MOTORCAR PARTS AMERICA INC
Form 10-K/A
February 13, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
(Amendment No. 1)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED MARCH 31, 2006

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

Commission File No. 0-23538
MOTORCAR PARTS OF AMERICA, INC.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: (310) 212-7910
Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark 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 o No þ
Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
As of September 30, 2005, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $61,455,000 based on the closing inter-dealer quotation as tracked on the Pink Sheets.
There were 8,324,455 shares of Common Stock outstanding at July 10, 2006.

DOCUMENTS INCORPORATED BY REFERENCE: None

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EXPLANATORY NOTE

Explanatory Note: This Form 10-K/A amends our report on Form 10-K for the fiscal year ended March 31, 2006 to restate our consolidated financial statements for the fiscal years ended March 31, 2006, 2005 and 2004 that were included in that Form 10-K. This restatement is being made to correct errors which occurred when (i) we incorrectly recorded a duplicative entry that continued to recognize a gross profit impact resulting from the accrual for certain cores authorized to be returned, but still in-transit to us from our customers, (ii) we incorrectly recorded core charge revenue when the amount of revenue was not fixed and determinable and (iii) we did not appropriately accrue losses for all probable customer payment discrepancies. The impact of the duplicative entry (i) above on the accumulated deficit at March 31, 2003 is a decrease of $865,000. The revenue entry (ii) and customer payment discrepancies entry (iii) above did not impact periods prior to April 1, 2003. We intend to file a Form 10-Q/A to restate the interim financial information contained in Form 10-Q for the period ended June 30, 2006 and will restate financial statements for other interim periods as we file Forms 10-Q in the future. Management believes this Form 10-K/A and its planned future filings are appropriate. However, we continue to evaluate this conclusion regarding filings for periods prior to March 31, 2006.

Except as required to reflect the effects of these restatements, no attempt has been made in this Form 10-K/A to modify or update other disclosures presented in the original report on Form 10-K. Accordingly, this Form 10-K/A, including the financial statements and notes thereto included herein, generally do not reflect events occurring after the date of the original filing of the Form 10-K or modify or update those disclosures affected by subsequent events. Consequently, all other information not affected by the restatement is unchanged by this Form 10-K/A and reflects the disclosures made at the time of the original filing of the Form 10-K on July 13, 2006. For a description of subsequent events, this Form 10-K/A should be read in conjunction with our filings made subsequent to July 13, 2006, including our report on Form 10-Q/A for the quarter ended June 30, 2006 and each of our reports on Form 8-K filed since July 13, 2006.

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MOTORCAR PARTS OF AMERICA, INC.

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

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available free of charge to the public over the Internet at the SEC s website at *www.sec.gov*. Our SEC filings are also available on our website *www.motorcarparts.com.* You may also read and copy any document we file with the SEC at its public reference rooms in Washington, D.C., New York, NY and Chicago, IL. Please call the SEC at (800) SEC-0330 for further information on the public reference rooms.

PART II

Item 6 Selected Financial Data

The following selected historical consolidated financial information as of and for each of the years ended March 31, 2006, 2005, 2004, 2003 and 2002, has been derived from and should be read in conjunction with our consolidated financial statements and related notes thereto. Income statement data for the fiscal years ended March 31, 2006, 2005, 2004, 2003 and 2002 have been restated. Balance sheet data as of March 31, 2006, 2005, 2004, 2003 and 2002 have also been restated. Management believes this Form 10-K/A and its planned future filings are appropriate. However, we continue to evaluate this conclusion regarding filings for periods prior to March 31, 2006.

	Fiscal Year Ended March 31,				
Income Statement Data (as restated)	**2006**	**2005**	**2004**	**2003**	**2002**
Net sales	$ 108,397,000	$ 96,719,000	$ 80,349,000	$ 83,969,000	$ 87,059,000
Operating income	6,298,000	13,438,000	9,232,000	7,521,000	10,962,000
Net income	2,085,000	7,281,000	5,400,000	10,994,000	11,499,000
Basic net income per share	$ 0.25	$ 0.89	$ 0.67	$ 1.38	$ 1.59
Diluted net income per share	$ 0.25	$ 0.85	$ 0.64	$ 1.29	$ 1.48

