail mark-ups, markdowns or commissions.

	Fiscal 2007		Fiscal 2006	
	High	Low	High	Low
1st Quarter	$13.35	$11.05	$11.65	$ 9.80
2nd Quarter	$13.51	$11.35	$11.41	$10.72
3rd Quarter	$14.70	$13.10	$11.00	$ 8.98
4th Quarter	$14.95	$12.60	$14.90	$ 9.95

As of June 27, 2007 there were 12,026,731 shares of Common Stock outstanding held by 69 holders of record. We have never declared or paid dividends on our Common Stock. The declaration of any prospective dividends is at the discretion of the Board of Directors and will be dependent upon sufficient earnings, capital requirements and financial position, general economic conditions, state law requirements and other relevant factors. Additionally, our agreement with our lender prohibits payment of dividends, except stock dividends, without the lender s prior consent.

Preferred Stock

On February 24, 1998, we entered into a Rights Agreement with Continental Stock Transfer & Trust Company. As part of this agreement, we established 20,000 shares of Series A Junior Participating Preferred Stock, par value $.01 per share. The Series A Junior Participating Preferred Stock has preferential voting, dividend and liquidation rights over the Common Stock.

On February 24, 1998, we also declared a dividend distribution to the March 12, 1998 holders of record of one Right for each share of Common Stock held. Each Right, when exercisable, entitles its holder to purchase one one-thousandth of a share of our Series A Junior Participating Preferred Stock at a price of $65 per one one-thousandth of a share (subject to adjustment).

The Rights are not exercisable or transferable apart from the Common Stock until an Acquiring Person, as defined in the Rights Agreement acquires 20% or more of the outstanding shares of the Common Stock or announces a tender offer that would result in 20% ownership, in each case without the prior consent of our Board of Directors. We are entitled to redeem the Rights, at $.001 per Right, any time until ten days after a 20% position has been acquired. Under certain circumstances, including the acquisition of 20% of our Common Stock, each Right not owned by a potential Acquiring Person will entitle its holder to receive, upon exercise, shares of Common Stock having a value equal to twice the exercise price of the Right.

Holders of a Right will be entitled to buy stock of an Acquiring Person at a similar discount if, after the acquisition of 20% or more of our outstanding Common Stock, we are involved in a merger or other business combination transaction with another person in which we are not the surviving company, our common shares are changed or converted, or we sell 50% or more of our assets or earning power to another person. The Rights expire on March 12, 2008 unless earlier redeemed by the Company.

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The Rights make it more difficult for a third party to acquire a controlling interest in the Company without our Board s approval. As a result, the existence of the Rights could have an adverse impact on the market for our Common Stock.

Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of March 31, 2007:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by securities holders	1,688,067(1)	$ 8.29	187,766(2)
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	1,688,067	$ 8.29	187,766

(1) Consists of options issued pursuant to our 1994 Employee Stock Option Plan, 1996 Employee Stock Option Plan, Director s Plan, 2003 Long-Term Incentive Plan and 2004 Non-Employee Director Stock Option Plan.

(2)

Consists of options available for issuance under our 2003 Long-Term Incentive Plan and 2004 Non-Employee Director Stock Option Plan.

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Performance Graph

The following graph compares the cumulative return to holders of common stock for the fiscal years ended March 31, 2003, 2004, 2005, 2006 and 2007 with the National Association of Securities Dealers Automated Quotation (NASDAQ) Market Index and an index for our peer group. The comparison assumes $100 was invested at the close of business on March 31, 2002 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 at March 31, 2002
Index Through March 2007

Annual Return Percentage Based upon historical performance, the following table depicts the annual percentage return earned in each of the three comparison groups**:**

Total Shareholder Returns-Dividends Reinvested

Annual Return Percentage

	Year Ended March 31,				
Company/Index	**2003**	**2004**	**2005**	**2006**	**2007**
Motorcar Parts of America, Inc	-50.55%	271.11%	31.15%	21.92%	7.49%
Peer Group	-28.01%	43.21%	5.75%	2.12%	21.12%
NASDAQ	-26.98%	49.38%	0.85%	18.01%	4.17%

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Indexed Returns Based upon historical performance, the following table displays the results of $100 invested at the close of business on March 31, 2002 in the common stock of each of the comparison groups and assumes reinvestment of dividends:

ZACKS TOTAL RETURN ANNUAL COMPARISON
5 YEAR CUMULATIVE TOTAL RETURN SUMMARY
Through March 31, 2007

		2002	2003	2004	2005	2006	2007
MPA	Return%		(50.55)	271.11	31.15	21.92	7.49
	Cum $	$100.00	$ 49.45	$183.51	$240.68	$293.44	$315.41
NASDAQ	Return%		(26.98)	49.38	0.85	18.01	4.17
	Cum $	$100.00	$ 73.02	$109.08	$110.00	$129.82	$135.23
Peer Group	Return%		(28.01)	43.21	5.75	2.12	21.12
	Cum $	$100.00	$ 71.99	$103.10	$109.02	$111.34	$134.85

Corporate Performance Graph with peer group uses peer group only performance and excludes Motorcar Parts of America, Inc.
Peer group indices use beginning of period market capitalization weighting.
S&P index returns are calculated by Zacks.

Peer Group:

Aftermarket Technologies Corporation

Dorman Products, Inc.

Standard Motor Products, Inc.

Proliance International, Inc.

Item 6 Selected Financial Data

The following selected historical consolidated financial information as of and for each of the years ended March 31, 2007, 2006, 2005, 2004 and 2003, has been derived from and should be read in conjunction with our consolidated financial statements and related notes thereto.

	Fiscal Year Ended March 31,				
Income Statement Data	**2007**	**2006**	**2005**	**2004**	**2003**
Net sales	$ 136,323,000	$ 108,397,000	$ 96,719,000	$ 80,349,000	$ 83,969,000
Operating income (loss)	(2,475,000)	6,298,000	13,438,000	9,232,000	7,521,000
Net income (loss)	$ (4,956,000)	$ 2,085,000	$ 7,281,000	$ 5,400,000	$ 10,994,000
Basic net income (loss) per share	$ (0.59)	$ 0.25	$ 0.89	$ 0.67	$ 1.38
Diluted net income (loss) per share	$ (0.59)	$ 0.25	$ 0.85	$ 0.64	$ 1.29

	March 31,				
Balance Sheet Data	**2007**	**2006**	**2005**	**2004**	**2003**
Total assets	$131,986,000	$101,136,000	$85,647,000	$62,150,000	$57,604,000
Working capital	(26,746,000)	12,851,000	17,328,000	19,212,000	9,107,000

Line of credit	22,800,000	6,300,000		3,000,000	9,932,000
Capital lease obligations less current portion	3,629,000	4,857,000	938,000	1,247,000	209,000
Shareholders equity	$ 47,828,000	$ 51,595,000	$48,670,000	$40,834,000	$35,775,000

Working capital has been adjusted for the reclassification of core inventory as described in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations , Critical Accounting Policies, *Inventory* , page 21.

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

Disclosure Regarding Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements with respect to our future performance that involve risks and uncertainties. Various factors could cause actual results to differ materially from those projected in such statements. These factors include, but are not limited to: concentration of sales to certain customers, changes in our relationship with any of our customers, including the increasing customer pressure for lower prices and more favorable payment and other terms, our ability to renew the contract with our largest customer that is scheduled to expire in August 2008 and the terms of any such renewal, the increasing demands on our working capital, including the significant strain on working capital associated with large Remanufactured Core inventory purchases from customers of the type we have increasingly made, our ability to obtain any additional financing we may seek or require, our ability to achieve positive cash flows from operations, potential future changes in our previously reported results as a result of the identification and correction of errors in our accounting policies or procedures, the material weaknesses in our internal controls over financial reporting, the SEC s review of our previously filed public reports, lower revenues than anticipated from new and existing contracts, our failure to meet the financial covenants or the other obligations set forth in our bank credit agreement and the bank s refusal to waive any such defaults, any meaningful difference between projected production needs and ultimate sales to our customers, increases in interest rates, changes in the financial condition of any of our major customers, the impact of high gasoline prices, the potential for changes in consumer spending, consumer preferences and general economic conditions, increased competition in the automotive parts industry, including increased competition from Chinese manufacturers, difficulty in obtaining Used Cores and component parts or increases in the costs of those parts, political or economic instability in any of the foreign countries where we conduct operations, unforeseen increases in operating costs and other factors discussed herein and in our other filings with the SEC.

Management Overview

During the fiscal year ended March 31 2007, we embarked on a number of important initiatives. Firstly, we focused on increasing market share in both the DIY and the DIFM market. Secondly, we focused on making sure that our operating margins could withstand the threat of competitive pricing pressures by moving the majority of our production offshore. We are also in the process of moving the remaining logistics support from our California location to our Mexico facility.

With respect to the first initiative, our focus was to increase our market share with retailers who are predominantly in the DIY market and who are increasingly targeting the DIFM market. With respect to this initiative, we added a full line supply contract with one of the top five retailers in the United States. We began shipping product to this new customer in August after a significant changeover effort. When we entered into this new customer relationship, we did not expect to realize the full benefit from this arrangement during the first year of the contract due to the various start-up expenses. We believe this customer will be a contributor to our profitability in the future. In addition, we have taken efforts to bolster the service levels to each of our retail customers to ensure that we maximize their respective opportunities for growth. As a result of this initiative, unit sales to our retail customers are up by 10% over the prior year excluding the effect of the termination of the POS arrangement. We have also made significant in-roads into supplying the DIFM market. As of year end our private label and our own brand, Quality Built represents unit sales of approximately 21% of our total unit sales, an increase of 43% over the prior year. This does not include the portion of our unit sales to the DIFM market that come from our retail customer.

