MOTORCAR PARTS AMERICA INC
Form 424B3
February 10, 2009

Table of Contents

MOTORCAR PARTS OF AMERICA, INC.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-144887

PROSPECTUS SUPPLEMENT NO. 15
(To Prospectus dated October 22, 2007)

This is a prospectus supplement to our prospectus dated October 22, 2007 relating to the resale from time to time by selling stockholders of up to 4,188,192 shares of our Common Stock. On February 9, 2009, we filed with the Securities and Exchange Commission a Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2008. The Form 10-Q is attached to and made a part of this prospectus supplement.

This prospectus supplement should be read in conjunction with the prospectus, and this prospectus supplement is qualified by reference to the prospectus, except to the extent that the information provided by this prospectus supplement supersedes the information contained in the prospectus.

The securities offered by the prospectus involve a high degree of risk. You should carefully consider the Risk Factors referenced on page 2 of the prospectus in determining whether to purchase the Common Stock.

The date of this prospectus supplement is February 10, 2009.

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2008

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. 001-33861
MOTORCAR PARTS OF AMERICA, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

There were 11,962,021 shares of Common Stock outstanding at February 3, 2009.

MOTORCAR PARTS OF AMERICA, INC.
TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	4
Consolidated Balance Sheets as of December 31, 2008 (unaudited) and March 31, 2008	4
Consolidated Statements of Income (unaudited) for the nine and three months ended December 31, 2008 and 2007	5
Consolidated Statements of Cash Flows (unaudited) for the nine months ended December 31, 2008 and 2007	6
Condensed Notes to Consolidated Financial Statements (unaudited)	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	26
PART II OTHER INFORMATION	
Item 1A. Risk Factors	26
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 5. Other Information	27
Item 6. Exhibits	28
SIGNATURES	30

Table of Contents

MOTORCAR PARTS OF AMERICA, INC.
GLOSSARY

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

Used Core An 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 returned to us under our core exchange program. Our customers receive these Used Cores from consumers who deliver a Used Core to obtain credit from our customers upon the purchase of a newly remanufactured 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 from core brokers or returned to us by our customers under the core exchange program, and which have been physically received by us, are part of our raw material or work in process inventory included in long-term core inventory.

Remanufactured Core The Used Core underlying an 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 customer locations. Used Cores returned by consumers to our customers but not yet returned to us continue to be classified as Remanufactured Cores until we physically receive these Used Cores. All Remanufactured Cores are included in our long-term core inventory or in our long-term core inventory deposit.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	December 31, 2008 (Unaudited)	March 31, 2008
ASSETS		
Current assets:		
Cash	$ 878,000	$ 1,935,000
Short-term investments	298,000	373,000
Accounts receivable net	10,637,000	2,789,000
Inventory net	26,763,000	32,707,000
Inventory unreturned	4,398,000	4,124,000
Deferred income taxes	5,856,000	5,657,000
Prepaid expenses and other current assets	1,189,000	1,608,000
Total current assets	50,019,000	49,193,000
Plant and equipment net	14,436,000	15,996,000
Long-term core inventory	63,870,000	50,808,000
Long-term core inventory deposit	23,660,000	22,477,000
Long-term accounts receivable		767,000
Long-term deferred income taxes	2,182,000	1,357,000
Intangible assets net	2,766,000	
Other assets	844,000	810,000
TOTAL ASSETS	$ 157,777,000	$ 141,408,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 28,518,000	$ 32,401,000
Note payable	1,014,000	
Accrued liabilities	1,421,000	2,200,000
Accrued salaries and wages	2,673,000	3,396,000
Accrued workers compensation claims	1,983,000	2,042,000
Income tax payable	1,447,000	392,000
Line of credit	14,400,000	
Deferred compensation	298,000	373,000
Deferred income	133,000	133,000
Other current liabilities	1,633,000	448,000
Current portion of capital lease obligations	1,674,000	1,711,000
Total current liabilities	55,194,000	43,096,000
Deferred income, less current portion	22,000	122,000
Deferred core revenue	4,320,000	2,927,000
Deferred gain on sale-leaseback	974,000	1,340,000
Other liabilities	315,000	265,000
Capitalized lease obligations, less current portion	1,850,000	2,565,000

Total liabilities		62,675,000		50,315,000
Commitments and Contingencies				
Shareholders equity:				
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued				
Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued				
Common stock; par value $.01 per share, 20,000,000 shares authorized; 11,962,021 and 12,070,555 shares issued and outstanding at December 31, 2008 and March 31, 2008, respectively		120,000		121,000
Additional paid-in capital		92,395,000		92,663,000
Additional paid-in capital-warrant		1,879,000		1,879,000
Shareholder note receivable				(682,000)
Accumulated other comprehensive (loss) income		(1,082,000)		360,000
Accumulated earnings (deficit)		1,790,000		(3,248,000)
Total shareholders equity		95,102,000		91,093,000
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	157,777,000	$	141,408,000

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

4

Table of Contents

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

	Nine Months Ended December 31,		Three Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Net sales	$ 104,944,000	$ 97,443,000	$ 35,802,000	$ 28,182,000
Cost of goods sold	71,428,000	71,509,000	25,672,000	20,694,000
Gross profit	33,516,000	25,934,000	10,130,000	7,488,000
Operating expenses:				
General and administrative	14,634,000	15,034,000	5,460,000	5,520,000
Sales and marketing	3,911,000	2,551,000	1,555,000	824,000
Research and development	1,558,000	852,000	515,000	302,000
Impairment of goodwill	2,091,000		2,091,000	
Total operating expenses	22,194,000	18,437,000	9,621,000	6,646,000
Operating income	11,322,000	7,497,000	509,000	842,000
Other expense (income):				
Interest expense	3,188,000	4,494,000	1,204,000	1,292,000
Interest income	(19,000)	(50,000)	(1,000)	(35,000)
Income (loss) before income tax expense (benefit)	8,153,000	3,053,000	(694,000)	(415,000)
Income tax expense (benefit)	3,115,000	1,179,000	(380,000)	(232,000)
Net income (loss)	$ 5,038,000	$ 1,874,000	$ (314,000)	$ (183,000)
Basic net income (loss) per share	$ 0.42	$ 0.17	$ (0.03)	$ (0.02)
Diluted net income (loss) per share	$ 0.42	$ 0.16	$ (0.03)	$ (0.02)
Weighted average number of shares outstanding:				
Basic	12,006,619	11,341,291	11,962,021	12,061,087
Diluted	12,101,685	11,724,168	11,962,021	12,061,087

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

Table of Contents

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

	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Cash flows from operating activities:		
Net income	$ 5,038,000	$ 1,874,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,341,000	2,154,000
Impairment of goodwill	2,091,000	
Amortization of intangible assets	224,000	
Amortization of deferred gain on sale-leaseback	(390,000)	(389,000)
(Recovery of) provision for inventory reserves	(278,000)	699,000
Provision for (recovery of) customer payment discrepencies	751,000	(148,000)
Provision for doubtful accounts	224,000	264,000
Deferred income taxes	(1,053,000)	(469,000)
Share-based compensation expense	444,000	856,000
Impact of tax benefit on APIC pool		(153,000)
Loss on disposal of assets		45,000
Changes in current assets and liabilities:		
Accounts receivable	(9,139,000)	(370,000)
Inventory	8,130,000	438,000
Inventory unreturned	(274,000)	(826,000)
Income tax receivable		1,668,000
Prepaid expenses and other current assets	564,000	572,000
Other assets	(30,000)	58,000
Accounts payable and accrued liabilities	(5,846,000)	(15,449,000)
Income tax payable	1,167,000	(224,000)
Deferred compensation	(75,000)	198,000
Deferred income	(100,000)	(100,000)
Deferred core revenue	1,392,000	1,071,000
Long-term accounts receivable	767,000	
Long-term core inventory	(10,759,000)	(3,371,000)
Long-term core inventory deposits	(1,183,000)	(661,000)
Other current liabilities	1,321,000	365,000
Net cash used in operating activities	(4,673,000)	(11,898,000)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,805,000)	(1,357,000)
Purchase of businesses	(7,170,000)	
Change in short term investments	(55,000)	(140,000)
Net cash used in investing activities	(9,030,000)	(1,497,000)
Cash flows from financing activities:		
Borrowings under line of credit	39,010,000	30,700,000
Repayments under line of credit	(24,610,000)	(53,500,000)
Payments on capital lease obligations	(1,366,000)	(1,224,000)

Exercise of stock options		187,000
Excess tax benefit from employee stock options exercised		115,000
Proceeds from issuance of common stock and warrants		40,133,000
Stock issuance costs		(3,156,000)
Impact of tax benefit on APIC pool		153,000
Net cash provided by financing activities	13,034,000	13,408,000
Effect of exchange rate changes on cash	(388,000)	102,000
Net (decrease) increase in cash and cash equivalents	(1,057,000)	115,000
Cash and cash equivalents Beginning of period	1,935,000	349,000
Cash and cash equivalents End of period	$ 878,000	$ 464,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,053,000	$ 4,458,000
Income taxes	2,543,000	(381,000)
Non-cash investing and financing activities:		
Property acquired under capital lease	$ 357,000	$ 644,000
Holdback on purchase of businesses	800,000	
Note payable on purchase of business	1,014,000	
Retirement of common stock in satisfaction of shareholder note receivable	682,000	

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Condensed Notes to Consolidated Financial Statements
December 31, 2008 and 2007
(Unaudited)

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine and three months ended December 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2009. This report should be read in conjunction with the Company s audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2008, which are included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on June 16, 2008.

The accompanying consolidated financial statements have been prepared on a consistent basis with, and there have been no material changes to, the accounting policies described in Note B to the consolidated financial statements that are presented in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2008, except as discussed in Note 14 below.

Certain items in the Consolidated Balance Sheet for the fiscal year ended March 31, 2008 have been reclassified to conform to fiscal 2009 classifications.

1. Company Background and Organization

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

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

In September 2007, the Company exercised its right to cancel the lease of its Torrance, California facility with respect to approximately 80,000 square feet currently utilized for core receipt, storage and packing. This cancellation was effective May 31, 2008. The Company transitioned these functions to its facilities in Mexico.

In June 2008, the Company notified its third party warehouse distribution center in Fairfield, New Jersey, of its intention to terminate its agreement effective September 18, 2008. In July 2008, the Company signed a letter of intent to utilize the services of another third party fee warehouse distribution center in Edison, New Jersey.

In October 2008, the Company established a wholly owned subsidiary incorporated in Canada, Motorcar Parts of Canada, Inc. This new subsidiary is expected to provide sales and marketing services to the Company. Currently, this subsidiary does not have assets or results of operations.