	As of March 31,				
Balance Sheet Data (as restated)	**2006**	**2005**	**2004**	**2003**	**2002**
Total assets	$101,136,000	$85,647,000	$62,150,000	$57,604,000	$69,250,000
Working capital	46,430,000	44,266,000	36,272,000	26,455,000	5,672,000
Line of credit	6,300,000		3,000,000	9,932,000	28,029,000
Capital lease obligations less current portion	4,857,000	938,000	1,247,000	209,000	915,000
Shareholders equity	51,595,000	48,670,000	40,835,000	35,775,000	24,777,000

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

Disclosure Regarding Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements with respect to our future performance that involve risks and uncertainties. Various factors could cause actual results to differ materially from those projected in such statements. These factors include, but are not limited to: concentration of sales to certain customers, changes in our relationship with any of our customers, including the increasing customer pressure for lower prices and more favorable payment and other terms, the increasing strain on our cash position, our ability to achieve positive cash flows from operations, potential future changes in our accounting policies that may be made as a result of an SEC review of our previously filed public reports, restatements of our previously issued financial statements to correct errors in the application of generally accepted accounting principles, 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, difficulty in obtaining component parts or increases in the costs of those parts, political or economic instability in any of the foreign

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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

Sales in the retail and traditional markets in our product category have remained relatively steady in recent years. Both markets continue to experience consolidation. We make it a priority to focus our efforts on those customers we believe will be successful in the industry and will provide a strong distribution base for our future. We operate in a very competitive environment, where our customers expect us to provide quality products, in a timely manner at a low cost. To meet these expectations while maintaining or improving gross margins, we have focused on ongoing changes and improvements to make our remanufacturing processes more efficient. Our movement to lean manufacturing cells, increased production in Malaysia, establishment of a production facility in northern Mexico, utilization of advanced inventory tracking technology and development of in-store testing equipment reflect this focus. During fiscal 2006, we opened our new remanufacturing facility in Mexico. We believe that production in Mexico lowers our production costs now that we have achieved an efficient level of production and absorbed the training time, cell transfer and other start-up production costs. As we ramped up production in Mexico earlier in fiscal 2006, however, these production inefficiencies and start-up costs adversely impacted our profit margins. In addition, we have experienced and expect to continue to experience an adverse impact on our profit margins as duplicate domestic overhead costs are slowly pared down.

Our sales are concentrated among a very few customers, and these key customers regularly seek more favorable pricing, marketing allowances, delivery and payment terms as a condition to the continuation of our existing business or an expansion of a particular customer s business.

To partially offset some of these customer demands, we have sought to position ourselves as a preferred supplier by working closely with our key customers to satisfy their particular needs and entering into longer-term preferred supplier agreements. While these longer-term agreements strengthen our customer relationships and improve our overall business base, they require a substantial amount of working capital to meet ramped up production demands and typically include marketing and other allowances that meaningfully limit the near-term revenues and associated cash flow from these new or expanded arrangements.

To grow our revenue base, we have been seeking to broaden our retail distribution network and have expanded our reach into the traditional warehouse and professional installer markets. We continue to expand our product offerings to respond to changes in the marketplace, including those related to the increasing complexity of automotive electronics.

A significant amount of management s time at the start of the fiscal year 2006 was focused on responding to the SEC s questions and comments with respect to our previously filed financial reports, and we have incurred significant general and administrative expenses in connection with those efforts and the associated restatement of our financial statements. We believe we have now substantially resolved the SEC s inquiries concerning our previously filed public reports (although the SEC has not provided us with any confirmation in this regard).

General

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

Critical Accounting Policies

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

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

Revenue Recognition

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

Persuasive evidence of an arrangement exists,

Delivery has occurred or services have been rendered,

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

Collectibility is reasonably assured.

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

Revenue Recognition; Net-of-Core-Value Basis

The price of a finished product sold to customers is generally comprised of separately invoiced amounts for the core included in the product (core value) and for the value added by remanufacturing (unit value). The unit value is recorded as revenue in accordance with our net-of-core-value revenue recognition policy. This revenue is recorded based on our then current price list, net of applicable discounts and allowances. We do not recognize the core value as revenue when the finished products are sold.