Overall during fiscal 2007, our net sales reached historic highs. Net sales increased by 25.8%. This metric has been affected positively by a one time catch up of sales of product previously shipped under our terminated POS arrangement. If the sales associated with the POS termination are not taken into account, net sales are up by 14.9%

A significant portion of this sales growth is supported by long-term agreements with our customers. During fiscal 2007, we began shipping to a large new customer, amended our agreement with our largest customer to end the prior POS agreement and purchase a portion of their on-hand Remanufactured Cores, and broadened our agreement with

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our large OE customer. While these longer-term agreements strengthen our customer relationships and improve our overall business base, they require a substantial amount of working capital to meet ramped-up production demands, purchase Used Core inventory and provide marketing and other allowances that are often front-loaded and significantly reduce the near-term gross profit and the associated cash flow from these new or expanded arrangements. We evaluate new business opportunities by looking at the returns over a 3 to 5 year period. If the anticipated returns meet our threshold levels, we will pursue the new business.

With respect to our second initiative outlined above, we embarked on a dual approach to increasing our offshore manufacturing. We opened a new remanufacturing facility in Mexico with the goal to produce the majority of our supply to the North American marketplace in Mexico. The facility has been successfully, launched with early indications that our manufacturing costs will be improved. In addition we intend to completely move core sorting warehousing and shipping to this location. During fiscal 2007, we had significant expenses relating to building out this facility and the ramp-up of production at this facility. We experienced various operating inefficiencies, including a significant new work force which had to go through intensive training. Due to the significant number of laborers needed in our operating processes this was expensive and slow. In addition, we had to keep our California operations running at a higher than normal capacity to make sure that none of our operations suffered while we continued with our offshore initiative. As of the end of fiscal 2007 the Mexico workforce totaled 638. We also had to pay duplicative overhead costs like rent, maintain excess inventory to continue hitting fill rates with customers and allocate inventory over multiple locations. The impact of these expenditures is evidenced by lower gross margins and an increase in our fixed and overhead costs. It is our expectation that we will start to reap the benefits of these initiatives in the future.

The impact on our working capital from these factors is evident in the significant increases in accounts payable and accrued liabilities, the increase in the line of credit and the decrease in net accounts receivable. These changes from the prior fiscal year are primarily due to the higher levels of inventory purchased, the increase in manufacturing costs and higher level marketing allowances provided to our customers.

The increased borrowings on our line of credit, higher level of factored receivables and increased average days over which the receivables were factored, associated with extended payment terms we have provided to our customers, resulted in a more than 100% increase in our net interest expense.

Based upon the closing price of our common stock on September 29, 2006, we are now required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). A significant amount of management time has been focused on compliance work and significant costs have been incurred. During fiscal 2007, we incurred approximately $2,379,000 of general and administrative expenses related to Section 404 compliance

As we move forward into fiscal 2008, we continue to aggressively increase both the volume and the percentage of units remanufactured at our Mexico and Malaysia facilities. In addition, because our Mexico operations experience lower labor-related costs than Torrance, we began to relocate our logistics functions to Mexico by leasing an additional building adjacent to the existing facility. We expect to continue to use our Torrance facility for receiving, distribution and other logistics related activities until we transition this portion of our operations to our facilities in Mexico during fiscal 2008. We also anticipate that competitive pressures may increase as overseas manufacturers, particularly those based in China, expand the scope of their operations.

Although our SOX compliance work will continue to require a significant commitment of management time and the incurrence of significant general and administrative expenses, we are near the close of the first year of compliance which required both the documentation of our internal controls and the implementation of a testing process. As we move into the second year, the focus of the compliance work shifts to necessary remediation, maintenance of the internal control process and its documentation and testing.

To address our working capital needs, in May 2007, we sold 3,641,909 shares of our common stock in a private placement at a price of $11.00 per share, resulting in aggregate gross proceeds before expenses of $40,061,000 and net proceeds of approximately $36,500,000. We also issued warrants to purchase up to 546,283 shares of our common stock, at an exercise price of $15.00 per share. The warrants are callable by us if the volume weighted average trading price of our common stock as quoted by Bloomberg L.P. is greater than $22.50 for 10 consecutive trading days.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, or GAAP. Our significant accounting policies are discussed in detail below and in Note C to our consolidated financial statements.

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

Our remanufacturing operations require that we acquire Used Cores, a necessary raw material, from our customers and offer our customers marketing and other allowances that impact revenue recognition. These elements of our business give rise to accounting issues that are more complex than many businesses our size or larger. In addition, the relevant accounting standards and issues continue to evolve. As a result, certain of our previously issued financial statements have been restated to reflect changes in our application of generally accepted accounting principles.

Inventory

Non-core Inventory

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

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

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

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

Finished goods cost includes the average cost of non-core raw materials and allocations of labor and variable and fixed overhead. The allocations of labor and variable and fixed overhead costs are determined based on the average actual use of the production facilities over the prior twelve months which approximates normal capacity. This method prevents the distortion in allocated labor and overhead costs that would occur during short periods of abnormally low or high production. In addition, we exclude certain unallocated overhead such as severance costs, duplicative facility overhead costs, and spoilage and expense them as period costs as required in Financial Accounting Standards Board (FASB) Statement No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (FAS 151). For the year ended March 31, 2007, costs of approximately $216,000 were considered abnormal and thus excluded from the cost calculation.

We provide an allowance for potentially excess and obsolete inventory based upon recent sales history, the quantity of inventory remaining on-hand, and a forecast of potential use of the inventory. We review inventory on a monthly basis to identify excess quantities and part numbers that are experiencing a reduction in demand. In general, part numbers with quantities representing a one to three-year supply are partially reserved for at rates based upon management s judgment and consistent with historical rates. Any part numbers with quantities representing more

than a three-year supply are reserved for at a rate that considers possible scrap and liquidation values and may be as high as 100% if no liquidation market exists for the part.

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

We apply the guidance provided by the Emerging Issues Task Force Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor (EITF 02-16), by recording vendor discounts as a reduction of inventories that are recognized as a reduction to cost of sales as the inventories are sold.

Inventory Unreturned

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

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

Long-term Core Inventory

Long-term core inventory consists of:

- Used Cores purchased from core brokers and held in inventory at our facilities,
- Used Cores returned by our customers and held in inventory at our facilities,
- Used Cores expected to be returned by our customers and held at their locations, Used Cores that have been returned by end-users to customers but have not yet been returned to us are classified as Remanufactured Cores until they are physically received by us.
- Remanufactured Cores held in finished goods inventory at our facilities; and
- Remanufactured Cores held at the customers locations as a part of the finished goods sold to the customer. For these Remanufactured Cores, we expect the finished good containing the Remanufactured Core to be returned under our general right of return policy or a similar Used Core to be returned to us by the customer, in each case, for credit.

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

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

Approximately 15% to 25% of the Used Core units are obtained in these core broker transactions and are valued based on average purchase price. The average purchase price of the Used Cores for more recent automobile models is retained as the cost for these Used Cores in subsequent periods even as the source of these Used Cores shifts to our core exchange program.

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

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In the fourth quarter of fiscal 2007, we reclassified all of our core inventories to a long-term asset account. The determination of the long-term classification was based on our view that the value of the cores are not consumed or realized in cash during our normal operating cycle, which is one year for most of the cores recorded in inventory. According to ARB 43, current assets are defined as assets or other resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. We do not believe that core inventories, which we classify as long-term, are consumed because the credits issued upon the return of Used Cores offset the amounts invoiced when the Remanufactured Cores included in finished goods were sold. We do not expect the core inventories to be consumed, and thus realize cash, until our relationship with a customer ends, a possibility that we consider remote based on existing long-term customer agreements and historical experience.

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

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

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

Long-term Core Inventory Deposit

The long-term core inventory deposit account represents the value of Remanufactured Cores we have purchased from customers, which are held by the customers and remain on the customers premises. The purchase is made through the issuance of credits against that customer s receivables either on a one time basis or over an agreed-upon period. The credits against the customer s receivable are based upon the Remanufactured Core purchase price previously established with the customer. At the same time, we record the long-term core inventory deposit for the Remanufactured Cores purchased at its cost, determined as noted under Long-term Core Inventory. The long-term core inventory deposit is stated at the lower of cost or market. The cost is established at the time of the transaction based on the then current cost, determined as noted under Long-term Core Inventory. The difference between the credit granted and the cost of the long-term core inventory deposit is treated as a sales allowance reducing revenue as required under EITF 01-9. When the purchases are made over an agreed-upon period, the long-term core inventory deposit is recorded at the same time the credit is issued to the customer for the purchase of the Remanufactured Cores. At least annually, and as often as quarterly, reconciliations and confirmations are performed to determine that the number of Remanufactured Cores purchased, but retained at the customer s premises, remains sufficient to support the amounts recorded in the long-term core inventory deposit account. At the same time, the mix of Remanufactured Cores is reviewed to determine that the aggregate value of Remanufactured Cores in the account has not changed during the reporting period. The Company evaluates the cost of Remanufactured Cores supporting the aggregate long-term core inventory deposit account each quarter. If the Company identifies any permanent reduction in either the number or the aggregate value of the Remanufactured Core inventory mix held at the customer location, the Company will record a reduction in the long-term core inventory deposit account for that period.

Revenue Recognition

We recognize revenue when our performance is complete, and all of the following criteria established by Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition have been met:

Persuasive evidence of an arrangement exists,

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Delivery has occurred or services have been rendered,

The seller s price to the buyer is fixed or determinable, and

Collectibility is reasonably assured.

For products shipped free-on-board (FOB) shipping point, revenue is recognized on the date of shipment. For products shipped FOB destination, revenues are recognized two days after the date of shipment based on our experience regarding the length of transit duration. We include shipping and handling charges in the gross invoice price to customers and classify the total amount as revenue in accordance with Emerging Issues Task Force (EITF) 00-10, Accounting for Shipping and Handling Fees and Costs. Shipping and handling costs are recorded in cost of sales.

Revenue Recognition; Net-of-Core-Value Basis

The price of a finished product sold to customers is generally comprised of separately invoiced amounts for the Remanufactured Core included in the product (Remanufactured Core value) and for the value added by remanufacturing (unit value). The unit value is recorded as revenue based on our then current price list, net of applicable discounts and allowances. Based on our experience, contractual arrangements with customers and inventory management practices, more than 90% of the remanufactured alternators and starters we sell to customers are replaced by similar Used Cores sent back for credit by customers under our core exchange program. In accordance with our net-of-core-value revenue recognition policy, we do not recognize the Remanufactured Core value as revenue when the finished products are sold. We generally limit the number of Used Cores sent back under the core exchange program to the number of similar Remanufactured Cores previously shipped to each customer.