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

2. Acquisitions

On May 16, 2008, the Company completed the acquisition of certain assets of Automotive Importing Manufacturing, Inc. (AIM), specifically its operation which produced new and remanufactured alternators and starters for imported and domestic passenger vehicles. These products are sold under Talon, Xtreme and other brand names. The acquisition was consummated pursuant to a signed definitive purchase agreement, dated April 24, 2008.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

The Company believes the acquisition of AIM expands its customer base and product line, including the addition of business in heavy duty alternator and starter applications. The following table reflects the preliminary allocation of the purchase price:

Consideration and acquisition costs:	
Cash consideration	$ 3,727,000
Purchase price hold back	500,000
Acquisition costs	437,000
	$ 4,664,000
Purchase price allocation:	
Accounts receivable, net of allowances	$ (221,000)
Inventory	2,853,000
Trademarks	212,000
Customer relationships	1,441,000
Non-compete agreements	50,000
Goodwill	329,000
Total purchase price	$ 4,664,000

The definitive purchase agreement was amended on May 16, 2008. The amendment provided for an additional contingent consideration of up to $400,000 to AIM if the net sales to certain customers exceed an agreed upon dollar threshold during the period June 1, 2008 to May 31, 2009. Any subsequent payment under this arrangement would increase the total purchase price and would be allocated to goodwill.

On August 22, 2008, the Company completed the acquisition of certain assets of Suncoast Automotive Products, Inc. (SCP), specifically its operation which produced new and remanufactured alternators and starters for the automotive, industrial and heavy duty aftermarkets. These products were sold under the SCP brand name. The acquisition was consummated pursuant to a signed asset purchase agreement, dated August 13, 2008.

The Company believes the acquisition of SCP enhances the Company s market share in North America. Pro forma information is not presented as the assets, results of operations and purchase price of SCP were not significant to the Company s consolidated financial position or results of operations, individually or in the aggregate with the acquisition of AIM.

The following table reflects the preliminary allocation of the purchase price:

Consideration and acquisition costs:	
Cash consideration	$ 2,448,000
Purchase price hold back	300,000
Note payable	1,293,000
Acquisition costs	279,000
	$ 4,320,000
Purchase price allocation:	
Accounts receivable, net of allowances	$ (95,000)
Inventory	1,366,000

Trademarks	115,000
Customer relationships	1,110,000
Non-compete agreements	62,000
Goodwill	1,762,000
Total purchase price	$ 4,320,000

The note payable to SCP of $1,293,000 bears interest at prime plus 1% and is payable in monthly installments of $100,000 beginning in October 2008. During the nine months ended December 31, 2008, principal and interest of $279,000 and $21,000, respectively, was paid on the note payable to SCP.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

The results of operations of certain assets acquired from AIM and SCP are included in the Consolidated Statement of Income from their respective acquisition dates.

3. Goodwill and Intangible Assets

The Company accounts for goodwill under the guidance set forth in SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), which specifies that goodwill and indefinite-lived intangibles should not be amortized. The Company evaluates goodwill for impairment on an annual basis or more frequently if events or circumstances occur that would indicate a reduction in fair value of the Company. In addition, the Company identified a single reporting unit (the Company itself) in accordance with SFAS No. 142, as it had not identified any components of the Company beneath the one operating segment described in Note 1.

The Company s market capitalization in the third quarter of fiscal 2009 decreased significantly, which represented a possible triggering event for potential goodwill impairment. Accordingly, the Company performed an interim goodwill impairment test in accordance with SFAS No. 142.

The goodwill impairment test is a two-step impairment test. In the first step, the Company compares the fair value of the reporting unit to its carrying value. The Company determines the fair value of the reporting unit based on a weighting of: (1) a market capitalization approach applying a control premium (2) a discounted cash flow analysis; and (3) a market approach using market multiples and comparable transaction data for guideline companies. The evaluation of goodwill requires the Company to use significant judgments and estimates, including but not limited to updated projected future revenues, cash flows, and discount rates. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to the reporting unit, goodwill is not impaired and therefore the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step in order to determine the implied fair value of the reporting unit s goodwill and compare it to the carrying value of the reporting unit s goodwill.

Based on this interim assessment, management concluded that, as of December 31, 2008, the carrying value of its reporting unit exceeded its fair value under step one of the test and proceeded to step two. Under step two, the Company determined that goodwill was fully impaired as the carrying value of $2,091,000 exceeded the implied fair value of zero, and therefore recorded a pre-tax, non-cash goodwill impairment charge of $2,091,000 ($1,255,000 after tax or $0.11 per diluted share) as disclosed in the Consolidated Statements of Income. After recording the impairment charge, the Company had no goodwill remaining on its Consolidated Balance Sheet as of December 31, 2008.

The Company s intangible assets other than goodwill are finite-lived and amortized on a straight-line basis over their respective useful lives and are analyzed for impairment under the guidance set forth in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS No. 144) when and if indicators of impairment exist. The following is a summary of the Company s intangible assets as of December 31, 2008, which resulted from the acquisitions of AIM and SCP during the nine-month period. The Company had no goodwill or intangible assets at March 31, 2008.

		December 31, 2008		March 31, 2008	
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Trademarks	5 - 7 years	$ 327,000	$ 27,000	$	$
Customer relationships	7 years	2,551,000	186,000		
Non-compete agreements	5 years	112,000	11,000		
Total		$ 2,990,000	$ 224,000	$	$

9

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Amortization expense related to intangible assets was $224,000 and $132,000 during the nine and three months ended December 31, 2008, respectively. The aggregate estimated amortization expense for intangible assets is as follows:

Year ending March 31,	
2009 remaining three months	$ 110,000
2010	440,000
2011	440,000
2012	440,000
2013	440,000
Thereafter	896,000
Total	$ 2,766,000

4. Accounts Receivable Net

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

Accounts receivable net is comprised of the following:

	December 31, 2008	March 31, 2008
Accounts receivable trade	$ 39,825,000	$ 25,740,000
Allowance for bad debts	(242,000)	(18,000)
Customer allowances earned	(4,350,000)	(2,178,000)
Customer payment discrepancies	(731,000)	(492,000)
Customer finished goods returns accruals	(9,627,000)	(7,977,000)
Customer core returns accruals	(14,238,000)	(12,286,000)
Less: total accounts receivable offset accounts	(29,188,000)	(22,951,000)
Total accounts receivable net	$ 10,637,000	$ 2,789,000

Warranty Returns

The Company allows its customers to return goods to the Company that their end-user customers have returned to them, whether the returned item is or is not defective (warranty returns). The Company accrues an estimate of its exposure to warranty returns based on a historical analysis of the level of this type of return as a percentage of total unit sales. The warranty return accrual is included under the customer finished goods returns accruals in the above table.

Change in the Company s warranty return accrual is as follows:

	Nine Months Ended December 31,		Three Months Ended December 31,	
	2008	2007	2008	2007
Balance at beginning of period	$ (2,824,000)	$ (3,455,000)	$ (3,109,000)	$ (1,883,000)
Charged to expenses	24,588,000	20,211,000	8,168,000	6,482,000

Amounts processed	(24,251,000)	(22,683,000)	(8,116,000)	(7,382,000)
Balance at end of period	$ (3,161,000)	$ (983,000)	$ (3,161,000)	$ (983,000)

5. Inventory

Inventory includes non-core inventory, inventory unreturned, long-term core inventory, long-term core inventory deposit and is

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

comprised of the following:

	December 31, 2008	March 31, 2008
Non-core inventory		
Raw materials	$ 9,155,000	$ 11,406,000
Work-in-process	92,000	155,000
Finished goods	18,975,000	23,206,000
	28,222,000	34,767,000
Less allowance for excess and obsolete inventory	(1,459,000)	(2,060,000)
Total	$ 26,763,000	$ 32,707,000
Inventory unreturned	$ 4,398,000	$ 4,124,000
Long-term core inventory		
Used cores held at company s facilities	$ 16,583,000	$ 12,630,000
Used cores expected to be returned by customers	2,917,000	2,255,000
Remanufactured cores held in finished goods	16,401,000	15,407,000
Remanufactured cores held at customers locations	28,380,000	21,218,000
	64,281,000	51,510,000
Less allowance for excess and obsolete inventory	(411,000)	(702,000)
Total	$ 63,870,000	$ 50,808,000
Long-term core inventory deposit	$ 23,660,000	$ 22,477,000

6. Major Customers

The Company s five largest customers accounted for the following total percentage of net sales and accounts receivable:

	Nine Months Ended December 31,		Three Months Ended December 31,	
Sales	**2008**	**2007**	**2008**	**2007**
Customer A	50%	52%	53%	52%
Customer B	11%	7%	10%	5%
Customer C	9%	10%	6%	9%
Customer D	12%	12%	13%	13%
Customer E	10%	12%	10%	16%

Accounts Receivable	**December 31, 2008**	**March 31, 2008**
Customer A	18%	19%
Customer B	22%	24%

Customer C	23%	31%
Customer D	26%	5%
Customer E	6%	11%

For the nine and three months ended December 31, 2008 and 2007, one supplier provided approximately 21% of the raw materials purchased. No other supplier accounted for more than 10% of the Company s raw materials purchases for the nine and three months ended December 31, 2008 or 2007.

11

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

7. Line of Credit; Factoring Agreements

On October 24, 2007, the Company entered into an amended and restated credit agreement (the Credit Agreement) with its bank. Under the Credit Agreement, the bank continues to provide the Company with a revolving loan (the Revolving Loan) of up to $35,000,000, including obligations under outstanding letters of credit, which may not exceed $7,000,000. In January 2008, the Company entered into an amendment to the Credit Agreement with its bank. This amendment extended the expiration date of the credit facility to October 1, 2009.

In May 2008, the Company s Credit Agreement was further amended to allow the Company to, among other things, borrow up to $15,000,000 under the Revolving Loan for the purpose of consummating certain permitted acquisitions. The aggregate consideration paid for any single permitted acquisition may not exceed $7,500,000, and the aggregate consideration paid for all permitted acquisitions made during the term of the Credit Agreement may not exceed $20,000,000.

In August 2008, the Company entered into a third amendment to the Credit Agreement, which increased the amount of credit available under the Revolving Loan from $35,000,000 to $40,000,000. Pursuant to the terms of these amendments, the Company may continue to use the entire available amount under the Revolving Loan for working capital and general corporate purposes.

In February 2009, the Company entered into a fourth amendment to the Credit Agreement with its bank. This amendment extended the expiration of the credit facility to April 15, 2010. Among other things, this amendment also increased the fee payable by the Company to its bank by 0.125% per annum on the unutilized amount of the Revolving Loan and increased the applicable margin rate of the Revolving Loan. The applicable margin rate, which ranges from 1.0% per year to 2.5% per year, is determined based on the Company s leverage ratio as of the end of each fiscal quarter.

The bank holds a security interest in substantially all of the Company s assets. At December 31, 2008, the balance of the Revolving Loan was $14,400,000. There was no outstanding balance on the Revolving Loan at March 31, 2008. Additionally, the Company had reserved $3,001,000 of the Revolving Loan for standby letters of credit for worker s compensation insurance as of December 31, 2008. As of December 31, 2008, $22,599,000 was available under the Revolving Loan.