Stock Adjustments; General Right of Return

Under the terms of certain agreements with our customers and industry practice, our customers from time to time are allowed stock adjustments when their inventory quantity of certain product lines exceeds the anticipated quantity of sales to end-user customers. Stock adjustment returns are not recorded until they are authorized by us and they do not occur at any specific time during the year. We provide for a monthly allowance to address the anticipated impact of stock adjustments based on customer s inventory levels, movement and timing of stock adjustments. Our estimate of the impact on revenues and cost of goods sold of future inventory overstocks is made at the time revenue is recognized for individual sales and is based on the following factors:

The amount of the credit granted to a customer for inventory overstocks is negotiated between our customers and us and may be different than the total sales value of the inventory returned based on our price lists;

The product mix of anticipated inventory overstocks often varies from the product mix sold; and

The standard costs of inventory received will vary based on the part numbers received.

In addition to stock adjustment returns, we also allow our customers to return goods to us that their end-user customers have returned to them. This general right of return is allowed regardless of whether the returned item is defective. We seek to limit the aggregate of customer returns, including slow moving and other inventory, to 20% of unit sales. We provide for such anticipated returns of inventory in accordance with Statement of Financial Accounting Standards No. 48, Revenue Recognition When Right of Return Exists by reducing revenue and cost of sales for the unit value based on a historical return analysis and information obtained from customers about current stock levels.

Core Inventory Valuation

We value cores at the lower of cost or market. To take into account the seasonality of our business, the market value of cores is recalculated at March and September of each year. The semi-annual recalculation in March reflects the higher seasonal demand which typically precedes the warm summer months and the semi-annual recalculation in September reflects the lower seasonal demand which normally precedes the colder months. Because March generally represents the high point in the core broker market, we revalue cores using the high core broker price. In September, we revalue our cores to high core broker price plus a factor to allow for the temporary decrease in market value during the slower season.

Accounting for Under Returns of Cores

Based on our experience, contractual arrangements with customers and inventory management practices, we receive and purchase a used but remanufacturable core from customers for more than 90% of the remanufactured alternators or starters we sell to customers. However, both the sales and receipt of cores throughout the year are seasonal with the receipt of cores lagging sales. Our customers typically return less cores during the months of April through September (the first six months of the fiscal year) and return more cores during the months of October through March (the last six months of the fiscal year). In accordance with our net-of-core-value revenue recognition policy, when we ship a product, we record an amount to the inventory unreturned account for the standard cost of the core expected to be returned. We generally limit core returns to the number of similar cores previously shipped to each customer.

When we ship a product, we invoice certain customers for the core portion of the product at full sales price. For cores invoiced at full sales price, we recognize core charge revenue based upon an estimate of the rate at which our customers will pay cash for cores in lieu of returning cores for credits.

Sales Incentives

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

Accounting for Deferred Taxes

The valuation of deferred tax assets and liabilities is based upon management s estimate of current and future taxable income using the accounting guidance in SFAS 109, Accounting for Income Taxes. For fiscal 2006 and 2005 management determined that there was no valuation allowance necessary for deferred tax assets.

Financial Risk Management and Derivatives

We are exposed to market risk from material movements in foreign exchange rates between the U.S. dollar and the currencies of the foreign countries in which we operate. Our primary risk relates to changes in the rates between the U.S. dollar and the Mexican peso associated with our growing operations in Mexico. To mitigate the risk of currency fluctuation between the U.S. dollar and the Mexican peso, in August 2005 we began to enter into forward foreign exchange contracts to exchange U.S. dollars for Mexican pesos. The extent to which we use forward foreign exchange contracts is periodically reviewed in light of our estimate of market conditions and the terms and length of anticipated requirements. The use of derivative financial instruments allows us to reduce our exposure to the risk that the eventual net cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in the exchange rates. We do not engage in currency speculation or hold or issue financial instruments for trading purposes. These contracts expire in a year or less. Any changes in fair values of foreign exchange contracts are accounted for as an increase or offset to general and administrative expenses in current period earnings. For fiscal 2006, the net effect of the foreign exchange contracts was to reduce general and administrative expenses by approximately $36,000.

Results of Operations

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

	Fiscal Year Ended March 31,		
(As Restated)	**2006**	**2005**	**2004**
Gross profit	23.4%	29.6%	26.6%
Cash flow from operations	$(11,040,000)	$4,447,000	$15,152,000
Finished goods turnover **(1)**	2.35	3.00	4.87
Finished goods turnover, excluding POS inventory **(2)**	4.42	5.23	N/A
Return on equity **(3)**	4.3%	17.8%	15.1%

(1)

Finished goods turnover is calculated by dividing the cost of goods sold for the annual periods by the average of the finished goods inventory values at the beginning and the end of each of the annual periods. We believe that this provides a useful measure of our ability to turn production into revenue.