Revenue Recognition and Deferral Core Revenue

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

Nominal price Remanufactured Cores: We invoice other customers for the Remanufactured Core portion of product shipped at a nominal Remanufactured Core price. Unlike the full price Remanufactured Cores, we only recognize revenue from Remanufactured Cores not expected to be replaced by a similar Used Core sent back under the core exchange program when we believe that we have met all the following criteria under SAB 104:

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

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

the reconciliation must be completed and agreed to by the customer

the amount must be billed to the customer.

Deferral of Remanufactured Core Revenue. As noted previously, we have in the past and may in the future agree to buy-back Remanufactured Cores from certain customers. The difference between the credit granted and the cost of the Remanufactured Cores bought back is treated as a sales allowance reducing revenue as required under EITF 01-

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9. As a result of the increasing level of Remanufactured Core buybacks, we have now decided to defer core revenue from these customers until there is no expectation that sales allowances associated with Remanufactured Core buybacks from these customers will offset core revenues that would otherwise be recognized once the criteria noted above have been met. During the year ended March 31, 2007, $1,575,000 of such Remanufactured Core revenues was deferred. No Remanufactured Core revenues were deferred in prior periods.

Revenue Recognition; General Right of Return

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

We provide for such anticipated returns of inventory in accordance with Statement of Financial Accounting Standards No. 48, Revenue Recognition When Right of Return Exists by reducing revenue and the related cost of sales for the units estimated to be returned.

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

Sales Incentives

We provide various marketing allowances to our customers, including sales incentives and concessions. Marketing allowances related to a single exchange of product are recorded as a reduction of revenues at the time the related revenues are recorded or when such incentives are offered. Other marketing allowances, which may only be applied against future purchases, are recorded as a reduction to revenues in accordance with a schedule set forth in the relevant contract. Sales incentive amounts are recorded based on the value of the incentive provided.

Accounting for Deferred Taxes

The valuation of deferred tax assets and liabilities is based upon management s estimate of current and future taxable income using the accounting guidance in SFAS 109, Accounting for Income Taxes. For fiscal 2007 and 2006 management determined that no valuation allowance was necessary for deferred tax assets.

Financial Risk Management and Derivatives

We are exposed to market risk from material movements in foreign exchange rates between the U.S. dollar and the currencies of the foreign countries in which we operate. As a result of our growing operations in Mexico, our primary risk relates to changes in the rates between the U.S. dollar and the Mexican peso. To mitigate this currency risk, in August 2005 we began to enter into forward foreign exchange contracts to exchange U.S. dollars for Mexican pesos. The extent to which we use forward foreign exchange contracts is periodically reviewed in light of our estimate of market conditions and the terms and length of anticipated requirements. The use of derivative financial instruments allows us to reduce our exposure to the risk that the eventual net cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in the exchange rates. We do not engage in currency speculation or hold or issue financial instruments for trading purposes. We had foreign exchange contracts with a U.S. dollar equivalent notional value of $5,463,000 and $4,131,000 and a nominal fair value at March 31, 2007 and 2006, respectively. These contracts expire in a year or less. Any changes in the fair value of foreign exchange contracts are accounted for as an increase or offset to general and administrative expenses in current period earnings. For fiscal 2007, the net effect of the foreign exchange contracts was to increase general and administrative expenses by approximately $11,000.

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Share-based Payments

Effective April 1, 2006, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment , (FAS 123R) using the modified prospective application method of transition for all our stock-based compensation plans. Accordingly, while the reported results for the fiscal 2007 reflect the adoption of FAS 123R, prior year amounts have not been restated. FAS 123R requires the compensation costs associated with stock-based compensation plans be recognized and reflected in our reported results.

The following table presents the impact adoption of FAS 123R had on our audited consolidated statement of operations for the year ended March 31, 2007.

		Year Ended March 31, 2007
Operating income (loss)	$	(1,557,000)
Interest expense net of interest income		
Income (loss) before income tax expense (benefit)		(1,557,000)
Income tax expense (benefit)		(542,000)
Net income (loss)	$	(1,015,000)
Basic net income (loss) per share	$	(0.12)
Diluted net income (loss) per share	$	(0.12)

Prior to the adoption of FAS 123R, we accounted for stock-based employee compensation as prescribed by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and adopted the disclosure provisions of SFAS 123, Accounting for Stock-Based Compensation, and SFAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123.

Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if, any, of the market price of our common stock at the date of the grant over the amount an employee must pay to acquire the stock. Under the fair value based method, compensation cost is recorded based on the value of the award at the grant date and is recognized over the service period.

As of March 31, 2007, we had approximately $1,444,000 of unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over the remaining weighted average vesting period of 2.3 years.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities (* FAS No.159). FAS No. 159 permits companies to choose to measure at fair value certain financial instruments and other items that are not currently required to be measured at fair value. FAS No. 159 is effective for fiscal years beginning after November 15, 2007. We expect to adopt FAS No. 159 in the first quarter fiscal 2009.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements* (FAS No. 157). FAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also established a framework for measuring fair value in GAAP and expands disclosures about fair value measurement. FAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. FAS No. 157 is effective for fiscal years ending after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact of FAS No. 157 on our consolidated financial position and results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes

recognized in an enterprise s financial statements and prescribes a recognition threshold for financial statement recognition and a measurement attribute for a tax position taken or expected to be taken in a tax return. This interpretation also provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for us beginning April 1, 2007. While our evaluation is not complete, we do not expect adoption of FIN 48 to have a material impact on our financial statements.

Subsequent Event

On May 23, 2007, we completed the sale of 3,641,909 shares of our common stock, at a price of $11.00 per share, resulting in aggregate gross proceeds before expenses of $40,061,000 and net proceeds of approximately $36,500,000, and warrants to purchase up to 546,283 shares of our common stock at an exercise price of $15.00 per share. This sale was made through a private placement to accredited investors. The warrants are callable by us if the volume weighted average trading price of our common stock as quoted by Bloomberg L.P. is greater than $22.50 for 10 consecutive trading days.

We are obligated to file a registration statement under the Securities Act of 1933 to register the shares of common stock sold and the shares to be issued upon the exercise of the warrants by July 31, 2007 and to cause the registration statement to become effective no later than the 150th day following May 23, 2007. If we miss either of these deadlines, we are obligated to pay the purchasers of the common stock and warrants sold in the private placement partial liquidated damages equal to 1% of the aggregate proceeds from this private placement, and an additional 1% for each subsequent month these deadlines are not met, until the partial liquidated damages paid equals 19% of such aggregate proceeds. Any payments made under this registration rights agreement will reduce additional paid-in-capital.

Results of Operations

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

	Year Ended March 31,		
	2007	**2006**	**2005**
Gross profit	15.6%	23.4%	29.6%
Cash flow from operations	$(9,313,000)	$(11,454,000)	$4,206,000
Finished goods turnover (1)	4.21	2.35	3.00
Finished goods turnover, excluding POS inventory (2)	5.05	4.42	5.23
Return on equity (3)	(10.36)%	4.30%	17.80%

(1) Finished goods turnover is calculated by dividing the cost of goods sold for the year by the average of the finished goods inventory values, including the long-term core portion at the beginning and the end of each year. We believe that this provides a useful measure of our ability to turn production into revenue. The finished

goods turnover ratio in fiscal 2007 was positively impacted by the termination of the POS agreement in August 2006.

(2) Finished goods turnover, excluding POS inventory is calculated by dividing the cost of goods sold for the year by the average of the finished goods inventory values, including the long-term core portion at the beginning and the end of each year and excluding pay-on-scan inventory. We believe that this provides a useful measure of our ability to manage the inventory which is within our physical control.

(3) Return on equity is computed as net income divided by beginning shareholders equity and measures our ability to invest shareholders funds profitably.

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

	Fiscal Year Ended March 31,		
	2007	**2006**	**2005**
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	84.4	76.6	70.4
Gross profit	15.6	23.4	29.6
Operating expenses:			
General and administrative	13.3	13.2	12.0
Sales and marketing	3.0	3.3	2.9
Research and development	1.1	1.1	0.9
Operating income (loss)	(1.8)	5.8	13.8
Interest expense net of interest income	4.3	2.7	1.7
Income tax expense (benefit)	(2.5)	1.2	4.6
Net income (loss)	(3.6)	1.9	7.5

Fiscal 2007 compared to Fiscal 2006

Net Sales. Gross sales in fiscal 2007 increased by approximately $55,836,000 or 37.9% primarily due to the sale of products previously shipped on a POS basis totaling $19,795,000 and higher sales to our new and existing customers. This increase was partially offset by the $8,062,000 write-down of the long-term core inventory deposit we established in connection with the termination of the POS arrangement that reduced net sales by a comparable amount. Our gross sales increase was further offset by an $8,849,000 increase in marketing allowances from $18,620,000 for fiscal 2006 to $27,469,000 for fiscal 2007. This increase was primarily due to marketing allowances we provided to new customers during fiscal 2007. In general, a disproportionate percentage of marketing allowances for new customers are front-loaded. Marketing allowances as a percentage of sales including the net sales impact from the termination of the POS arrangement, increased marginally by 0.9% for fiscal 2007 compare to fiscal 2006. Customer returns (which also reduce gross sales) increased by $6,697,000 from $28,156,000 for fiscal 2006 to $34,853,000 for fiscal 2007. As a percentage of sales including the net sales impact from the termination of the POS arrangement, customer returns decreased 2.0% for fiscal 2007 compared to fiscal 2006 primarily due to a reduction in warranty return rates. As a result of these factors, net sales for fiscal 2007 increased $27,926,000, or 25.8%, to $136,323,000 over the net sales for fiscal 2006 of $108,397,000.