The Credit Agreement, among other things, continues to require the Company to maintain certain financial covenants, including cash flow, fixed charge coverage ratio and leverage ratio 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 Credit Agreement if Selwyn Joffe is no longer the Company s CEO.

The Company was in compliance with all financial covenants under the Credit Agreement as of December 31, 2008.

Under two separate agreements executed with two customers and their respective banks, the Company may sell those customers receivables to those banks at a discount to be agreed upon at the time the receivables are sold. The Company has an arrangement with one additional customer under which that customer s receivables may also be sold at a discount. These discount arrangements have allowed the Company to accelerate collection of customer receivables aggregating $55,773,000 and $66,617,000 for the nine months ended December 31, 2008 and 2007, respectively, by an average of 315 days and 283 days, respectively. On an annualized basis, the weighted average discount rate on the receivables sold to the banks during the nine months ended December 31, 2008 and 2007 was 4.8% and 6.9%, respectively. The amount of the discount on these receivables, $2,318,000 and $3,584,000 for the nine months ended December 31, 2008 and 2007, respectively, was recorded as interest expense. In May 2008, one of these customers suspended the use of its receivable discount program, but has advised the Company that it may be in a position to re-open the use of this program sometime in the future.

8. Stock Options and Share-Based Payments

The Company adopted FAS No. 123(R), effective April 1, 2006, using the modified prospective adoption method. The Company did not modify the terms of any previously granted options in anticipation of the adoption of FAS No. 123(R). The Company recognized stock-based compensation expense of $444,000 and $856,000 for the nine months ended December 31, 2008 and 2007, respectively. The Company granted 59,000 and 58,000 stock options during the nine months ended December 30, 2008 and 2007, respectively.

At December 31, 2008, there was $187,000 of total unrecognized compensation expense from stock-based compensation granted under the plans, which is related to unvested shares. The compensation expense is expected to be recognized over a weighted average vesting period of 0.7 years.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

9. Net Income (Loss) Per Share

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

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

	Nine Months Ended December 31,		Three Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Net income (loss)	$ 5,038,000	$ 1,874,000	$ (314,000)	$ (183,000)
Basic shares	12,006,619	11,341,291	11,962,021	12,061,087
Effect of dilutive stock options and warrants	95,067	382,877		
Diluted shares	12,101,685	11,724,168	11,962,021	12,061,087
Net income (loss) per share:				
Basic	$ 0.42	$ 0.17	$ (0.03)	$ (0.02)
Diluted	$ 0.42	$ 0.16	$ (0.03)	$ (0.02)

The effect of dilutive options and warrants excludes 1,247,566 options and 546,283 warrants with exercise prices ranging from $6.11 to $15.00 per share for the nine months ended December 31, 2008. For the three months ended December 31, 2008, the effect of dilutive options and warrants excludes 1,626,416 options and 546,283 warrants with exercise prices ranging from $1.10 to $15.00 per share. The effect of dilutive options and warrants excludes 169,875 options and 546,283 warrants with exercise prices ranging from $12.00 to $18.38 per share for the nine months ended December 31, 2007. For the three months ended December 31, 2007, the effect of dilutive options and warrants excludes 1,485,832 options and 546,283 warrants with exercise prices ranging from $1.10 to $18.38 per share all of which were anti-dilutive.

10. Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income* (SFAS No. 130) established standards for the reporting and display of comprehensive income (loss) and its components in a full set of general purpose financial statements. Comprehensive income (loss) is defined as the change in equity during a period resulting from transactions and other events and circumstances from non-owner sources. The Company s total comprehensive income (loss) consists of net income, unrealized gain (loss) on short-term investments and foreign currency translation adjustments.

	Nine Months Ended December 31,		Three Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Net income (loss)	$ 5,038,000	$ 1,874,000	$ (314,000)	$ (183,000)
Unrealized (loss) gain on short-term investments	(78,000)	56,000	(45,000)	21,000
Foreign currency translation	(1,364,000)	160,000	(1,485,000)	73,000
Comprehensive net income (loss)	$ 3,596,000	$ 2,090,000	$ (1,844,000)	$ (89,000)

11. Income Taxes

Income tax expenses for the nine months ended December 31, 2008 and 2007 reflect income tax rates higher than the federal statutory rates primarily due to state income taxes, which were partially offset by the benefit of lower statutory tax rates in foreign taxing jurisdictions. For the three months ended December 31, 2008, the Company recognized income tax benefit primarily as a result of goodwill impairment recognized at income tax rates not offset by lower statutory tax rates in foreign taxing jurisdictions. For the three months ended December 31, 2007, the Company recognized income tax benefit as a result of utilization of its fiscal 2007 net operating loss carryforward. At March 31, 2008, the Company no longer had any federal net operating loss carryforward. As a result, the

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Company s cash flow will be impacted by its future tax payments.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions with varying statutes of limitations. The 2004 through 2007 tax years generally remain subject to examination by federal and most state tax authorities. There are currently no Internal Revenue Service examinations taking place or scheduled. The specific timing of when the resolution of each tax position will be reached is uncertain.

12. Litigation

In December 2003, the SEC and the United States Attorney s Office brought actions against Richard Marks, the Company s former President and Chief Operating Officer. (Mr. Marks is also the son of Mel Marks, the Company s founder, largest shareholder and member of its Board of Directors.) Mr. Marks ultimately pled guilty to several criminal charges in June 2005.

In June 2006, the Company entered into a Settlement Agreement and Mutual Release with Mr. Marks pursuant to which Mr. Marks agreed to pay the Company $682,000 as partial reimbursement of the legal fees and costs the Company had advanced in fiscal 2006 and 2005 pursuant its pre-existing indemnification agreements with Mr. Marks in connection with the investigations by the SEC and United States Attorney s Office. In June 2006, the Company recorded a shareholder note receivable for the $682,000 Mr. Marks owed the Company. Mr. Marks pledged shares of the Company s common stock to secure payment of the note. On July 22, 2008, the Company retired 108,534 shares of its common stock which had been pledged by Mr. Marks in satisfaction of the $682,000 shareholder note receivable plus interest accrued from January 15, 2008 through July 22, 2008, and the remaining shares pledged as collateral were released to Mr. Marks.

The Company is subject to various 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.

13. Customs Duties

The Company received a request for information dated April 16, 2007 from the U.S. Bureau of Customs and Border Protection (CBP) concerning the Company s importation of products remanufactured at the Company s Malaysian facilities. In response to the CBP s request, the Company began an internal review, with the assistance of customs counsel, of its custom duties procedures. During this review process, the Company 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.

The Company provided a prior disclosure letter dated June 5, 2007 to the customs authorities in order to obtain more time to complete its internal review process. This prior disclosure letter also provides the Company the opportunity to self report any underpayment of customs duties in prior years which could reduce financial penalties, if any, imposed by the CBP. Based on the review conducted by the Company, it was determined that it was probable the CBP would make a claim for additional duties, fees and interest on the value of remanufactured units shipped back to the Company from Malaysia. Therefore, an accrual for $1,836,000 was recorded as of March 31, 2008, representing the estimated maximum value of the probable claim.

On February 7, 2008, the Company responded to the CBP with the results of its internal review for products shipped back to the Company during the period from June 5, 2002 to March 31, 2007. In connection with this response, the Company paid approximately $278,000 to the CBP, which included the payment of duties, fees, and interest on the value of certain components that were used in the remanufacture of the products shipped back to the Company. On May 6, 2008, the Company paid an additional $126,000 to the CBP covering duties, fees and interest on the value of certain components that were used in the remanufacture of the products shipped back to the Company during the period from April 1, 2007 to March 31, 2008. These payments reduced the accrued liability recorded in connection with the claim.

During the three months ended June 30, 2008, the Company received notification from the CBP stating that the prior disclosure had been reviewed and determined to be valid, therefore, no further penalties are likely to be assessed and the review was closed regarding remanufactured units shipped back to the Company from Malaysia. During the three months ended June 30, 2008, the accrual of $1,307,000 was reversed, reducing cost of goods sold.

14. New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS 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 accordance with GAAP and expands disclosures about

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

fair value measurement. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007. However, a FASB Staff Position issued in February 2008, delayed the effectiveness of SFAS No. 157 for one year, but only as applied to nonfinancial assets and nonfinancial liabilities. The adoption of SFAS No. 157 on April 1, 2008 did not have an impact on the Company s financial position, results of operations or cash flows.

The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. The three levels are defined as follows:

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

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

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

The following table summarizes the valuation of the Company s short-term investments, deferred compensation and financial instruments by the above SFAS No. 157 categories as of December 31, 2008:

	Fair Value at December 31, 2008	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets				
Short-term investments	$ 298,000	$298,000		
Liabilities				
Deferred compensation	298,000	298,000		
Forward foreign currency exchange contracts	1,559,000		$1,559,000	

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

The forward foreign currency exchange contracts are primarily measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. During the nine and three months ended December 31, 2008, an increase of $1,704,000 and $1,347,000, respectively, in general and administrative expenses was recorded due to the change in the value of foreign exchange contracts.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS 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. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 on April 1, 2008 and elected not to measure any additional financial instruments or other items at fair value.

On December 4, 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) applies to any transaction or other event that meets the definition of a business combination. Where applicable, SFAS No. 141(R) establishes principles and requirements for how the acquirer recognizes and measures identifiable assets acquired, liabilities assumed, non-controlling interest in the acquiree and goodwill or gain from a bargain purchase. In addition, SFAS No. 141(R) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Also in December 2007, the FASB issued Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements* (SFAS No. 160).

This Statement amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 141(R) and SFAS No. 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008 with earlier adoption being prohibited. The Company does not currently have any non-controlling interests in its subsidiaries. Both SFAS No. 141(R) and SFAS No. 160 are adopted prospectively, therefore they do not have any current impact.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The guidance in SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently assessing the impact of SFAS No. 161.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Principles* (SFAS No. 162). SFAS No. 162, which became effective November 15, 2008, outlines the order of authority for the sources of accounting principles. The adoption of SFAS No. 162 did not have any impact on the Company s consolidated financial statements and required disclosures.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

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

The following discussion and analysis presents factors that we believe are relevant to an assessment and understanding of our consolidated financial position and results of operations. This financial and business analysis should be read in conjunction with our March 31, 2008 audited consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on June 16, 2008.

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 expired in August 2008 and the terms of any such renewal or to continue our relationship with this customer on an otherwise equally satisfactory basis, 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 or the material weaknesses in our internal controls over financial reporting, 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 and other offshore 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

We remanufacture alternators and starters for imported and domestic cars and light trucks and heavy duty applications, and distribute them throughout the United States and Canada. We sell to most of the largest auto parts retail chains and customers in the United States and Canada and to a major U.S. automobile manufacturer. We also distribute our products via a reseller in the Middle East, Africa and Japan. Growth of the after-market for remanufactured alternators and starters is driven by replacement rates. We believe that replacement rates generally increase with increases in miles driven and the age of registered vehicles. Vehicles eight years old or older have replacement rates for alternators and starters that are significantly higher than vehicles that are less than eight years old. Our business has focused on the do-it-yourself market, customers who buy remanufactured alternators and starters at an auto parts retail store and install the parts themselves as well as the do-it-for-me market, also known as the professional installer market.