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(2) Finished goods turnover, excluding POS inventory is calculated on the same basis as in note (2) except that pay-on-scan inventory is excluded from the beginning and ending finished good inventory values averaged. We believe that this provides a useful measure of our ability to manage the inventory which is within our physical control.

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

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

	Fiscal Year Ended March 31,		
	2006	**2005**	**2004**
Net Sales	100.0%	100.0%	100.0%
Cost of Goods Sold	76.6%	70.4%	73.4%
Gross Profit	23.4%	29.6%	26.6%
General and Administrative Expenses	13.2%	12.0%	11.9%
Sales and Marketing Expenses	3.3%	2.9%	2.5%
Research and Development	1.1%	0.8%	0.7%
Operating Income	5.8%	13.9%	11.5%

Interest Expense, net of Interest Income	2.7%	1.8%	1.2%
Income Before Income Taxes	3.1%	12.1%	10.3%
Provision for Income Tax	1.2%	4.6%	3.6%
Net Income	1.9%	7.5%	6.7%

Fiscal 2006 compared to Fiscal 2005

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

Cost of Goods Sold. Cost of goods sold as a percentage of net sales increased to 76.6% in fiscal 2006 from 70.4% in fiscal 2005 causing a decrease in the gross profit percentage to 23.4% in fiscal 2006 from 29.6% in fiscal 2005. Approximately 4.3% of the decrease in the gross profit percentage resulted from the $6,565,000 increase in discounts and allowances, which reduce reported sales but do not impact the cost of goods associated with those sales. In addition, facility start-up costs of $699,000 related to our new production location in Tijuana, Mexico and our new distribution center in Nashville, Tennessee contributed to this decrease. These decreases were partially offset by higher unreturned core revenue, which has a higher margin than unit sales, and higher royalty income, which has no associated cost of sales.

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

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

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

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

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

Fiscal 2005 compared to Fiscal 2004

Net Sales. Our net sales for fiscal 2005 were $96,719,000, an increase of $16,370,000 or 20.4 % over fiscal year 2004 net sales of $80,349,000. In addition to increased sales to existing customers, net sales was also positively impacted by a one-time refund of $1,673,000 resulting from a modified arrangement we entered into with a customer in August 2004 that terminated a discount arrangement. In addition, revenues from the under-return of cores by our customers, which are included in net sales, increased by $2,018,000 to $5,046,000 for fiscal year 2005 from $3,028,000 for fiscal 2004. The increase in sales was partially offset by the increase in all marketing allowances, which are accounted for as a reduction to sales, from $7,030,000 in fiscal 2004 to $11,996,000 in fiscal 2005.

The increase in net sales for the year ended March 31, 2005, did not fully reflect the increased volume in products that we have shipped to our largest customer on a pay-on-scan (POS) basis. These shipments resulted in an increase in our pay-on-scan inventory from $2,346,000 at March 31, 2004 to $17,036,000 at March 31, 2005.

Cost of Goods Sold. Cost of goods sold as a percentage of net sales decreased from 73.4% in fiscal 2004 to 70.4% in fiscal 2005. This percentage was positively impacted by the one-time refund of $1,673,000 noted above, for which there was no cost of goods sold, and higher revenues from core under-returns, which have a higher margin than unit sales. Also, our production in Malaysia increased from 9% of total units produced in fiscal 2004 to 15% of total units produced in fiscal 2005. Because overseas remanufacturing has lower production costs compared to domestic production, this increase in overseas production helped reduce our cost of goods sold as a percentage of net sales during fiscal 2005 compared to fiscal 2004. These positive developments were partially offset by higher per unit remanufacturing costs associated with the ramped up production at our Torrance facility that was made to meet demands associated with the new business we received.

General and Administrative. Our general and administrative expense for fiscal 2005 was $11,622,000, which represents an increase of $1,993,000 or 20.7%, from fiscal 2004 of $9,629,000. This increase is principally due to an increase of $1,310,000 in outside professional and consulting fees associated with the SEC s review of our SEC filings and the related restatement of our financial statements, an increase of approximately $809,000 primarily related to higher staffing levels required by new corporate initiatives, approximately $694,000 in expenses we incurred in fiscal 2005 to establish our remanufacturing facility in Mexico, an increase of $140,000 related to the information technology and operating system repairs and maintenance, and approximately $137,000 primarily related to the acquisition of additional software licenses. These increases were partially offset by a $410,000 decrease in the expenses associated with our indemnification of Richard Marks, a former officer, in connection with the SEC s and the U.S. Attorney s investigations of him. In addition, fiscal 2004 included a $400,000 contract settlement payment to Richard Marks, who at the request of the Board of Directors, submitted his resignation as an Advisor to the Board and the Chief Executive Officer in September 2003.