Cost of Goods Sold. Cost of goods sold as a percentage of net sales increased from 76.6% for fiscal 2006 to 84.4% for fiscal 2007 resulting in a corresponding decrease in our gross profit percentage to 15.6% in fiscal 2007 from 23.4% in fiscal 2006. The $8,062,000 sales incentive associated with the write-down of the long-term core inventory deposit noted above, the increase in marketing allowances associated with new business and the customer returns and adjustments discussed in the preceding paragraph reduced our gross profit percentage for fiscal 2007 by 11.6%. Each of these charges reduced net sales for fiscal 2007, but did not impact the cost of goods sold. The lower per unit manufacturing costs resulted from improvements in manufacturing efficiencies at our Mexican facility when compared to fiscal 2006. This impact is expected to continue until we fully reflect the lower remanufacturing costs of the Mexican and Malaysian facilities.

General and Administrative. Our general and administrative expenses increased $3,848,000 to $18,185,000 from $14,337,000 for fiscal 2006. The increase was primarily due to approximately $2,100,000 of increased expenses we incurred to meet the SOX Section 404 requirements by the end of fiscal 2007, compensation expenses of approximately $1,557,000 associated with our initial recognition under FAS 123R of stock options and approximately $1,463,000 associated with incentive and other bonuses. General and administrative expenses in our Mexico facility increased from $587,000 in fiscal 2006 to $1,225,000 in fiscal 2007 due primarily to the ramp-up of activities at our Mexico facility. In addition, we eliminated 80 positions at our Torrance facilities in the fourth quarter of fiscal 2007 and recorded $258,000 of severance and other costs related to this reduction in staff. Our general and administrative expenses were offset by the recording of the shareholder note receivable of $682,000 for reimbursement of indemnification costs. In addition, general and administrative expenses were further offset by the reduction in fiscal 2007 of the following expenses that were incurred during fiscal 2006: (i) $364,000 associated with our response to the SEC s review of our SEC filings that began in 2004 and the related restatement of our financial statements, (ii) $368,000 in our indemnification costs associated the SEC s and the U.S. Attorney s Office s investigation of our former president and chief operating officer and (iii) start-up costs of approximately $716,000 related to our production location in Mexico and our distribution center in Nashville, Tennessee. In addition, in fiscal 2007, we recorded a $300,000 increase in the amortization of the deferred gain associated with our sale/leaseback financing that reduces our general and administrative expenses.

Sales and Marketing. Our sales and marketing expenses increased by $580,000 to $4,116,000 for fiscal 2007 from $3,536,000 for fiscal 2006. The increase was due primarily to increases in staffing in the sales and marketing departments to support the increased sales volume and customer base and the $180,000 increase in commission expenses to $388,000 for fiscal 2007. As a percentage of sales, sales and marketing expenses decreased from 3.3% for fiscal 2006 to 3.0% for fiscal 2007. The reduction as a percentage of sales was a result of increased sales.

Research and Development. Research and development expenses increased by $223,000 from $1,234,000 for fiscal 2006 to $1,457,000 for fiscal 2007. The increase, primarily in wage-related expenses, was due to the increased

cost of supporting our new business and the development of new diagnostic equipment for our Mexico and Malaysia facilities.

Interest Expense. Our interest expense, net of interest income, was $5,913,000 in fiscal 2007. This represents an increase of $2,959,000 over net interest expense of $2,954,000 for fiscal 2006. This increase was principally attributable to an increase in the average outstanding balance on our line of credit, the increase in the amount of receivables that were discounted under our factoring agreements, the increase in the average days over which the receivables were factored associated with the extended payment terms we have provided certain of our customers and the increase in short-term interest rates.

Income Tax. For fiscal 2007, we recognized income tax benefits of $3,432,000 compared to an income tax expense of $1,259,000 for fiscal 2006. Our tax rate for fiscal 2007 was significantly different compared to the tax rate for fiscal 2006 primarily as a result of the greater impact of tax credits and foreign tax payments on a lower estimated U.S. net income before taxes. During fiscal 2006, we utilized all of our net operating loss carry forwards available for income tax purposes. Our net operating loss in fiscal 2007 resulted in the creation of net operating loss carry forwards of approximately $1,921,000.

Fiscal 2006 compared to Fiscal 2005

Net Sales. Gross sales in fiscal 2006 increased by approximately $24,179,000 or 18.2% primarily due to the ramp up in sales to one of the largest automobile manufacturers that distributes our products directly to the professional installer market. Gross sales also increased due to an increase of $2,295,000 in revenue from unreturned Remanufactured Cores and an increase in royalty income of $281,000. The stock adjustment and other returns which offset gross sales increased $1,238,000 due primarily to the increase in gross sales in fiscal 2006 over fiscal 2005. For fiscal 2006 and 2005, we recorded a reduction in gross sales of $18,620,000 and $11,996,000 respectively attributable to discounts and allowances. The increase of $6,624,000 or 55.2% in fiscal 2006 over fiscal 2005 included $4,094,000 of front loaded marketing allowances we provided for new business from several of our customers. The remainder of the increase in discounts and allowances was due to the impact of increased unit sales on existing discount programs and additional short term discounts that we provided to respond to continuing competitive pressures. As a result of these factors, net sales for fiscal 2006 increased $11,678,000 or 12.1% to $108,397,000 over the net sales for fiscal 2005 of $96,719,000.

Cost of Goods Sold. Cost of goods sold as a percentage of net sales increased to 76.6% in fiscal 2006 from 70.4% in fiscal 2005 causing a decrease in the gross profit percentage to 23.4% in fiscal 2006 from 29.6% in fiscal 2005. Approximately 4.3% of the decrease in the gross profit percentage resulted from the $6,624,000 increase in discounts and allowances, which reduce reported sales but do not impact the cost of goods associated with those sales. In addition, facility start-up costs of $699,000 related to our new production location in Tijuana, Mexico and our new distribution center in Nashville, Tennessee contributed to this decrease. These decreases were partially offset by higher unreturned Remanufactured Core revenue, which has a higher margin than unit sales, and higher royalty income, which has no associated cost of sales.

General and Administrative. Our general and administrative expenses increased to $14,337,000 for fiscal 2006 from $11,622,000 for fiscal 2005. This $2,715,000 and 23.4% increase is due to increases in the outside professional and consulting fees of approximately $364,000 associated with the SEC s review of our SEC filings and the related restatement of our financial statements, administrative start-up costs of approximately $716,000 related to our new production location in Tijuana, Mexico and our new distribution center in Nashville, Tennessee, consulting fees of approximately $300,000 incurred to satisfy the requirements of the Sarbanes-Oxley Act of 2002, and increases in headcount to strengthen the administrative departments and support the additional sales volume. These increases were partially offset by a $188,000 decrease in the expenses associated with our indemnification of Richard Marks, a former officer, in connection with the SEC s and the United States Attorney s investigation of him.

Sales and Marketing. Our sales and marketing expenses increased by $777,000 or 28.2% to $3,536,000 for fiscal 2006 from $2,759,000 for fiscal 2005. This increase is primarily attributable to increases in advertising costs from $87,000 in fiscal 2005 to $320,000 in fiscal 2006 and increases in staffing in the sales and marketing departments to support the increased sales volume and customer base and costs incurred in connection with the printing and electronic conversion of our product catalog.

Research and Development. Our research and development expenses increased over the prior year by $398,000 or 47.6% to $1,234,000 for fiscal 2006 from $836,000 for fiscal 2005. This increase was attributable to personnel hired and the cost of personnel reassigned to assist with the research and development needs of our new and expanded business.

Interest Expense. For fiscal 2006, interest expense, net of interest income, was $2,954,000. This represents an increase of $1,262,000 over net interest expense of $1,692,000 for fiscal 2005. This increase was principally attributable to an increase in the average outstanding loan balance on our line of credit and increases in short-term interest rates on both the line of credit and the accounts receivable we discounted under our factoring agreements. Interest expense is comprised principally of interest paid under our bank credit agreement, discounts recognized in connection with our receivables factoring arrangements and interest on our capital leases.

Income Tax. For fiscal 2006 and 2005, we recognized income tax expense of $1,259,000 and $4,465,000, respectively. During fiscal 2006, we utilized all of our net operating loss carry forwards available for income tax purposes. As a result, we anticipate that our future cash flow will be more significantly impacted by our future tax payments.

Liquidity and Capital Resources

During the last three fiscal years, we financed our operations either through the use of our bank credit facility, the receivable discount programs we have with banks for two of our customers and a capital financing sale-leaseback transaction with our bank. Our working capital needs have increased significantly in light of Remanufactured Core inventory purchases, ramped up production demands and related higher inventory levels and increased marketing allowances associated with our new or expanded business. During the last four fiscal years, our tax payments were significantly reduced through the utilization of our net operating loss carry forwards. As a result of our fiscal 2007 loss, we now have a net operating loss carry forward of approximately $1,921,000 that can be used to reduce future tax payments. To respond to our growing working capital needs and strengthen our financial position, in May 2007 we completed a private placement of common stock and warrants that resulted in aggregate gross proceeds before expenses of $40,061,000 and net proceeds of approximately $36,500,000.

We believe the proceeds from our recent private placement together with amounts available under our amended bank credit facility, cash flows from operations and our cash and short term investments on hand are sufficient to satisfy our expected future working capital needs, capital lease commitments and capital expenditure obligations over the next year. Based upon our current projections we expect to generate cash flow from operations during the current fiscal year. We cannot provide assurance in this regard, however.

Working Capital and Net Cash Flow

At March 31, 2007, we had negative working capital of $26,746,000, a ratio of current assets to current liabilities of 0.7:1, and cash and cash equivalents of $349,000, which compares to working capital of $12,851,000, a ratio of current assets to current liabilities of 1.3:1, and cash and cash equivalents of $400,000 at March 31, 2006. Working capital decreased primarily due to the decrease in trade receivables of $11,643,000 resulting from the increased marketing allowances we provided to secure new business and accruals for customer finished good returns, an increase in trade accounts payable and accrued liabilities of $21,718,000, an increase in our line of credit of $16,500,000. These decreases in working capital were partially offset by an increase in unreturned finished goods inventory of $2,938,000 that resulted from increased unit sales and an increase in income tax receivable and deferred income tax assets of $2,629,000.