On May 16, 2008, we completed the acquisition of certain assets of Automotive Importing Manufacturing, Inc. (AIM), specifically its operation which produced new and remanufactured alternators and starters for imported and domestic passenger vehicles. These products are sold under Talon, Xtreme and other brand names. We believe the acquisition of AIM expands our customer base and product line, including the addition of business in heavy duty alternator and starter applications.

On August 22, 2008, we completed the acquisition of certain assets of Suncoast Automotive Products, Inc. (SCP), specifically its operation which produced new and remanufactured alternators and starters for the automotive, industrial and heavy duty aftermarkets. These products were sold under the SCP brand name. We believe the acquisition of SCP enhances our market share in North America.

Results of Operations for the Three Months Ended December 31, 2008 and 2007

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

17

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Gross profit percentage	28.3%	26.6%
Cash flow provided by operations	$5,898,000	$3,862,000
Finished goods turnover (annualized) (1)	5.1	4.6
Annualized return on equity (2)	(1.4)%	(1.5)%

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

(2) Annualized return on equity is computed as net income for the fiscal quarter multiplied by 4 and dividing the result by beginning shareholders equity. Annualized return on equity

measures our
ability to invest
shareholders
funds profitably.

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

	Three Months Ended December 31,	
	2008	**2007**
Net sales	100.0%	100.0%
Cost of goods sold	71.7	73.4
Gross profit	28.3	26.6
Operating expenses:		
General and administrative	15.3	19.6
Sales and marketing	4.3	2.9
Research and development	1.4	1.1
Impairment of goodwill	5.8	
Operating income	1.5	3.0
Interest expense net of interest income	3.4	4.5
Income tax expense (benefit)	(1.1)	(0.8)
Net loss	(0.8)	(0.7)

Net Sales. Net sales for the three months ended December 31, 2008 increased by $7,620,000, or 27%, to $35,802,000 compared to net sales for the three months ended December 31, 2007 of $28,182,000. This increase was primarily due to higher sales to our existing customers, and to a lesser extent, sales to new customers resulting from our acquisitions.

Cost of Goods Sold/Gross Profit. Cost of goods sold as a percentage of net sales decreased during the three months ended December 31, 2008 to 71.7% from 73.4% for the three months ended December 31, 2007, resulting in a corresponding increase in our gross profit of 1.7% to 28.3% for the three months ended December 31, 2008 from 26.6% for the three months ended December 31, 2007. The increase in the gross profit percentage, as compared to the three months ended December 31, 2007, was primarily due to (i) the lower per unit manufacturing costs resulting from the transition of a majority of remanufacturing operations from the United States to our Mexico and Malaysia facilities, and (ii) the recording of an additional customs duties accrual of $245,000 during the three months ended December, 31, 2007. This increase in gross profit was partially offset by a reduction in scrap metal prices that resulted in less revenue for our scrap metal compared to the three months ended December 31, 2007.

General and Administrative. Our general and administrative expenses for the three months ended December 31, 2008 were $5,460,000, which represents a decrease of $60,000, or 1.1%, from general and administrative expenses for the three months ended December 31, 2007 of $5,520,000. This decrease in general and administrative expenses during the three months ended December 31, 2008 was partially offset by a net increase of $1,252,000 of expense recorded due to the changes in the value of foreign exchange contracts. The decrease in general and administrative expenses was primarily due to the following: (i) a decrease in our discretionary

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

incentive compensation of $83,000, (ii) a decrease in audit and other professional services fees of $368,000, (iii) a decrease in compensation expense of $102,000, which resulted from the closure of our administrative offices during the December 2008 year-end holiday period, (iv) a decrease in stock-based compensation of $208,000, (v) a decrease in expenses related to the listing of our common stock on NASDAQ of $91,000, (vi) a decrease in bad debt expense of $111,000, (vii) a decrease in severance and other related expenses of $102,000, and (viii) a decrease in expenses related to the closure and sub-lease of our warehouse facility in Nashville, TN, of $109,000.

Sales and Marketing. Our sales and marketing expenses for the three months ended December 31, 2008 increased $731,000, or 88.7%, to $1,555,000 from $824,000 for the three months ended December 31, 2007. This increase was due primarily to the addition of employees which resulted from our acquisition of AIM, increased trade show and advertising expenses, an increase in travel related expenses, and an increase in consulting fees.

Research and Development. Our research and development expenses increased by $213,000, or 70.5%, to $515,000 for the three months ended December 31, 2008 from $302,000 for the three months ended December 31, 2007. The increase was primarily related to an increase in compensation, consulting fees and travel related expenses in connection with our continued heavy duty aftermarket initiative related to alternators and starters.

Impairment of Goodwill. Our market capitalization in the third quarter of fiscal 2009 decreased significantly, which represented a possible triggering event for potential goodwill impairment. Accordingly, we performed an interim goodwill impairment test using the two-step method in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets.* Based on this interim assessment, we concluded that goodwill impairment existed in an amount equal to the carrying value of $2,091,000 and recorded a non-cash pre-tax impairment charge of $2,091,000 for the three months ended December 31, 2008. See Note 3 in the Notes to Consolidated Financial Statements for further details.

Interest Expense. Our interest expense, net of interest income, for the three months ended December 31, 2008 was $1,203,000. This represents a decrease of $54,000, or 4.3%, over interest expense, net of interest income, of $1,257,000 for the three months ended December 31, 2007. This decrease was primarily attributable to a lower balance of receivables being factored during the three months ended December 31, 2008 compared to the three months ended December 31, 2007. The decrease in interest expense, net of interest income, was partially offset by an increase in interest expense on our line of credit due to higher average outstanding balances during the three months ended December 31, 2008 compared to the three months ended December 31, 2007.

Income Tax. For the three months ended December 31, 2008 and 2007, we recognized income tax benefit of $380,000 and $232,000, respectively. The income tax benefit recorded for the three months ended December 31, 2008, primarily reflects the income tax effect of goodwill impairment at income tax rates not offset by lower statutory tax rates in foreign taxing jurisdictions. For the three months ended December 31, 2007, we recognized income tax benefit as a result of utilization of our fiscal 2007 net operating loss carryforward. At March 31, 2008, we no longer had any federal net operating loss carryforwards.

Results of Operations for the Nine Months Ended December 31, 2008 and 2007

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

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

	Nine Months Ended December 31,	
	2008	**2007**
Gross profit percentage	31.9%	26.6%
Cash flow used in operations	$(4,673,000)	$(11,898,000)
Finished goods turnover (annualized) (1)	4.5	4.8
Annualized return on equity (2)	7.4%	5.2%

(1)

Annualized finished goods turnover for the nine months ended December 31, 2008 and 2007 is calculated by multiplying cost of sales for each nine month period by 1.33 and dividing the result by the average between beginning and ending non-core finished goods inventory values, for each nine month period. We believe this provides a useful measure of our ability to turn production into revenues.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

(2) Annualized return on equity is computed as net income for the nine months ended December 31, 2008 and 2007 multiplied by 1.33 and dividing the result by beginning shareholders equity. Annualized return on equity measures our ability to invest shareholders funds profitably.

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

	Nine Months Ended December 31,	
	2008	2007
Net sales	100.0%	100.0%
Cost of goods sold	68.1	73.4
Gross profit	31.9	26.6
Operating expenses:		
General and administrative	13.9	15.4
Sales and marketing	3.7	2.6
Research and development	1.5	0.9
Impairment of goodwill	2.0	
Operating income	10.8	7.7
Interest expense net of interest income	3.0	4.6
Income tax expense	3.0	1.2
Net income	4.8	1.9

Net Sales. Net sales for the nine months ended December 31, 2008 increased by $7,501,000, or 7.7%, to $104,944,000 compared to net sales for the nine months ended December 31, 2007 of $97,443,000. This increase was primarily due to higher net sales to our existing customers and sales to new customers resulting from both our acquisitions and sales efforts.

Cost of Goods Sold/Gross Profit. Cost of goods sold as a percentage of net sales decreased during the nine months ended December 31, 2008 to 68.1% from 73.4% for the nine months ended December 31, 2007, resulting in a corresponding increase in our gross profit of 5.3% to 31.9% for the nine months ended December 31, 2008 from 26.6% for the nine months ended December 31, 2007. The increase in the gross profit percentage, as compared to the nine months ended December 31, 2007, was primarily due to (i) the lower per unit manufacturing costs resulting from the transition of a majority of remanufacturing operations from the United States to our Mexico and Malaysia facilities, and (ii) the reversal of a $1,307,000 accrual related to the customs duties claims during the nine months ended December 31, 2008, for which the accrual was initially recorded during the nine months ended December 31, 2007.

General and Administrative. Our general and administrative expenses for the nine months ended December 31, 2008 were $14,634,000, which represents a decrease of $400,000, or 2.7%, from general and administrative expenses for the nine months ended December 31, 2007 of $15,034,000. The decrease in general and administrative expenses was primarily due to the following: (i) $1,260,000 of decreased audit and other professional services fees, (ii) $526,000 of decreased severance and other related expenses, and (iii) $412,000 of decreased stock-based compensation. These decreases in general and administrative expenses were partially offset by a net increase of $1,675,000 of expense recorded due to the changes in the value of foreign exchange contracts during the nine months ended December 31, 2008.

Sales and Marketing. Our sales and marketing expenses for the nine months ended December 31, 2008 increased $1,360,000, or 53.3%, to $3,911,000 from $2,551,000 for the nine months ended December 31, 2007. This increase was due primarily to the addition of employees which resulted from our acquisition of AIM, increased trade show and advertising expenses, an increase in travel related expenses, and an increase in consulting fees.

Research and Development. Our research and development expenses increased by $706,000, or 82.9%, to $1,558,000 for the nine months ended December 31, 2008 from $852,000 for the nine months ended December 31, 2007. The increase was primarily related to an increase in compensation, consulting fees and travel related expenses in connection with our continued heavy duty aftermarket initiative related to alternators and starters.

Impairment of Goodwill. Our market capitalization in the third quarter of fiscal 2009 decreased significantly, which represented a possible triggering event for potential goodwill impairment. Accordingly, we performed an interim goodwill impairment test using the two-step method in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets.* Based on this interim assessment, we

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

concluded that goodwill impairment existed in an amount equal to the carrying value of $2,091,000 and recorded a non-cash pre-tax impairment charge of $2,091,000 for the nine months ended December 31, 2008. See Note 3 in the Notes to Consolidated Financial Statements for further details.

Interest Expense. Our interest expense, net of interest income, for the nine months ended December 31, 2008 was $3,169,000. This represents a decrease of $1,275,000, or 28.7%, over interest expense, net of interest income, of $4,444,000 for the nine months ended December 31, 2007. This decrease was primarily attributable to a lower balance of receivables being factored during the nine months ended December 31, 2008 compared to the nine months ended December 31, 2007.