Sales and Marketing. Our sales and marketing expenses increased by $782,000 or 39.6% to $2,759,000 for fiscal 2005 from $1,977,000 for fiscal 2004. This increase is principally attributable to costs incurred in connection with various marketing initiatives undertaken to strengthen our overall market presence and increase our sales to both the retailers and the traditional warehouse market. These initiatives included an update to, and electronic conversion of, our product catalog, and the development of an interactive website for consumer use. In addition, in November 2003 we hired a new senior sales executive, and related support staff, to target the traditional warehouse market. Though the traditional marketplace now represents only a small portion of our business, management believes the traditional channels represent a growth opportunity for us.

Research and Development. Our research and development expenses increased over the year by $271,000 or 48.0% to $836,000 for fiscal 2005 from $565,000 for fiscal 2004. This increase was primarily attributable to personnel hired to assist with our expanded business.

Interest Expense. For fiscal 2005, interest expense, net of interest income, was $1,692,000. This represents an increase of $761,000 over net interest expense of $931,000 for fiscal 2004. This increase was principally attributable to an increase in short-term interest rates and an increase of $32,220,000 in the amount of accounts receivables that we discounted under our factoring arrangements. This increase was offset by the payoff of the outstanding loan balance under our line of credit in the first quarter of fiscal 2005. Our outstanding loan balance under this line of credit was $3,000,000 as of March 31, 2004. Interest expense is comprised principally of discounts recognized in connection with our receivables discounting arrangements, interest on our line of credit facility and capital leases.

Income Tax. For fiscal 2005 and 2004, we recognized income tax expense of $4,465,000 and $2,901,000, respectively. At March 31, 2005, we had available $2,509,000 of federal carry forwards for income tax purposes.

Liquidity and Capital Resources

We have financed our operations through cash flows from operating activities, the receivable discount programs we have established with two of our customers, a capital financing sale-leaseback transaction with our bank, and the use of our bank credit facility. Our working capital needs have increased significantly in light of the ramped up production demands associated with our new or expanded customer arrangements and the adverse impact that the marketing and other allowances that we have typically granted our customers in connection with these new or expanded relationships have on the near-term revenues and associated cash flow from these arrangements. Since the sales program to one of the world s largest automobile manufacturers under an agreement we signed with this customer during the fourth quarter of fiscal 2005 was not fully launched in the expected timeframe, the inventory buildup we made in connection with this new agreement put an additional strain on our working capital. Because our net operating loss carry forwards for tax purposes have been utilized, we anticipate that our future cash flow will be negatively impacted by our future tax payments. In addition, the costs associated with the establishment of our Mexican facility and the related remanufacturing inefficiencies and duplicative overhead have put an additional strain on our cash position. Finally while our cash position did benefit from the way in which the purchase of the transition inventory associated with our POS arrangement has been structured, as anticipated, satisfaction of the credit due the customer through the issuance of credits against that customer s receivables has most recently had a negative impact on our cash flow. Although we cannot provide assurance, we believe our cash and short term investments on hand, cash flows from operations and the availability under our bank credit facility will be sufficient to satisfy our currently expected working capital needs, capital lease commitments and capital expenditure obligations over the next year. We may however, seek additional financing to pursue future business opportunities.

Working Capital and Net Cash Flow

At March 31, 2006, we had working capital of $46,430,000, a ratio of current assets to current liabilities of 2.1:1 and cash and cash equivalents of $400,000, which compares to working capital of $44,266,000, a ratio of current assets to current liabilities of 2.26:1, and cash and cash equivalents of $6,211,000 at March 31, 2005. Working capital increased primarily due to increases in inventory and unreturned inventory of $15,752,000 and a decrease in credit due customer of $10,750,000 offset by decreases in cash of $5,811,000 and increases in the line of credit of $6,300,000 and accounts payable and accrued liabilities of $8,750,000.