Net cash used in operating activities was $9,313,000 for fiscal 2007 compared to $11,454,000 for fiscal 2006. The most significant changes in operating activities for fiscal 2007 were the the decrease in accounts receivable of $11,538,000 and the increase in accounts payable and accrued liabilities of $21,702,000. The decrease in accounts receivable was primarily related to increase in marketing allowances provided to customers and the timing of customer Used Core returns. The increase in accounts payable was primarily due to lengthening of payment terms with suppliers. In fiscal 2007, we extended payment terms on our accounts payable as far as we can reasonably expect to, and we believe the additional capital available from our private placement will reduce the need to put a comparable strain on our supplier relationships in the future. These changes in operating activities were partly offset

by the increase in deferred tax assets of $3,444,000, the increase in unreturned finished goods inventory of $2,938,000, the increase in our long-term core inventory of $8,670,000 and the increase in our long-term core inventory deposit of $20,791,000. The increase in unreturned finished goods inventory as well as long-term core inventory was due primarily to increased product sales. The increase in long-term core inventory deposits was due primarily to the termination of the POS agreement and the related Remanufactured Core buy back with our largest customer. (See discussion under Part I, Item 1. Business, Multi-Year Inventory Transactions , on page 5.)

Net cash used in investing activities totaled $6,004,000 in fiscal 2007. These investing activities were primarily related to the capital expenditures of $5,887,000 during this period predominantly spent in conjunction with our new manufacturing facility in Mexico. We expect to continue to use cash in investing activities during fiscal 2008.

Net cash provided by financing activities was $15,328,000 in fiscal 2007 primarily as a result of additional draw-downs under our bank line of credit. These funds were primarily used to purchase customers Remanufactured Core inventories and establish the related long-term core inventory deposits, make a final payment of $3,910,000 in connection with the recently-terminated POS arrangement with our largest customer that was made in April 2006 and to purchase property, plant and equipment.

Capital Resources

Private Placement

On May 23, 2007, we completed the private placement of 3,641,909 shares of our common stock at a price of $11.00 per share and warrants to purchase up to 546,283 shares of our common stock, at an exercise price of $15.00 per share. This private placement resulted in gross proceeds before expenses of $40,061,000 and net proceeds of approximately $36,500,000 that will be used for general corporate purposes. In connection with this private placement, we agreed to file a registration statement under the Securities Act of 1933 to register the shares of common stock sold and the shares to be issued upon the exercise of the warrants by July 31, 2007 and to cause the registration statement to become effective no later than the 150th day following May 23, 2007. If we miss either of these deadlines, we are obligated to pay the purchasers of the common stock and warrants sold in the private placement partial liquidated damages equal to 1% of the aggregate proceeds from this private placement, and an additional 1% for each subsequent month these deadlines are not met, until the partial liquidated damages paid equals 19% of such aggregate proceeds. Any payments made under this registration rights agreement will reduce additional paid-in-capital.

Line of Credit

In April 2006, we entered into an amended credit agreement with our bank that increased our credit availability from $15,000,000 to $25,000,000, extended the expiration date of the credit facility from October 2, 2006 to October 1, 2008, and changed the manner in which the margin over the benchmark interest rate is calculated. Starting June 30, 2006, the interest rate fluctuates as noted below:

	Leverage ratio as of the end of the fiscal quarter	
Base Interest Rate Selected by the Company	**Greater than or equal to 1.50 to 1.00**	**Less than 1.50 to 1.00**
Bank s Reference Rate, plus	0.0% per year	-0.25% per year
Bank s LIBOR Rate, plus	2.0% per year	1.75% per year

For purposes of this calculation, leverage ratio is defined to mean the ratio of (a) Indebtedness as of the last day of the fiscal quarter minus any direct or contingent obligations under our letter of credit to (b) EBITDA for the four consecutive fiscal quarters ending on such date.

In August 2006, the bank credit agreement was amended to increase the credit availability from $25,000,000 to $35,000,000. In March 2007, we entered into an additional amendment to this credit agreement. Under the terms of March 2007 amendment, the bank agreed to provide us a non-revolving loan of up to $5,000,000. This non-revolving loan bore interest at the bank s prime rate and was due on June 15, 2007. At March 31, 2007, no amounts were outstanding. On May 24, 2007, we repaid the $5,000,000 utilized subsequent to March 31, 2007 with the proceeds from our recently completed private placement of common stock and warrants.

The bank holds a security interest in substantially all of our assets. As of March 31, 2007, we had reserved $4,301,000 of our line for standby letters of credit for workers compensation insurance and had borrowed $22,800,000 under this revolving line of credit.

The credit agreement as amended includes various financial conditions, including minimum levels of tangible net worth, cash flow, current ratio, fixed charge coverage ratio, maximum leverage ratios and a number of restrictive covenants, including limits on capital expenditures and operating leases, prohibitions against additional indebtedness, payment of dividends, pledge of assets and loans to officers and/or affiliates. In addition, it is an event of default under the loan agreement if Selwyn Joffe is no longer our CEO.

In connection with the April 2006 amendment to our credit agreement, we also agreed to pay a quarterly fee of 0.375% per year if the leverage ratio as of the last day of the previous fiscal quarter was greater than or equal to 1.50 to 1.00 or 0.25% per year if the leverage ratio is less than 1.50 to 1.00, as of the last day of the previous fiscal quarter. A fee of $125,000 was charged by the bank in connection with the April 2006 amendment. The amendment completion fee is payable in three installments of $41,666, one on the date of the amendment to the credit agreement, one on February 1, 2007 and one on or before February 1, 2008. The fee was deferred and is being amortized on a straight-line basis over the remaining term of credit facility.

As a result of the August 2006 amendment, the bank increased the minimum fixed charge coverage ratio and the maximum leverage ratio and increased the amount of allowable capital expenditures. In addition, the unused facility fee is now applied against any difference between the $35,000,000 commitment and the average daily outstanding amount of the credit we actually use during each quarter. The bank charged an amendment fee of $30,000 which was paid and expensed on the effective date of the amendment to the credit agreement.

In November 2006, the bank credit agreement was further amended to eliminate the impact of the $8,062,000 reduction in the carrying value of our long-term core inventory deposit account discussed in Note G of our consolidated financial statements included in this Form 10-K for the purposes of determining our compliance with the minimum cash flow covenant and to decrease the minimum required current ratio. This amendment was effective as of September 30, 2006.

In connection with the March 2007 amendment to our credit agreement, we agreed to provide the bank with monthly financial statements, monthly aged reports of accounts receivable and accounts payable and monthly inventory reports. We also agreed to allow the bank, at its request, to inspect our assets, properties and records and conduct on-site appraisals of our inventory.

At March 31, 2007, we were not in compliance with loan agreement covenants requiring us to (i) achieve EBITDA of not less than $3,000,000 for the fiscal quarter ended March 31, 2007, (ii) achieve EBITDA of not less than $13,000,000 for the four consecutive fiscal quarters ended March 31, 2007, (iii) maintain a leverage ratio of not less than 2.25 to 1.00 as of the last day of the fiscal quarter ended March 31, 2007, (iv) maintain a current ratio of not less than 1.20 to 1.00 as of the last day of the fiscal quarter ended March 31, 2007, (v) incur operating lease obligations exceeding $3,000,000 for the fiscal year ended March 31, 2007 and (vi) achieve minimum levels of tangible net worth. In June 2007, the bank provided us with a waiver of these covenant defaults.

In addition, in conjunction with the June 2007 waiver, the bank credit agreement was amended to eliminate the impact of the $8,062,000 reduction in the carrying value of the long-term core inventory deposit account for purposes of determining our compliance with the fixed charge coverage ratio and the leverage ratio. The effective date of the amendment for the fixed charge coverage ratio was March 31, 2007.

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

Receivable Discount Program

Our liquidity has been positively impacted by receivable discount programs we have established with two of our customers. Under this program, we have the option to sell the customers receivables to their respective banks at an agreed upon discount set at the time the receivables are sold. The discount has averaged 4.2% during fiscal 2007 and has allowed us to accelerate collection of receivables aggregating $87,713,000 by an average of 226 days. On an annualized basis, the weighted average discount rate on receivables sold to banks during fiscal 2007 was 6.7%. While this arrangement has enhanced our liquidity, there can be no assurance that it will continue in the future. These programs resulted in interest costs of $3,785,000 during fiscal 2007. These interest costs will increase as interest rates rise, as utilization of this discounting arrangement expands and as the discount period is extended to reflect the more favorable payment terms we have provided to certain customers.

Multi-year Vendor Agreements

We have long-term agreements with substantially all of our major customers. Under these agreements, which typically have initial terms of at least four years with certain customers, we are designated as the exclusive or primary supplier for specified categories of remanufactured alternators and starters. In consideration for our designation as a customer s exclusive or primary supplier, we typically provide the customer with a package of marketing incentives. These incentives differ from contract to contract and can include (i) the issuance of a specified amount of credits against receivables in accordance with a schedule set forth in the relevant contract, (ii) support for a particular customer s research or marketing efforts provided on a scheduled basis, (iii) discounts granted in connection with each individual shipment of product and (iv) other marketing, research, store expansion or product development support. We have also entered into agreements to purchase certain customers Remanufactured Core inventory and to issue credits to pay for that inventory according to a schedule set forth in the agreement. These contracts typically require that we meet ongoing performance, quality and fulfillment requirements. Our contracts with major customers expire at various dates ranging from December 2007 through December 2012.

In May 2004, we entered into a four-year agreement with our largest customer. Under this agreement, we became the primary supplier of import alternators and starters for eight of this customer s distribution centers and agreed to sell this customer certain products on a pay-on-scan (POS) basis. Under the POS arrangement, we were entitled to receive payment upon the sale of products to end users by the customer. As part of the 2004 agreement, the parties also agreed to use reasonable commercial efforts to convert the overall purchasing relationship to a POS arrangement by April 2006, and, if the POS conversion was not fully accomplished by that time, we agreed to convert $24,000,000 of this customer s inventory to a POS arrangement by purchasing this inventory, paid for by the issuance of credits of $1,000,000 per month over a 24-month period ending April 2008.