Income Tax. For the nine months ended December 31, 2008 and 2007, we recognized income tax expense of $3,115,000 and $1,179,000, respectively. Income tax expenses for the nine months ended December 31, 2008 and 2007 reflect income tax rates higher than the federal statutory rates primarily due to state income taxes, which, except for the impact of the goodwill impairment charge, were partially offset by the benefit of lower statutory tax rates in foreign taxing jurisdictions. At March 31, 2008, we no longer had any federal net operating loss carryforwards.

Liquidity and Capital Resources

Overview

At December 31, 2008, we had negative working capital of $5,175,000, a ratio of current assets to current liabilities of 0.91:1, and cash of $878,000, compared to working capital of $6,097,000, a ratio of current assets to current liabilities of 1.1:1, and cash of $1,935,000 at March 31, 2008. The change in working capital from March 31, 2008 is primarily the result of increased short-term borrowings under our line of credit, which were primarily used to acquire certain assets of AIM and SCP, to offset the reduction in cash resources due to one of our customer s suspension of its receivable discount program to factor our accounts receivable, which was partially offset by decreased inventory due to higher net sales.

We have primarily financed our operations through the use of our Revolving Loan and the receivable discount programs we have with certain of our customers. In May 2008, one of these customers suspended the use of its receivable discount program, but has advised us that it may be in a position to re-open the use of this program sometime in the future. We cannot provide assurance that the program will be re-instated or that a similar program with another customer will be established or continued.

We believe amounts available under our Credit Agreement 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 twelve months.

Cash Flows

Net cash used in operating activities was $4,673,000 for the nine months ended December 31, 2008 compared to $11,898,000 for the nine months ended December 31, 2007. The most significant changes in operating activities for the nine months ended December 31, 2008 compared to the nine months ended December 31, 2007 were (i) an increase in net income attributable in part to the following: (x) higher net sales to our existing and new customers; (y) a reduction in costs resulting from the shift of remanufacturing operations to our Mexican and Malaysian facilities; and (z) the reversal of the customs duties accrual during the nine months ended December 31, 2008, for which the accrual was originally recorded during the nine months ended December 31, 2007; (ii) the reduction in cash resources due to one of our customer s suspension of its receivable discount program to factor our accounts receivable; and (iii) a less significant reduction in our accounts payable and accrued liabilities for the nine months ended December 31, 2008 as compared to the nine months ended December 31, 2007, as the proceeds from our private placement were used to pay down accounts payable balances of $15,449,000 during the nine months ended December 31, 2007. Additionally, as of March 31, 2008, we had no remaining net operating loss carry forwards. As net operating loss carry forwards for tax purposes are no longer available, we anticipate that our future cash flow will be impacted by our future tax payments.

Net cash used in investing activities was $9,030,000 and $1,497,000 during the nine months ended December 31, 2008 and 2007, respectively. The change primarily resulted from the acquisition of certain assets of AIM of $4,664,000, less the $500,000 holdback, the acquisition of certain assets of SCP of $4,320,000, less the $300,000 holdback and $1,014,000 note payable to SCP related to the acquisition. In addition, our capital expenditures for the nine months ended December 31, 2008 of $1,805,000 primarily related to IT equipment and improvements at our Torrance, California and offshore facilities. For the nine months ended December 31, 2007, we incurred capital expenditures of $1,357,000, which primarily were related to our Mexican production facility.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Net cash provided by financing activities was $13,034,000, and $13,408,000, during the nine months ended December 31, 2008 and 2007, respectively. During the nine months ended December 31, 2008, we borrowed amounts under our line of credit to finance the acquisitions, to pay down our accounts payable balances, and to offset the reduction in cash resources due to one of our customer s suspension of its receivable discount program to factor our accounts receivable. In May 2007, we completed a private placement of our common stock and warrants, which was substantially used to pay down borrowings under the line of credit and accounts payable balances.

Capital Resources

Line of Credit

On October 24, 2007, we entered into an amended and restated credit agreement (the Credit Agreement) with our bank. Under the Credit Agreement, the bank continues to provide us with a revolving loan (the Revolving Loan) of up to $35,000,000, including obligations under outstanding letters of credit, which may not exceed $7,000,000. In January 2008, we entered into an amendment to the Credit Agreement with our bank. This amendment extended the expiration date of our credit facility to October 1, 2009.

In May 2008, our Credit Agreement was further amended to allow us to, among other things, borrow up to $15,000,000 under the Revolving Loan for the purpose of consummating certain permitted acquisitions. The aggregate consideration paid for any single permitted acquisition may not exceed $7,500,000, and the aggregate consideration paid for all permitted acquisitions made during the term of the Credit Agreement may not exceed $20,000,000.

In August 2008, we entered into a third amendment to the Credit Agreement, which increased the amount of credit available under the Revolving Loan from $35,000,000 to $40,000,000. Pursuant to the terms of these amendments, we may continue to use the entire available amount under the Revolving Loan for working capital and general corporate purposes.

In February 2009, we entered into a fourth amendment to the Credit Agreement with our bank. This amendment extended the expiration of the credit facility to April 15, 2010. Among other things, this amendment also increased the fee payable by us to our bank by 0.125% per annum on the unutilized amount of Revolving Loan and increased the applicable margin rate of the Revolving Loan.

The bank holds a security interest in substantially all of our assets. At December 31, 2008, the balance of the Revolving Loan was $14,400,000. There was no outstanding balance on the Revolving Loan at March 31, 2008. Additionally, we had reserved $3,001,000 of the Revolving Loan for standby letters of credit for worker s compensation insurance as of December 31, 2008. As of December 31, 2008, $22,599,000 was available under the Revolving Loan.

The Credit Agreement (as amended), among other things, continues to require us to maintain certain financial covenants, including cash flow, fixed charge coverage ratio and leverage ratio and includes 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 Credit Agreement if Selwyn Joffe is no longer our CEO.

We were in compliance with all financial covenants under the Credit Agreement as of December 31, 2008.

Borrowings under the Revolving Loan bear interest at either the bank s reference rate or London Interbank Offered Rate (LIBOR) as selected by us for the applicable interest period plus, in each case, an applicable margin which is determined quarterly on a prospective basis as below:

	Leverage Ratio as of the End of the Fiscal Quarter	
Base Interest Rate Selected by us	**Greater Than or Equal to 1.50 to 1.00**	**Less Than 1.50 to 1.00**
Bank s Reference Rate, plus	1.25% per year	1.0% per year
Bank s LIBOR Rate, plus	2.5% per year	2.25% per year

Our ability to comply in future periods with the financial covenants in the Credit Agreement, as amended, 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, including acquisitions. If a violation of any of the covenants occurs in the future, we would attempt to obtain a waiver or an amendment from our bank. No assurance can be given that we would be successful in this regard.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Receivable Discount Program

Our liquidity has been positively impacted by receivable discount programs we have established with certain customers and their respective banks. Under these programs, we have the option to sell those customers receivables to those banks at a discount to be agreed upon at the time the receivables are sold. The discount under this program averaged 4.8% during the nine months ended December 31, 2008 and has allowed us to accelerate collection of receivables aggregating $55,773,000 by an average of 315 days. While these arrangements have reduced our working capital needs, there can be no assurance that these programs will continue in the future. These programs resulted in interest costs of $2,318,000 during the nine months ended December 31, 2008. These interest costs would increase if interest rates rise, if utilization of these discounting arrangements expands and if the discount period is extended to reflect more favorable payment terms to customers.

In May 2008, one of these customers suspended the use of its receivable discount program, but has advised us that it may be in a position to re-open the use of this program sometime in the future. We cannot provide assurance that the program will be re-instated or that a similar program with another customer will be established or continued.

Off-Balance Sheet Arrangements

At December 31, 2008, we had no off-balance sheet financing or other arrangements with unconsolidated entities or financial partnerships (such as entities often referred to as structured finance or special purpose entities) established for purposes of facilitating off-balance sheet financing or other debt arrangements or for other contractually narrow or limited purposes.

Capital Expenditures and Commitments

Capital Expenditures

Our capital expenditures were $2,162,000 for the nine months ended December 31, 2008, including the capital expenditures acquired under capital leases. A significant portion of these expenditures relate to IT equipment and improvements at our Torrance, California and offshore facilities. We expect our fiscal 2009 capital expenditure to be in the range of $2.5 million to $3.5 million. We expect to use our working capital and incur additional capital lease obligations to finance these capital expenditures.

Customs Duties

We received a request for information dated April 16, 2007 from the U.S. Bureau of Customs and Border Protection, or CBP, concerning the 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 obtain more time to complete our internal review process. This prior disclosure letter also provides us the opportunity to self report any underpayment of customs duties in prior years which could reduce financial penalties, if any, imposed by the CBP. Based on our review, we determined that it was probable the CBP would make a claim for additional duties, fees and interest on the value of remanufactured units shipped back to us from Malaysia. Therefore, we recorded an accrual for $1,836,000 as of March 31, 2008, representing the estimated maximum value of the probable claim.

On February 7, 2008, we responded to the CBP with the results of our internal review for products shipped back to us during the period from June 5, 2002 to March 31, 2007. In connection with this response, we paid approximately $278,000 to the CBP, which included the payment of duties, fees, and interest on the value of certain components that were used in the remanufacture of the products shipped back to us. On May 6, 2008, we paid an additional $126,000 to the CBP covering duties, fees and interest on the value of certain components that were used in the remanufacture of the products shipped back to us during the period from April 1, 2007 to March 31, 2008. These payments reduced the accrued liability recorded in connection with the claim.

During the three months ended June 30, 2008, we received notification from the CBP stating that the prior disclosure had been reviewed and determined to be valid, therefore, no further penalties are likely to be assessed and the review was closed regarding remanufactured units shipped back to us from Malaysia. During the three months ended June 30, 2008, the accrual of $1,307,000 was reversed, reducing cost of goods sold.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Litigation

In December 2003, the SEC and the United States Attorney s Office brought actions against Richard Marks, our former President and Chief Operating Officer. (Mr. Marks is also the son of Mel Marks, our founder, largest shareholder and member of our Board of Directors.) Mr. Marks ultimately pled guilty to several criminal charges in June 2005.

In June 2006, we entered into a Settlement Agreement and Mutual Release with Mr. Marks pursuant to which Mr. Marks agreed to pay us $682,000 as partial reimbursement of the legal fees and costs we had advanced in fiscal 2006 and 2005 pursuant our pre-existing indemnification agreements with Mr. Marks in connection with the investigations by the SEC and United States Attorney s Office. In June 2006, we recorded a shareholder note receivable for the $682,000 Mr. Marks owed us. Mr. Marks pledged shares of our common stock to secure payment of the note. On July 22, 2008, we retired 108,534 shares of our common stock which had been pledged by Mr. Marks in satisfaction of the $682,000 shareholder note receivable plus interest accrued from January 15, 2008 through July 22, 2008, and the remaining shares pledged as collateral were released to Mr. Marks.