The POS conversion was not completed by April 2006, and the parties agreed to terminate the POS arrangement as of August 24, 2006. As part of the August 2006 agreement, the customer purchased those products previously shipped on a POS basis. After the application of our revenue recognition policies, this transaction increased net sales by $19,795,000 for the fiscal year ended March 31, 2007. This agreement also extended the term of our primary supplier rights from May 2008 to August 2008.

Under this agreement, we purchased approximately $19,980,000 of the customer s Remanufactured Core inventory by issuing credits to the customer in that amount on August 31, 2006. To establish the related long-term core inventory deposit, we valued this Remanufactured Core inventory using the same asset valuation methodologies we use to value our long-term core inventory. The resulting $8,062,000 reduction in the carrying value of this asset reduced our net sales for the fiscal year ended March 31, 2007 by the same amount. If our relationship with this customer is terminated, the customer is obligated to purchase any unreturned Remanufactured Cores from us for cash either immediately or over a period of time as that customer liquidates the inventory. The amount of the payment is based upon the contractual per Remanufactured Core price. This contractual price exceeds the Remanufactured Core value used to establish the long-term core inventory deposit. As of March 31, 2007, the long-term core inventory deposit balance related to this agreement was approximately $19,629,000. Long-term core inventory deposit related to this August 31, 2006, transaction has not changed, but the total balance in the account has increased due to an additional subsequent Remanufactured Core purchases.

In the fourth quarter of fiscal 2005, we entered into a five-year agreement with one of the largest automobile manufacturers in the world to supply this manufacturer with a new line of remanufactured alternators and starters for

the United States and Canadian markets. We expanded our operations and built-up our inventory to meet the

requirements of this contract and incurred certain transition costs associated with this build-up. As part of the agreement, we also agreed to grant this customer $6,000,000 of credits that are issued as sales to this customer are made. Of the total credits, $3,600,000 was issued during fiscal 2006 and $600,000 was issued in the second quarter of fiscal 2007. The remaining $1,800,000 is scheduled to be issued in three annual payments of $600,000 in the second fiscal quarter of each of the fiscal years 2008 to 2010. The agreement also contains other typical provisions, such as performance, quality and fulfillment requirements that we must meet, a requirement that we provide marketing support to this customer and a provision (standard in this manufacturer s vendor agreements) granting the customer the right to terminate the agreement at any time for any reason.

In March 2005, we entered into an agreement with another major customer. As part of this agreement, our designation as this customer s exclusive supplier of remanufactured import alternators and starters was extended from February 28, 2008 to December 31, 2012. In addition to customary marketing allowances, we agreed to acquire the customer s import alternator and starter Remanufactured Core inventory by issuing $10,300,000 of credits over a five-year period. The amount of credits issued is subject to adjustment if sales to the customer decrease in any quarter by more than an agreed upon percentage. As of March 31, 2007, approximately $5,613,000 of credits remains to be issued. The customer is obligated to purchase the Remanufactured Cores in the customer s inventory upon termination of the agreement for any reason. As we issue credits to this customer, we establish a long-term asset account for the value of the Remanufactured Core inventory estimated to be on hand with the customer and subject to purchase upon termination of the agreement, and reduce revenue by the amount by which the credit exceeds the estimated Used Core inventory value. As of March 31, 2007, the long-term asset account was approximately $1,938,000. We regularly review the long-term core inventory deposit account using the same asset valuation methodologies we use to value our long-term core inventory.

In July 2006, we entered into an agreement with a new customer to become their primary supplier of alternators and starters. As part of this agreement, we agreed to acquire a portion of the customer s import alternator and starter Remanufactured Core inventory by issuing approximately $950,000 of credits over twenty quarters. As of March 31, 2007, approximately $855,000 of credits remains to be issued under the agreement. Certain promotional allowances were earned by the customer on an accelerated basis during the first year of the agreement. On May 22, 2007, the agreement was amended to eliminate our obligation to acquire a portion of the customer s import alternator and starter Remanufactured Core inventory and the customer refunded approximately $95,000 in accounts receivable credits previously issued.

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

Capital Expenditures and Commitments

Our capital expenditures were $5,887,000 for fiscal 2007. A significant portion of these expenditures relate to our Mexico production facility. The amount and timing of capital expenditures may vary depending on the final build-out schedule for the Mexico production facility as well as the logistics facility. We expect our fiscal 2008 capital expenditure to be in the range of $3.5 million to $4.5 million. These capital expenditures will be financed by our working capital.

Contractual Obligations

The following summarizes our contractual obligations and other commitments as of March 31, 2007, and the effect such obligations could have on our cash flow in future periods:

		Payments Due by Period			
Contractual obligations	Total	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Line of Credit	$22,800,000	$22,800,000	$	$	$
Capital (Finance) Lease Obligations	5,818,000	1,875,000	3,223,000	720,000	
Operating Lease Obligations	22,088,000	3,248,000	6,403,000	6,003,000	6,434,000
Core Purchase Obligations	8,062,000	2,821,000	4,895,000	346,000	
Other Long-Term Obligations	18,728,000	8,258,000	6,315,000	3,105,000	1,050,000
Total	$77,496,000	$39,002,000	$20,836,000	$10,174,000	$7,484,000

Capital Lease Obligations represent amounts due under finance leases of various types of machinery and computer equipment that are accounted for as capital leases.
Operating Lease Obligations represent amounts due for rent under our leases for office and warehouse facilities in California, Tennessee, Malaysia, Singapore and Mexico.
Core Purchase Obligations represent our obligations to issue credits to two large and several smaller customers for the acquisition of the customers Remanufactured Core inventory.
Other Long-Term Obligations represent commitments we have with certain customers to provide marketing allowances in consideration for supply agreements to provide products over a defined period.
Customs Duties
We received a request for information dated April 16, 2007 from the U.S. Bureau of Customs and Border Protection (CBP) in regards to our importation of products remanufactured at our Malaysian facilities. In response to the CBP s request, we began an internal review, with the assistance of customs counsel, of our custom duties procedures. During this review process, we identified a potential exposure related to the omission of certain cost elements in the appraised value of used alternators and starters, which were remanufactured in Malaysia and returned to the United States since June 2002.
We also provided a prior disclosure letter dated June 5, 2007 to the customs authorities in order to provide more time to complete its internal review process. This prior disclosure letter also provides us with the opportunity to self report any underpayment of customs duties in prior years which could reduce financial penalties, if any, imposed by the CBP.
We have until November 7, 2007 to respond to the CBP with the final results of its internal review findings. We currently believes the dutiable value of the shipments reported to the CBP was appropriate. If the CBP does not agree with the results of our review process, we would be required to pay additional duties to the CBP and could also be assessed interest charges and penalties. These amounts, if assessed, could be material to the our financial statements.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk relates to changes in interest rates and currency exchange rates. Market risk is the potential loss arising from adverse changes in market prices and rates, including interest rates and currency exchange rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes. As our overseas operations expand, our exposure to the risks associated with currency fluctuations will continue to increase.
Our primary interest rate exposure relates to our outstanding line of credit and receivables discount arrangements which have interest costs that vary with interest rate movements. Our $35,000,000 credit facility bears interest at variable base rates equal to the LIBOR rate or the bank s reference rate, at our option, plus a margin rate dependant upon our most recently reported leverage ratio. This obligation is the only variable rate facility we have outstanding. Based upon the $22,800,000 that was outstanding under our line of credit as of March 31, 2007, an increase in interest rates of 1% would increase our annual net interest expense by $228,000. In addition, for each $100,000,000 of

accounts receivable we discount over a period of 180 days, a 1% increase in interest rates would decrease our operating results by $500,000.

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We are exposed to foreign currency exchange risk inherent in our anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. We transact business in three foreign currencies which affect our operations: the Malaysian Ringit, the Singapore dollar, and, in fiscal 2006 we began to transact business in the Mexican peso. Our total foreign assets were $6,422,000 and $3,918,000 as of March 31, 2007 and 2006, respectively. In addition, as of March 31, 2007 and 2006 we had $2,573,000 and $1,729,000 respectively due from our foreign subsidiaries. While these amounts are eliminated in consolidation, they impact our foreign currency translation gains and losses.

During fiscal 2007 and 2006, we experienced immaterial gains relative to our transactions involving the Malaysian Ringit and the Singapore dollar. Based upon our current operations related to these two currencies, a change of 10% in exchange rates would result in an immaterial change in the amount reported in our financial statements.

Our exposure to currency risks has increased since the expansion of our remanufacturing operations in Mexico. Since these operations will be accounted for primarily in pesos, fluctuations in the value of the peso are expected to have a growing level of impact on our reported results. To mitigate the risk of currency fluctuation between the U.S. dollar and the peso, in August 2005 we began to enter into forward foreign exchange contracts to exchange U.S. dollars for pesos. The extent to which we use forward foreign exchange contracts is periodically reviewed in light of our estimate of market conditions and the terms and length of anticipated requirements. The use of derivative financial instruments allows us to reduce our exposure to the risk that the eventual net cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in exchange rates. These contracts expire in a year or less. Any changes in fair values of foreign exchange contracts are reflected in current period earnings. During fiscal 2007 we recognized additional general and administrative expenses of $11,000 associated with these forward exchange contracts.

Item 8 Financial Statements and Supplementary Data

The information required by this item is set forth in the Consolidated Financial Statements, commencing on page F-1 included herein.

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

None.

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Item 9A Controls and Procedures

a. Disclosure Controls and Procedures

In connection with the preparation and filing of this Annual Report, we completed an evaluation of the effectiveness of our disclosure controls and procedures under the supervision and with the participation of our chief executive officer and chief financial officer. This evaluation was conducted pursuant to the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2007. In making this assessment, management used the framework set forth in the report *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company s internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring.