We are subject to various 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.

Related Party Transactions

Our related party transactions primarily consist of employment and director agreements and stock option agreements. During the nine months ended December 31, 2008, we paid Houlihan Lokey Howard & Zukin Capital, Inc. a $108,000 retainer for services and reimbursement of other out-of-pocket expenses. Scott J. Adelson, a member of our Board of Directors, is a Senior Managing Director for Houlihan Lokey Howard & Zukin Capital, Inc.

Except as noted above and in the Litigation discussion above, our related party transactions have not changed since March 31, 2008.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates that are presented in our Annual Report on Form 10-K for the year ended March 31, 2008, except as discussed below.

Goodwill

We account for goodwill under the guidance set forth in SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), which specifies that goodwill and indefinite-lived intangibles should not be amortized. We evaluate goodwill for impairment on an annual basis or more frequently if events or circumstances occur that would indicate a reduction in fair value of the Company. In addition, we identified a single reporting unit (the Company itself) in accordance with SFAS No. 142, as we had not identified any components of the Company beneath the one operating segment described in Note 1 in the Notes to Consolidated Financial Statements.

Our market capitalization in the third quarter of fiscal 2009 decreased significantly, which represented a possible triggering event for potential goodwill impairment. Accordingly, we performed an interim goodwill impairment test in accordance with SFAS No. 142.

The goodwill impairment test is a two-step impairment test. In the first step, we compare the fair value of the reporting unit to its carrying value. We determine the fair value of the reporting unit based on a weighting of: (1) a market capitalization approach applying a control premium, (2) a discounted cash flow analysis; and (3) a market approach using market multiples and comparable transaction data for guideline companies. The evaluation of goodwill requires us to use significant judgments and estimates, including but not limited to updated projected future revenues, cash flows, and discount rates. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to the reporting unit, goodwill is not impaired and therefore we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step in order to determine the implied fair value of the reporting unit s goodwill and compare it to the carrying value of the reporting unit s goodwill.

Based on this interim assessment, we concluded that, as of December 31, 2008, the carrying value of our reporting unit exceeded its fair value under step one of the test and proceeded to step two. Under step two, we determined that goodwill was fully impaired as the carrying value of $2,091,000 exceeded the implied fair value of zero, and therefore recorded a pre-tax, non-cash goodwill impairment charge of $2,091,000 ($1,255,000 after tax or $0.11 per diluted share) as disclosed in the Consolidated Statements of Income. After recording the impairment charge, we had no goodwill remaining on our Consolidated Balance Sheet as of December 31, 2008.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS 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 accordance with GAAP and expands disclosures about fair value measurement. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007. However, a FASB Staff Position issued in February 2008, delayed the effectiveness of SFAS No. 157 for one year, but only as applied to nonfinancial assets and nonfinancial liabilities. The adoption of SFAS No. 157 on April 1, 2008 did not have an impact on our financial position, results of operations or cash flows.

The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. The three levels are defined as follows:

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

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

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

The following table summarizes the valuation of our short-term investments and financial instruments by the above SFAS No. 157 categories as of December 31, 2008:

	Fair Value at December 31, 2008	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets				
Short-term investments	$ 298,000	$298,000		
Liabilities				
Deferred compensation	298,000	298,000		
Forward foreign currency exchange contracts	1,559,000		$1,559,000	

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

The forward foreign currency exchange contracts are primarily measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. During the nine and three months ended December 31, 2008, an increase of $1,704,000 and $1,347,000, respectively, in general and administrative expenses was recorded due to the change in the value of foreign exchange contracts.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS 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. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS No. 159 on April 1, 2008 and elected not to measure any additional financial instruments or other items at fair value.

On December 4, 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) applies to any transaction or other event that meets the definition of a business combination. Where applicable, SFAS No. 141(R) establishes principles and requirements for how the acquirer recognizes and measures identifiable assets acquired, liabilities assumed, non-controlling interest in the acquiree and goodwill or gain from a bargain purchase. In addition, SFAS No. 141(R) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Also in December 2007, the FASB issued Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements* (SFAS No. 160). This Statement amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 141(R) and SFAS No. 160 are required to be adopted simultaneously and are effective for the first annual reporting period

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

beginning on or after December 15, 2008 with earlier adoption being prohibited. We do not currently have any non-controlling interests in our subsidiaries. Both SFAS No. 141(R) and SFAS No. 160 are adopted prospectively, therefore they do not have any current impact.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The guidance in SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently assessing the impact of SFAS No. 161.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Principles* (SFAS No. 162). SFAS No. 162, which became effective November 15, 2008, outlines the order of authority for the sources of accounting principles. The adoption of SFAS No. 162 did not have any impact on our consolidated financial statements and required disclosures.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The recent turmoil in the credit and capital markets has increased the volatility associated with interest rates and foreign currency exchange rates. However, we continue to manage these risks as described in Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K as of March 31, 2008, which was filed on June 16, 2008.

For a further discussion of our market risk, refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K as of March 31, 2008, which was filed on June 16, 2008.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934 (the 1934 Act), under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control Over Financial Reporting

There have not been any 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.

PART II OTHER INFORMATION

Item 1A. Risk Factors

Our business and operations entail a variety of risks and uncertainties, including those described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2008, filed with the SEC on June 16, 2008. In addition, the following information amends and further updates our risk factors and should be read in conjunction with those prior disclosures.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

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

Over the past several months, significant deterioration in the financial condition of financial institutions has resulted in a severe loss of liquidity and availability in global credit markets and in higher short-term borrowing costs, and more stringent borrowing terms. Recessionary conditions in the global economy threaten to cause further tightening of the credit markets, more stringent lending standards and terms, and higher volatility in interest rates. The persistence of these conditions could have a material adverse effect on our borrowings and the availability, terms and cost of such borrowings. In addition, further deterioration in the U.S. economy could adversely affect our corporate results, which could adversely affect our operating results.

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

Limitation on Payment of Dividends The Credit Agreement prohibits the declaration or payment of any dividends other than dividends payable in our capital stock.

Item 5. Other Information

On February 3, 2009, we entered into a Fourth Amendment, dated as of January 30, 2009, to our Credit Agreement with Union Bank, N.A. (the Bank) and a related revolving note (the Revolving Note). The Fourth Amendment, among other things, extends the term of the Credit Agreement from October 1, 2009 to April 15, 2010. The Fourth Amendment also provides that the unused fee payable by us to the Bank on the last business day of each fiscal quarter in connection with the Credit Agreement shall increase by an amount equal to one-eighth of one percent per annum of the unutilized amount of the Revolving Note. Borrowings under the Revolving Note shall bear interest at either the Bank s reference rate or LIBOR rate as selected by us for the applicable interest period plus, in each case, an applicable margin which is determined quarterly on a prospective basis as set forth below:

	Leverage Ratio as of the End of the Fiscal Quarter	
Base Interest Rate Selected by us	**Greater Than or Equal to 1.50 to 1.00**	**Less Than 1.50 to 1.00**
Bank s Reference Rate, plus	1.25% per year[1]	1.0% per year[2]
Bank s LIBOR Rate, plus	2.5% per year[3]	2.25% per year[4]

1 Previously was 0.0% per year.

2 Previously was -0.25% per year.

3 Previously was 2.0% per year.

4 Previously was 1.75% per year.

A copy of the Fourth Amendment and the Revolving Note are attached to hereto as Exhibits 10.2 and 10.3, respectively, and incorporated herein by reference.

Effective February 3, 2009, our Board of Directors (the Board) appointed Jeff Mirvis as one of our directors. Mr. Mirvis, 45, is currently the chief executive officer of MTG Industries, a privately held apparel company based in Los Angeles. As chief executive officer of MTG Industries, Mr. Mirvis successfully moved all production and sourcing to Asia. During his nine-year tenure as chief executive, Mr. Mirvis has gained valuable knowledge of manufacturing in Asia. Prior to joining MTG Industries in 1990, Mr. Mirvis served as a commercial loan officer at Union Bank of California following his completion of the bank s Commercial Lending Program. He earned a Bachelor of Arts degree in economics from the University of California at Santa Barbara. He currently serves as treasurer and a board member of Wildwood School in Los Angeles, and has been a member of the board of the Jewish Federation in Los Angeles.

At this time, the Board has not named Mr. Mirvis to any committees of the Board, and currently does not expect to name Mr. Mirvis to any committees of the Board.

Pursuant to the terms of our 2004 Non-Employee Director Stock Option Plan, Mr. Mirvis was granted an option to purchase 25,000 shares of our common stock at an exercise price of $4.60 upon his appointment to the Board on February 3, 2009. One-third of the option is immediately exercisable, one-third of the option becomes exercisable on February 3, 2010, and one-third of the option becomes exercisable on February 3, 2011, assuming Mr. Mirvis remains a member of the Board on such anniversary dates. Mr. Mirvis will also receive fees consistent with those fees received by the existing non-employee directors for his services as a director.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Item 6. Exhibits.

(a) Exhibits:

Number	Description of Exhibit	Method of Filing
3.1	Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 to the Company s Registration Statement on Form SB-2 declared effective on March 22, 1994 (the 1994 Registration Statement).
3.2	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.2 to the Company s Registration Statement on Form S-1 (No. 33-97498) declared effective on November 14, 1995.
3.3	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.3 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1997.
3.4	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.4 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1998 (the 1998 Form 10-K).
3.5	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit C to the Company s proxy statement on Schedule 14A filed with the SEC on November 25, 2003.
3.6	By-Laws of the Company	Incorporated by reference to Exhibit 3.2 to the 1994 Registration Statement.
4.1	Specimen Certificate of the Company s common stock	Incorporated by reference to Exhibit 4.1 to the 1994 Registration Statement.
4.2	Form of Underwriter s common stock purchase warrant	Incorporated by reference to Exhibit 4.2 to the 1994 Registration Statement.
4.3	1994 Stock Option Plan	Incorporated by reference to Exhibit 4.3 to the 1994 Registration Statement.
4.4	Form of Incentive Stock Option Agreement	Incorporated by reference to Exhibit 4.4 to the 1994 Registration Statement.
4.5	1994 Non-Employee Director Stock Option Plan	Incorporated by reference to Exhibit 4.5 to the Company s Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995.
4.6	1996 Stock Option Plan	

		Incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-2 (No. 333-37977) declared effective on November 18, 1997.
4.8	2003 Long Term Incentive Plan	Incorporated by reference to Exhibit 4.9 to the Company s Registration Statement on Form S-8 filed with the SEC on April 2, 2004.
4.9	2004 Non-Employee Director Stock Option Plan	Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A for the 2004 Annual Shareholders Meeting.