Based on the evaluation, management concluded that our disclosure controls and procedures were not effective as of March 31, 2007 due to the material weaknesses noted below in Management s Report on Internal Control over Financial Reporting . A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work.

b. Management s Report on Internal Control Over Financial Reporting

As evidenced by the material weaknesses described below, we determined that entity-level controls related to the control environment and control activities did not operate effectively resulting in material weaknesses in each of these respective COSO components. The deficiency in each of these individual COSO components represents a separate material weakness. These material weaknesses contributed to an environment where there is a more than a remote likelihood that a material misstatement of the interim and annual financial statements could occur and not be prevented or detected.

Control Environment

Our finance and accounting department is understaffed and lacks sufficient training or experience. Since the department is understaffed, we cannot maintain sufficient segregation of duties specifically in the revenue recording cycles of our financial reporting process. Accounting personnel do not have an adequate understanding of certain accounting standards and how those standards apply to our business. Our accounting and finance personnel also lack certain required skills and competencies to oversee the accounting operations and review, periodically inspect and test, and investigate the transactions of our foreign locations to insure application of U.S. GAAP. This material weakness in the operating effectiveness of internal control resulted in material adjustments to our interim and annual consolidated financial statements for fiscal 2007, 2006 and 2005 and resulted in the restatement of previously issued financial statements. The adjustments were primarily due to (i) misinterpretation of certain accounting literature, (ii) lack of understanding and interpretation of customer contract amendments, (iii) erroneous application of GAAP and (iv) improper classification of certain consolidated financial statement line items.

Control Activities

The internal controls were not adequately designed or operating in a manner to effectively support the requirements of the financial reporting and period-end close process. This material weakness is the result of aggregate deficiencies in internal control activities. The material weakness includes failures in the operating effectiveness of controls which would ensure (i) the consistent completion, review and approval of key balance sheet account analyses and reconciliations, (ii) journal entries and their supporting worksheets are consistently reviewed and approval documented, (iii) the appropriate review for completeness and accuracy of certain information input to and output from financial reporting and accounting systems, (iv) analysis of intercompany activity and the consolidation of subsidiary financial information and (v) accuracy and completeness of the financial statement disclosures and presentation in accordance with GAAP. Due to the significance of the financial closing and reporting process to the preparation of reliable financial statements and the potential impact of the deficiencies to significant account balances and disclosures, there is more than a remote likelihood that a material misstatement of the interim and annual financial statements would be prevented or detected.

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Entity Level Controls

In addition to the material weaknesses noted above, management also concluded that there is a significant deficiency in our entity level controls. This was evidenced by the lack of documentation in the planning for IT strategy, asset protection programs, and comprehensive accounting and human resources policies and procedures manuals. The Audit Committee also failed to conduct a self assessment of their effectiveness and a formalized Disclosure Committee has not been established. These items were, in aggregate, considered a significant deficiency in the entity level internal controls over financial reporting.

Because of the material weaknesses and significant deficiency described above, management believes that, as of March 31, 2007, we did not maintain effective internal control over financial reporting based on the COSO criteria.

Attestation Report of the Registered Public Accounting Firm.

The report of the independent registered public accounting firm on page 67 is incorporated herein by reference.

c. *Changes in Internal Control Over Financial Reporting*

Management has reported to the Audit Committee the content of the material weaknesses identified in our assessment. Addressing these weaknesses is a priority of management and we are in the process of remediating the cited material weaknesses. Key elements of the remediation effort include, but are not limited to the following initiatives. We will recruit suitably qualified accounting personnel and institute training sessions for existing financial reporting and accounting personnel. This initiative will require time to hire and train personnel and build institutional knowledge. We will adopt and implement common policies and procedures for the documentation, performance and testing of our significant accounting controls over financial reporting. We will establish an internal audit and compliance function reporting directly to the Audit Committee, which we expect will provide needed resources to our Audit Committee which has oversight responsibility for our internal control over financial reporting. We expect our SOX compliance work will continue to require significant commitment of management time and the incurrence of significant general and administrative expenses.

Management has established a goal to remediate all material weaknesses in internal control over financial reporting by March 31, 2008, although there can be no assurance that this goal will be attained.

Except as disclosed in the preceding paragraphs, there have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Our directors, their ages and present positions with us as of June 1, 2007 are as follows:

Name	Age	Position with the Company
Selwyn Joffe	49	Chairman of the Board of Directors, President and Chief Executive Officer
Mel Marks	79	Director and Consultant
Irv Siegel	61	Director, Chairman of the Compensation Committee, and member of the Audit and Ethics Committee
Philip Gay	49	Director, Chairman of the Audit and Ethics Committee, and member of the Compensation Committee
Rudolph J. Borneo	66	Director and member of the Audit, Compensation and Ethics Committee

Selwyn Joffe has been our Chairman of the Board, 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, 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, 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 Georgia State Bar as well as a Certified Public Accountant.

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.

Irv Siegel joined our Board of Directors on October 8, 2002 and is the Chairman of our Compensation Committee and a member of our Audit, Ethics and Nominating and Corporate Governance Committees. Mr. Siegel is a retired attorney admitted to the bar of the state of New Jersey with a background in corporate finance. Since 1993, Mr. Siegel has been the principal owner of Siegel Company, a full service commercial real estate firm. Mr. Siegel has also served as the director of real estate for Wolfgang Puck Food Company since 1992.

Philip Gay joined our Board of Directors on November 20, 2004. Mr. Gay is currently serving as President and Chief Executive Officer of Grill Concepts, Inc., a publicly-traded company that operates a chain of upscale casual restaurants throughout the United States. From March 2000 until he joined Grill Concepts, Inc. in June 2004, Mr. Gay served as Managing Director of Triple Enterprises, a business advisory firm that assisted mid-cap companies with financing, mergers and acquisitions, franchising and strategic planning. 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 served as Chief Financial Officer for California Pizza Kitchen (1987 to 1994) and Wolfgang Puck Food Company (1994 to 1996) and 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 on the board of the California Restaurant Association and is a Certified Public Accountant, a former audit manager at Laventhol and Horwath and a graduate of the London School of Economics. Mr. Gay is the Chairman of our Audit and Ethics Committees and a member of our Compensation and Nominating and Corporate Governance Committees.

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Rudolph J. Borneo joined our Board of Directors on November 20, 2004. Mr. Borneo is currently Vice Chairman and Director of Stores, Macy s West, a division of Federated Department Stores, Inc. Mr. Borneo served as President of Macy s California from 1989 to 1992 and President of Macy s West from 1992 until his appointment as Vice Chairman and Director of Stores. Mr. Borneo is member of our Audit, Compensation, Ethics and Nominating and Corporate Governance Committees.

Information about our non-director executive officers

Our executive officers (other than executive officers who are also members of our board of directors), their ages and present positions with our company, are as follows:

Name	Age	Position with the Company
Mervyn McCulloch	63	Chief Financial Officer
Douglas Schooner	37	Vice President, Global Manufacturing Operations
Thomas Stricker	54	Vice President, Sales
Michael Umansky	65	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 is set forth below.

Mervyn McCulloch was appointed our chief financial officer on October 28, 2005. From November 2003 until he joined our company, Mr. McCulloch served as chief executive officer and chief financial officer of Instone LLC, a sports nutrition and diet products company based in Irvine, California. From November 2001 until November 2003, Mr. McCulloch was a business consultant advising start-ups, turnaround candidates and other companies seeking equity funding. From April 1990 until October 2001, he served as chief financial officer of three public companies Inovio Biomedical Corp., Global Diamonds Inc and Armor All Products Corp., all based in Southern California. Mr. McCulloch is a certified public accountant and was a partner of Deloitte & Touche from March 1972 to March 1990. Mr. McCulloch is a graduate of the University of South Africa and of the University of Witwatersrand Graduate Business School Executive Development Program.

Douglas Schooner, our Vice President, Global Manufacturing Operations, joined our company in 1993 and became the Vice President, Global Manufacturing Operations in January 2001. Mr. Schooner is a Degreed Mechanical Engineer, and has held the positions of Assistant Vice President, Production and Vice President, Manufacturing prior to assuming his current position with our company. As Vice President, Global Manufacturing Operations, Mr. Schooner is responsible for all manufacturing, materials and logistic operations for our facilities.

Thomas Stricker, our Vice President of Sales Worldwide**,** has been with our company since 1989 and became the Vice President of Sales Worldwide in April 2007. Mr. Stricker held the position of Vice President Sales of our company since 1989 until assuming his current position. As Vice President of Sale Worldwide, Mr. Stricker oversees all domestic and international sales.

Michael Umansky has been our Vice President and General Counsel since January 2004 and is responsible for all legal matters. The 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.

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 or our directors or executive officers has been convicted in a criminal proceeding during the last five 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 five 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 Securities and Exchange Commission 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 Form 4s were required for those persons, we believe that our insiders complied with all applicable Section 16(a) filing requirements during the 2007 fiscal year.

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 employees. The Ethics Committee is currently comprised of Philip Gay, who serves as Chairman, Irv Siegel and Rudolph Borneo. The Code of Business Conduct and Ethics is filed with the SEC and we intend to disclose any amendment or waiver to our Code of Business Conduct and Ethics in a report on Form 8-K filed with the SEC. 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.

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Item 11. Executive Compensation

Compensation Discussion And Analysis

The following discussion and analysis of compensation arrangements of our named executive officers for fiscal 2007 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.

The Compensation Committee of our Board of Directors is responsible for developing and making recommendations to the Board of Directors with respect to our executive compensation policies and evaluating the performance of Mr. Joffe, our chief executive officer, and setting his annual compensation. 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. Mr. Joffe currently sets or negotiates the salary to be paid to our other officers and makes recommendations with respect to bonus and option grants to be provided to these other officers. Mr. Joffe s recommendations are subject to review and approval by our Board of Directors.

The primary objectives of the Compensation Committee 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.

Our method of determining compensation varies from case to case based on a discretionary and subjective determination of what is appropriate at the time. When establishing salaries and bonus levels, the Compensation Committee considers the scope of an executive s duties and his performance, in additional to the overall performance of our company. In determining specific components of compensation, the Compensation Committee considers individual performance, level of responsibility, skills and experience, and other compensation awards or arrangements. With respect to officers other than the chief executive officer, the chief executive officer makes commendations to the Compensation Committee and Board of Directors for approval.