28

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Number	Description of Exhibit	Method of Filing
4.10	Registration Rights Agreement among the Company and the investors identified on the signature pages thereto, dated as of May 18, 2007	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on May 18, 2007.
4.11	Form of Warrant to be issued by the Company to investors in connection with the May 2007 Private Placement	Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed on May 18, 2007.
10.1	Amended and Restated Employment Agreement, dated as of December 31, 2008, by and between the Company and Selwyn Joffe	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 7, 2009.
10.2	Fourth Amendment to Amended and Restated Credit Agreement, dated as of January 30, 2009, between the Company and Union Bank, N.A.	Filed herewith.
10.3	Revolving Note, dated as of January 30, 2009, executed by the Company in favor of Union Bank, N.A.	Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
31.3	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Filed herewith.

Table of Contents

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	MOTORCAR PARTS OF AMERICA, INC
Dated: February 9, 2009	By: /s/ David Lee David Lee Chief Financial Officer
Dated: February 9, 2009	By: /s/ Kevin Daly Kevin Daly Chief Accounting Officer

30

Table of Contents

Exhibit 10.2

FOURTH AMENDMENT
TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (Fourth Amendment), dated as of January 30, 2009, is made and entered into by and between **MOTORCAR PARTS OF AMERICA, INC.**, a New York corporation (Borrower), and **UNION BANK, N.A.**, a national banking association formerly known as Union Bank of California, N.A. (Bank).

RECITALS:

A. Borrower and Bank are parties to that certain Amended and Restated Credit Agreement dated as of October 24, 2007, as amended by (i) that certain First Amendment dated as of January 14, 2008, (ii) that certain Second Amendment dated as of May 13, 2008 and (iii) that certain Third Amendment dated as of August 19, 2008 (as so amended, the Agreement), pursuant to which Bank agreed to make various credit facilities available to Borrower in the respective amounts provided for therein.

B. Borrower has requested that Bank agree to (i) extend the Revolving Credit Commitment Termination Date from October 1, 2009 to April 15, 2010 and (ii) amend the Agreement in certain other respects. Bank is willing to so extend the Revolving Credit Commitment Termination Date and so amend the Agreements, subject, however, to the terms and conditions of this Fourth Amendment.

AGREEMENT:

In consideration of the above recitals and of the mutual covenants and conditions contained herein, Borrower and Bank agree as follows:

1. **Defined Terms**. Initially capitalized terms used herein which are not otherwise defined herein shall have the meanings assigned thereto in the Agreement.

2. **Amendments to the Agreement**.

(a) The definition of **Revolving Credit Commitment Termination Date** appearing in Section 1 of the Agreement is hereby amended by substituting the date April 15, 2010 for the date October 1, 2009 appearing therein.

(b) Section 2.7(a) of the Agreement, which relates to the unused fee payable by Borrower to Bank in connection with the Revolving Credit Commitment, is hereby amended to read in full as follows:

(a) On the last Business Day of each fiscal quarter of each fiscal year of Borrower and its Subsidiaries, and on the Revolving Credit Commitment Termination Date, Borrower shall pay to Bank a fee in respect of the Revolving Credit Commitment equal to (i) one-half of one percent (1/2 of 1%) per annum of the average daily unutilized amount of the Revolving Credit Commitment during such fiscal quarter, in the event that the Leverage Ratio as of the last day of the immediately preceding fiscal

Table of Contents

quarter was greater than or equal to 1.50 to 1.00 and (ii) three-eighths of one percent (3/8 of 1%) per annum of the average daily unutilized amount of the Revolving Credit Commitment during such fiscal quarter, in the event that the Leverage Ratio as of the last day of the immediately preceding fiscal quarter was less than 1.50 to 1.00.

3. **Effectiveness of this Fourth Amendment.** This Fourth Amendment shall become effective as of the date hereof when, and only when, Bank shall have received all of the following, in form and substance satisfactory to Bank:

(a) A counterpart of this Fourth Amendment, duly executed by Borrower:

(b) A replacement Revolving Note, on Bank s standard form therefor, in the principal amount of Forty Million Dollars ($40,000,000), duly executed by Borrower;

(c) An Authorization to Disburse, on Bank s standard form therefor, duly executed by Borrower, authorizing Bank to disburse the proceeds of advances under the replacement Revolving Note as provided for in the Agreement, as amended hereby;

(d) An amendment fee in the sum of Fifty Thousand Dollars ($50,000); provided, however, that in the event that (i) Bank, in its sole and absolute discretion, agrees to extend the Revolving Credit Commitment Termination Date beyond the Revolving Credit Commitment Termination Date provided for in this Fourth Amendment and (ii) Borrower and Bank enter into an appropriate amendment to the Agreement providing for such extension on or before the date that is ninety (90) days after the effective date of this Fourth Amendment, then Twenty-Five Thousand Dollars ($25,000) of the aforementioned amendment fee will be applied to the fees otherwise payable by Borrower to Bank in connection with that subsequent amendment to the Agreement;

(e) A legal documentation fee in the sum of Six Hundred Dollars ($600), which legal documentation fee shall be non-refundable; and

(f) Such other documents, instruments or agreements as Bank may reasonably deem necessary in order to effect fully the purposes of this Fourth Amendment.

Table of Contents

4. **Ratification**.

(a) Except as specifically amended hereinabove, the Agreement shall remain in full force and effect and is hereby ratified and confirmed; and

(b) Upon the effectiveness of this Fourth Amendment, each reference in the Agreement to this Agreement , hereunder , herein , hereof , or words of like import referring to the Agreement shall mean and be a reference to the Agreement, as amended by this Fourth Amendment, and each reference in the Agreement to the Revolving Note or words of like import referring to the Revolving Note shall mean and be a reference to the replacement Revolving Note issued by Borrower in favor of Bank pursuant to this Fourth Amendment.

5. **Representations and Warranties**. Borrower represents and warrants as follows:

(a) Each of the representations and warranties contained in Section 5 of the Agreement, as amended hereby, is hereby reaffirmed as of the date hereof, each as if set forth herein;

(b) The execution, delivery and performance of this Fourth Amendment and the execution and delivery of the replacement Revolving Note provided for hereinabove are within Borrower s corporate powers, have been duly authorized by all necessary corporate action, have received all necessary approvals, if any, and do not contravene any law or any contractual restriction binding on Borrower;

(c) This Fourth Amendment is, and the replacement Revolving Note provided for hereinabove when executed and delivered for value received shall be, the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms; and

(d) No event has occurred and is continuing or would result from this Fourth Amendment which constitutes an Event of Default under the Agreement, or would constitute an Event of Default but for the requirement that notice be given or time elapse, or both.

6. **Governing Law**. This Fourth Amendment shall be deemed a contract under and subject to, and shall be construed for all purposes and in accordance with, the laws of the State of California.

7. **Counterparts**. This Fourth Amendment may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same agreement.

WITNESS the due execution hereof as of the date first above written.

Borrower

MOTORCAR PARTS OF AMERICA, INC.

By: /s/ Selwyn H. Joffe
Selwyn H. Joffe
Chairman, President and
Chief Executive Officer

Bank

UNION BANK, N.A.

By: /s/ Cary L. Moore
Cary L. Moore
Senior Vice President

Exhibit 10.3

REVOLVING NOTE

Borrower s Name: Motorcar Parts of America, Inc.

Borrower s Address:	Office: #30361	Loan Number:
2929 California Avenue Torrance, California 90503		639-182-630-8
	Termination Date:	Amount:
	April 15, 2010	$40,000,000

$40,000,000 Date: January 30, 2009

FOR VALUE RECEIVED, on April 15, 2010 (the Revolving Credit Commitment Termination Date), the undersigned (Borrower) promises to pay to the order of **UNION BANK, N.A.**, a national banking association formerly known as Union Bank of California, N.A. (Bank), as indicated below, the principal sum of Forty Million Dollars ($40,000,000), or so much thereof as may be disbursed under the Credit Agreement (as such term is defined hereinbelow), together with interest on the balance of such principal from time to time outstanding, at the per annum rate or rates and at the times set forth below. This Revolving Note (Note) is the replacement Revolving Note referred to in the Credit Agreement (as such term is defined hereinbelow) and is governed by the terms and conditions thereof. Initially capitalized terms used herein which are not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

1. INTEREST PAYMENTS. Borrower shall pay interest on the first day of each month, commencing February 1, 2009. Should interest not be paid when due, it shall become part of the principal and bear interest as herein provided. All computations of interest under this Note shall be made on the basis of a year of 360 days, for actual days elapsed. If any interest rate defined in this Note ceases to be available from Bank for any reason, then said interest rate shall be replaced by the rate then offered by Bank, which, in the sole discretion of Bank, most closely approximates the unavailable rate.

(a) BASE INTEREST RATE. At Borrower s option, amounts outstanding hereunder in increments of at least Five Hundred Thousand Dollars ($500,000) shall bear interest at a rate, based on an index selected by Borrower, equal to Bank s LIBOR Rate for the Interest Period selected by Borrower plus the Applicable Margin.

No Base Interest Rate may be changed, altered or otherwise modified until the expiration of the Interest Period selected by Borrower. The exercise of interest rate options by Borrower shall be as recorded in Bank s records, which records shall be prima facie evidence of the amount borrowed under either interest rate option and the interest rate; provided, however, that the failure of Bank to make any such notation in its records shall not discharge Borrower from its obligation to repay in full with interest all amounts borrowed hereunder. In no event shall any Interest Period extend beyond the Revolving Credit Commitment Termination Date.

Table of Contents

To exercise this option, Borrower may, from time to time with respect to principal outstanding on which the Base Interest Rate is not accruing, and on the expiration of any Interest Period with respect to principal outstanding on which the Base Interest Rate has been accruing, select an index offered by Bank for a Base Interest Rate Loan and an Interest Period by telephoning an authorized lending officer of Bank located at the banking office identified below prior to 10:00 a.m., Pacific time, on any Business Day and advising that lending officer of the selected index, the Interest Period and the Origination Date selected (which Origination Date, for a Base Interest Rate Loan based on the LIBOR Rate, shall follow the date of such selection by no more than two (2) Business Days).

Bank will mail a written confirmation of the terms of the selection to Borrower promptly after the selection is made. Failure to send such confirmation shall not affect Bank s rights to collect interest at the rate selected. If, on the date of the selection, the index is unavailable for any reason, the selection shall be void. Bank reserves the right to fund the principal from any source of funds, notwithstanding any Base Interest Rate selected by Borrower.

(b) VARIABLE INTEREST RATE. All principal outstanding hereunder which is not bearing interest at a Base Interest Rate shall bear interest at a rate per annum equal to the Reference Rate plus the Applicable Margin, which rate shall vary as and when the Reference Rate or the Applicable Margin, as the case may be, changes.

At any time prior to the Revolving Credit Commitment Termination Date, subject to the provisions of paragraph 4 of this Note, Borrower may borrow, repay and reborrow hereon so long as the total outstanding at any one time does not exceed the maximum principal amount of this Note. Borrower shall pay all amounts due under this Note in lawful money of the United States at Bank s San Fernando Valley Commercial Banking Office, or such other office as may be designated by Bank, from time to time.