In determining these elements of compensation for Mr. Joffe, the Compensation Committee considered the contributions Mr. Joffe has made to our strategic direction. These contributions included strengthening our relationships with key customers through long-term contracts, transitioning our remanufacturing capacity to cell manufacturing and lower-cost production centers, including the establishment of our Mexican remanufacturing facility, and building sales to the professional installer marketplace. The Compensation Committee recognized that our company is a complicated business to manage, particularly in light of its size, with complex accounting issues. 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 takes into consideration the standard of living of the Los Angeles vicinity in which our corporate offices are located.

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 annual bonus targets, long-term incentive compensation and other benefits (including our 401(k) and our non-qualified deferred compensation plan).

Compensation Components

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; and (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. In determining base salaries the Compensation Committee takes into account such factors as competitive industry and local market salary ranges, a named executive officer s scope of responsibilities, level of experience, and individual performance and contribution to our company. The Compensation Committee also takes into account both external competitiveness for such individual s position and internal equity of salaries of individuals in comparable positions and markets. Base salaries are reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. Our employment agreement with Mr. Joffe provides that we may increase, but not decrease, his base salary.

Annual Bonus. Bonuses paid to several of our executives, other than Mr. Joffe, were based upon Mr. Joffe s evaluation of these officers respective contribution to the results of our company. Mr. Joffe used the guidelines of an outside consultant to recommend to our Compensation Committee the bonuses to be awarded to the other named executive officers.

Stock Option Program. Equity awards are an integral 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 20.1% 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 take 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.

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 2007 and year-end account balances for those executive officers can be found in the Nonqualified Deferred Compensation table.

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.

Tax Considerations

Section 162(m) of 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 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 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.

Compensation Committee

Irv Siegel, Chairman
Rudolph Borneo
Philip Gay

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2007 Summary Compensation Table

The following table sets forth information concerning fiscal 2007 compensation of our Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers who were serving as executive officers at the end of fiscal 2007 and whose aggregate fiscal 2007 compensation was at least $100,000 for services rendered in all capacities. We refer to these individuals as our named executive officers .

Name and Principal Position	Fiscal Year	Salary	Bonus	Stock Awards	Option Awards(1)	Change in Nonqualified Deferred Compensation Earnings	All Other Compensation (2)	Total
Selwyn Joffe Chairman of the Board, President and CEO	2007	$524,000	$500,100	$	$821,026	$	$73,110	$1,918,236
Mervyn McCulloch Chief Financial Officer	2007	$245,616	$ 50,100	$	$ 79,768	$	$24,021	$ 399,505
Michael Umansky Vice President, Secretary and General Counsel	2007	$401,616	$ 50,100	$	$ 81,215	$	$47,086	$ 580,017
Douglas Schooner Vice President, Global Manufacturing Operations	2007	$186,615	$ 60,100	$	$ 67,762	$	$48,698	$ 363,175
Thomas Stricker Vice President, Sales	2007	$186,615	$ 60,100	$	$ 67,762	$	$18,495	$ 332,972

(1) Option award amounts represent the executive s portion of our reported stock compensation expense for fiscal 2007 in accordance with FAS 123R. Please refer to footnote C and R of the notes to our audited consolidated financial statements

included in Part IV of this Form 10-K for discussion of the relevant assumptions to determine the option award value at the grant date. No awards were forfeited as of March 31, 2007.

(2) The following chart is a summary of the items that are included in the All Other Compensation totals:

	Automobile Expenses	Health Insurance Premiums	401K Employer s Contribution	Deferred Compensation Plan Employer s Contributions	Other	Total
Selwyn Joffe	$21,692	$ 35,475	$ 313	$ 15,630	$	$73,110
Mervyn McCulloch	$ 4,384	$ 18,868	$ 769	$	$	$24,021
Michael Umansky	$10,385	$ 28,369	$ 1,405	$ 6,927	$	$47,086
Douglas Schooner	$ 4,385	$ 40,548	$	$ 3,765	$	$48,698
Thomas Stricker	$ 4,385	$ 14,110	$	$	$	$18,495

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2007 Grants of Plan-Based Awards

The following table sets forth information regarding grants of plan-based awards to named executive officers for the fiscal year ended March 31, 2007.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Option Awards
Selwyn Joffe	8/30/2006		250,000(1)	$ 12.00	$ 1,405,000(3)
Mervyn McCulloch	8/30/2006		20,000(2)	$ 12.00	$ 109,699(3)
Michael Umansky	8/30/2006		20,000(2)	$ 12.00	$ 109,699(3)
Douglas Schooner	8/30/2006		20,000(2)	$ 12.00	$ 109,699(3)
Thomas Stricker	8/30/2006		20,000(2)	$ 12.00	$ 109,699(3)

(1) The options were granted pursuant to our. Long Term Equity Incentive Plan. The shares subject to the option vest 3/10th on grant date, 3/10th on each of the next two anniversary dates, with the remaining 1/10th on the third anniversary from grant date. The option has a ten-year term from the date of grant, subject to earlier expiration if the executive s

employment terminates.

(2) The options were granted pursuant to our Long Term Equity Incentive Plan. The shares subject to the option vest in three equal installments beginning on the date of grant. The option has a ten-year term from the date of grant, subject to earlier expiration if the executive s employment terminates.

(3) Represents the full fair value of options granted during fiscal 2007 at date of grant under our 2003 Long Term Equity Incentive Plan. Please refer to footnote C and R of the notes to the audited consolidated financial statements for discussion of the relevant assumptions to determine the option award value at the grant date. No awards were forfeited as of

March 31, 2007.

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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, 2007.

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
	40,000		$2.200	1/11/2010
	1,500		$1.210	4/30/2010
	1,500		$1.130	4/30/2011
	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		$ 9.27	7/20/2014
	100,000	50,000(1)	$10.01	11/2/2015
	75,000	175,000(2)	$12.00	8/29/2016
Mervyn McCulloch				
	8,333	16,667(4)	$ 9.65	10/28/2015
	6,667	13,333(3)	$12.00	8/29/2016
Michael Umansky				
	16,667	8,333(1)	$10.01	11/2/2015
	6,667	13,333(3)	$12.00	8/29/2016
Doug Schooner				
	19,000		$ 3.15	11/15/2011
	5,000		$ 1.10	4/12/2011
	12,000		$ 8.70	5/11/2014
	8,000	4,000(1)	$10.01	11/2/2015
	6,667	13,333(3)	$12.00	8/29/2016
Tom Stricker				
	17,250		$ 3.15	11/15/2011
	12,000		$ 8.70	5/11/2014
	8,000	4,000(1)	$10.01	11/2/2015
	6,667	13,333(3)	$12.00	8/29/2016
Mel Marks				
	1,500		$ 1.21	4/30/2010
	1,500		$ 1.13	4/30/2011
	1,500		$ 3.60	4/29/2012
	1,500		$ 1.80	4/29/2013

(1)

This award vests in three equal installments beginning from the grant date, 11/02/2005, subject to continued employment.

(2) This award vests 3/10th on each anniversary from grant date, 08/30/2006 with the remaining 1/10th vesting on the fourth anniversary from grant date, subject to continued employment.

(3) This award vests in three equal installments beginning from the grant date, 08/29/2006, subject to continued employment.

(4) This award vests in three equal installments beginning from the grant date, 10/29/2005, subject to continued employment.

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OPTION EXERCISES AND STOCK VESTED

None of our named executive officers exercised any stock options or had any shares of stock vest during the 2007 fiscal year.

Nonqualified Deferred Compensation

The following table sets forth certain information regarding contributions, earnings and account balances under our 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, 2007. A description of the material terms and conditions of the Executive Deferred Compensation Plan follows.

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)(1)(2)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance in Last FYE ($)
Selwyn Joffe	$ 62,520	$ 15,630	$ 31,700	$	$ 303,129
Mervyn McCulloch	$	$	$	$	$
Douglas Schooner	$ 15,060	$ 3,765	$ 13,371	$	$ 131,172
Thomas Stricker	$	$	$ 19,751	$	$ 205,898
Michael Umansky	$ 27,706	$ 6,927	$ 5,910	$	$ 115,463

(1) The amounts set forth in this column are included in the Salary and Bonus columns, as applicable, in our 2007 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	$15,630	$	$15,630
Mervyn McCulloch	$	$	$
Douglas Schooner	$ 3,765	$	$ 3,765
Thomas Stricker	$	$	$
Michael Umansky	$ 6,927	$	$ 6,927

(a) No interest is paid by the registrant.

Nonqualified Deferred Compensation Plan

We maintain the Motorcar Parts of America, Inc. Executive Deferred Compensation Plan, an unfunded, nonqualified 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 income. We make fully vested matching contributions of 25% of each participant s elective contributions to the plan up to 6% of the participant s annual compensation. We may also make additional fully vested discretionary contributions to participant accounts. Plan participants can allocate their notional account balances among certain investment options. A participant may choose when and in what form he will receive his account balances under the plan. The plan is designed to defer taxation to the participant on contributions and notional earnings thereon until receipt. A rabbi trust provides funding for the plan, although the trust assets remain subject to 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 was originally scheduled to expire on March 31, 2006. The February 14, 2003 agreement provided for an annual base salary of $542,000, 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 equity 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 for 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.

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 within one year 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, 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 Internal Revenue 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 a change of control and be exercisable for a two-year period following the change of control, 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 the registrant terminates at the end of his employment term.

In December 2006, our employment agreement with Mr. Joffe was further 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.

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.

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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, 2007, the last day of fiscal 2007. Please refer to Employment Agreements for more information.

Benefit	Termination by Company for Cause (1)	Death (2)	Disability (3)	Before Change of Control: Voluntary Termination by Mr. Joffe for Good Reason or Termination by Company w/o Cause (4)	Change in Control	After Change of Control: Voluntary Termination by Mr. Joffe for Good Reason (5)
Salary Continuation	$	$	$	$ 1,084,000	$	$ 542,000
Bonus	$ 500,000	$ 500,000	$ 500,000	$ 1,000,000	$	$ 500,000
Stock Options (6)	$ &#					