2. LATE PAYMENTS. If any payment required by the terms of this Note shall remain unpaid ten days after same is due, at the option of Bank, Borrower shall pay a fee of $100 to Bank.

3. INTEREST RATE FOLLOWING DEFAULT. In the event of default, at the option of Bank, and, to the extent permitted by law, interest shall be payable on the outstanding principal under this Note at a per annum rate equal to three percent (3%) in excess of the applicable interest rate provided for in paragraph 1(b) of this Note, calculated from the date of default until all amounts payable under this Note are paid in full.

4. PREPAYMENT.

(a) Amounts outstanding under this Note bearing interest at a rate based on the Reference Rate may be prepaid in whole or in part at any time, without penalty or premium. Borrower may prepay amounts outstanding under this Note bearing interest at the Base Interest Rate in whole or in part, provided that Borrower has given Bank not less than five (5) Business Days prior written notice of Borrower s intention to make such prepayment and pays to Bank the prepayment fee due as a result. The prepayment fee shall also be paid if Bank, for any other reason, including acceleration or foreclosure, receives all or any portion of principal bearing interest at the Base Interest Rate prior to its scheduled payment date. The prepayment fee shall be an amount equal to the present value of the product of: (i) the difference (but not less than zero) between (a) the Base Interest Rate applicable to the principal amount which is being prepaid and (b) the return which Bank could obtain if it used the amount of such prepayment of principal to purchase at bid price regularly quoted securities issued by the United States having a maturity date most closely coinciding with the relevant Base Rate Maturity Date and such securities were held by Bank until the relevant Base Rate Maturity Date (Yield Rate); (ii) a fraction, the numerator of which is the number of days in the period between the date of prepayment and the relevant Base Rate Maturity Date and the denominator of which is 360; and (iii) the amount of the principal so prepaid (except in the event that principal payments are required and have been made as scheduled under the terms of the Base Interest Rate Loan being prepaid, then an amount equal to the lesser of (A) the amount prepaid or (B) fifty percent (50%) of the sum of (1) the amount prepaid and (2) the amount of principal scheduled under the terms of the Base Interest Rate Loan being prepaid to be outstanding at the relevant Base Rate Maturity Date). Present value under this Note is determined by discounting the above product to present value using the Yield Rate as the annual discount factor.

(b) In no event shall Bank be obligated to make any payment or refund to Borrower, nor shall Borrower be entitled to any setoff or other claim against Bank, should the return which Bank could obtain under the above prepayment formula exceed the interest that Bank would have received if no prepayment had occurred. All prepayments shall include payment of accrued interest on the principal amount so prepaid and shall be applied to payment of interest before application to principal. A determination by Bank as to the prepayment fee amount, if any, shall be conclusive.

(c) Bank shall provide Borrower a statement of the amount payable on account of prepayment. Borrower acknowledges that (i) Bank establishes a Base Interest Rate upon the understanding that it apply to the Base Interest Rate Loan for the entire Interest Period, and (ii) Bank would not lend to Borrower without Borrower s express agreement to pay Bank the prepayment fee described above.

Borrower Initial Here: /s/ SHJ__________

5. DEFAULT AND ACCELERATION OF TIME FOR PAYMENT. Default shall mean the occurrence of an Event of Default under and as defined in the Credit Agreement. Upon the occurrence of any such Event of Default, Bank, in its discretion, may cease to advance funds hereunder and may declare all obligations under this Note immediately due and payable; provided, however, that upon the occurrence of an Event of Default under Section 8.1(d), (e) or (f) of the Credit Agreement, all outstanding principal and accrued but unpaid interest hereunder shall automatically become immediately due and payable.

6. ADDITIONAL AGREEMENTS OF BORROWER. If any amounts owing under this Note are not paid when due, Borrower promises to pay all costs and expenses, including reasonable attorneys fees (including the allocated costs of Bank s in-house counsel and legal staff) incurred by Bank in the collection or enforcement of any amount outstanding hereunder. Borrower and any Obligor, for the maximum period of time and the full extent permitted by law, (a) waive diligence, presentment, demand, notice of nonpayment, protest, notice of protest, and notice of every kind; (b) waive the right to assert the defense of any statute of limitations to any debt or obligation hereunder; and (c) consent to renewals and extensions of time for the payment of any amounts due under this Note. The receipt of any check or other item of payment by Bank, at its option, shall not be considered a payment on account until such check or other item of payment is honored when presented for payment at the drawee bank. Bank may delay the credit of such payment based upon Bank s schedule of funds availability, and interest under this Note shall accrue until the funds are deemed collected. In any action brought under or arising out of this Note, Borrower and any Obligor, including their successors and assigns, hereby consent to the jurisdiction of any competent court within the State of California, as provided in any

Table of Contents

alternative dispute resolution agreement executed between Borrower and Bank, and consent to service of process by any means authorized by said state s law. The term Bank includes, without limitation, any holder of this Note. This Note shall be construed in accordance with and governed by the laws of the State of California. This Note hereby incorporates any alternative dispute resolution agreement previously, concurrently or hereafter executed between Borrower and Bank.

7. DEFINITIONS. As used herein, the following terms shall have the meanings respectively set forth below:

Applicable Margin shall mean, (a) in the case of a Base Interest Rate Loan, (i) two and one-half percent (2-1/2%) per annum, if the Leverage Ratio as of the last day of the most recent fiscal quarter in respect of which Borrower has furnished a Financial Statement (as such term is defined in the Credit Agreement) to Bank as required by the Credit Agreement (the Reported Period) is greater than or equal to 1.50 to 1.00 or (ii) two and one-quarter percent (2-1/4%) per annum, if the Leverage Ratio as of the last day of the most recent Reported Period is less than 1.50 to 1.00, and (b) in the case of a Reference Rate Loan, (i) one and one-quarter percent (1-1/4%) per annum, if the Leverage Ratio as of the last day of the most recent Reported Period is greater than or equal to 1.50 to 1.00 or (ii) one percent (1%) per annum, if the Leverage Ratio as of the last day of the most recent Reported Period is less than 1.50 to 1.00. A change to the Applicable Margin resulting from a change in the Leverage Ratio shall be implemented quarterly on a prospective basis (1) for each Base Interest Rate Loan, on the first day of any Interest Period and (2) for each Reference Rate Loan, on the first day of the calendar month after the date of delivery by Borrower to Bank of the Financial Statements evidencing the need for an adjustment. The failure of Borrower to deliver to Bank any of the Financial Statements in accordance with the Credit Agreement shall, in addition to any other remedy provided for in the Credit Agreement, result in an increase in the Applicable Margin to the highest level set forth in this definition. If an Event of Default has occurred and is continuing at the time any reduction in the Applicable Margin is to be implemented, no reduction may occur until the first day of the calendar month following the date on which such Event of Default is cured or waived by Bank. **Base Interest Rate** shall mean a rate of interest based on the LIBOR Rate.

Base Interest Rate Loan shall mean amounts outstanding under this Note that bear interest at the Base Interest Rate.

Base Rate Maturity Date shall mean the last day of the Interest Period with respect to principal outstanding under a Base Interest Rate Loan. **Business Day** shall mean a day on which Bank is open for the funding of corporate loans, and, with respect to the rate of interest based on the LIBOR Rate, on which dealings in U.S. Dollar deposits outside of the United States may be carried on by Bank. **Credit Agreement** shall mean that certain Amended and Restated Credit Agreement dated as of October 24, 2007, by and between Borrower and Bank, as amended and as at any time further amended, supplemented or otherwise modified or restated. **Interest Period** shall mean, with respect to any Base Interest Rate Loan, any calendar period of one (1) month, three (3) months, six (6) months, nine (9) months or, subject to availability, twelve (12) months. In determining an Interest Period, a month means a period that starts on one Business Day in a month and ends on and includes the day preceding the numerically corresponding day in the next month. For any month in which there is no such numerically corresponding day, then as to that month, such day shall be deemed to be the last calendar day of such month. Any Interest Period which would otherwise end on a non-Business Day shall end on the next succeeding Business Day, unless that is the first day of a month, in which event such Interest Period shall end on the next preceding Business Day. In no event shall any Interest Period extend beyond the Revolving Credit Commitment Termination Date. **Leverage Ratio** shall have the meaning assigned to such term in the Credit Agreement. **LIBOR Rate** shall mean the greater of (a) one percent (1%) per annum or (b) a per annum rate of interest (rounded upward, if necessary, to the nearest 1/100 of 1%) at which Dollar deposits, in immediately available funds and in lawful money of the United States would be offered to Bank, outside of the United States, for a term coinciding with the Interest Period selected by Borrower and for an amount equal to the amount of principal covered by Borrower s interest rate selection, plus,

Table of Contents

in the case of either subsection (a) or (b) of this definition, Bank s costs, including the cost, if any, of reserve requirements. **Obligor** shall mean Borrower and any guarantor, co-maker, endorser or any person or entity other than Borrower providing security for this Note under any security agreement, guaranty or other agreement between Bank and such guarantor, co-maker, endorser or person or entity, including their successors and assigns. **Origination Date** shall mean the first day of any Interest Period. **Reference Rate** shall mean the rate announced by Bank from time to time at its corporate headquarters as its Reference Rate. The Reference Rate is an index rate determined by Bank from time to time as a means of pricing certain extensions of credit and is neither directly tied to any external rate of interest or index nor necessarily the lowest rate of interest charged by Bank at any given time. **Reference Rate Loan** shall mean amounts outstanding under this Note that bear interest at the Reference Rate.

MOTORCAR PARTS OF AMERICA, INC.

By /s/ Selwyn H. Joffe
Selwyn H. Joffe
Chairman, President and
Chief Executive Officer

Table of Contents

Exhibit 31.1

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
CERTIFICATIONS

I, Selwyn Joffe, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

5. The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: February 9, 2009	/s/ Selwyn Joffe Selwyn Joffe Chief Executive Officer

Table of Contents

Exhibit 31.2

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
CERTIFICATIONS

I, David Lee, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

d. Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: February 9, 2009	/s/ David Lee David Lee Chief Financial Officer

Table of Contents

Exhibit 31.3

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
CERTIFICATIONS

I, Kevin Daly, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

d. Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5. The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: February 9, 2009	/s/ Kevin Daly Kevin Daly Chief Accounting Officer

Table of Contents

Exhibit 32.1

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
CERTIFICATE OF CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND CHIEF ACCOUNTING OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the Company) on Form 10-Q for the quarter ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the Quarterly Report), I, Selwyn Joffe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Selwyn Joffe

Selwyn Joffe
Chief Executive Officer
February 9, 2009

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the Company) on Form 10-Q for the quarter ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the Quarterly Report), I, David Lee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

/s/ David Lee

David Lee
Chief Financial Officer
February 9, 2009

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the Company) on Form 10-Q for the quarter ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the Quarterly Report), I, Kevin Daly, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin Daly

Kevin Daly
Chief Accounting Officer
February 9, 2009

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