Our net cash used in operating activities was $11,040,000 for fiscal 2006, compared to net cash provided by operations of $4,447,000 for fiscal 2005. The decrease of $15,487,000 from 2005 to 2006 was primarily due to the impact of the POS arrangement on our cash flow. When the arrangement began, the sales of transition inventory exceeded the amount of the credits provided to the customer and resulted in a net cash inflow of $12,543,000 in fiscal 2005. As sales of transition inventory dropped the amount of credits provided to the customer exceeded these sales and resulted in a net cash outflow of $10,750,000 in fiscal 2006. Cash flow from operating activities was also impacted by the decline in our net income from $7,281,000 in fiscal 2005 to $2,085,000 in fiscal 2006.

Inventory was notably impacted by our new long term customer arrangements. Inventory increased by a total of $10,143,000 principally due to increased production to meet the product availability requirements of the new business we obtained during the current fiscal year.

Net accounts receivable decreased by $760,000 as of March 31, 2006 compared to March 31, 2005. The decrease was primarily due to the increases in reserves for stock adjustments and other customer allowances which are netted against accounts receivable.

The increase in our line of credit of $6,300,000 was largely incurred to finance our satisfaction of the POS transition inventory arrangement discussed above.

Accounts payable at March 31, 2006 were $21,882,000 compared to $14,502,000 at March 31, 2005. The $7,380,000 increase in accounts payable is consistent with our increased production in fiscal 2006 to meet the increased sales volumes and the product availability requirements of the new business we realized during fiscal 2006.

Our utilization of federal and state net operating loss carry forwards positively impacted our cash flow by $612,000 during fiscal 2006. At March 31, 2006, we had no remaining net operating loss carry forwards. Because our net operating loss carry forwards for tax purposes have now been fully utilized, we anticipate that our future cash flow will be more significantly impacted by our future tax payments.

We used net cash in investing activities for fiscal 2006, 2005 and 2004. In fiscal 2006, we obtained net cash from a capital lease agreement with our bank. This agreement provided us with $4,110,000 of equipment financing, payable in monthly installments of $81,000 over the 60 month term of the lease agreement, with a one dollar purchase option at the end of the lease term. This financing arrangement has an effective interest rate of 6.75%. The proceeds were used to pay down the line of credit, which was the source of cash for capital expenditures of $4,372,000 during fiscal 2006. We expect to use cash in investing activities for the foreseeable future.

Our net cash in flows from financing activity for fiscal 2006 consisted primarily of borrowings under our line of credit totaling $6,300,000 and proceeds from the exercise of stock options of $286,000. These inflows were offset by payments on our capital lease obligations of $1,002,000.

Capital Resources

Line of Credit

In April 2006, we entered into an amended credit agreement with our bank that increased our credit availability from $15,000,000 to $25,000,000, extended the expiration date of the credit facility from October 2, 2006 to October 1, 2008, and changed the manner in which the margin over the benchmark interest rate is calculated. Starting June 30, 2006, the interest rate will fluctuate based upon the (i) bank s reference rate or (ii) LIBOR, as adjusted to take into account any bank reserve requirements, plus a margin dependant upon the leverage ratio as noted below:

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

The bank holds a security interest in substantially all of our assets. As of March 31, 2006, we had reserved $4,364,000 of our line for standby letters of credit for worker s compensation insurance, and $6,300,000 was outstanding under this revolving line of credit.

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

Under the amended credit agreement, we have also agreed to pay a quarterly fee, commencing on June 30, 2006 of 0.375% per year if the leverage ratio as of the last day of the previous fiscal quarter was greater than or equal to 1.50 to 1.00 or 0.25% per year if the leverage ratio is less than 1.50 to 1.00 as of the last day of the previous fiscal quarter on any difference between the $25,000,000 commitment and the average of the daily outstanding amount of credit we actually use during each quarter. A fee of $125,000 was charged by the bank in connection with the amendment. The fee is payable in three installments of $41,666, one on the date of the amendment to the credit agreement, one on or before February 1, 2007 and one on or before February 1, 2008.

As of March 31, 2006, we were in default under our loan agreement for failing to maintain a fixed charge coverage ratio of not less than 1.50 to 1.00 as of the last day of the fiscal quarter. On February 12, 2007, the bank provided us with a waiver of this covenant default.

Receivable Discount Program

Our liquidity has been positively impacted by receivable discount programs we have established with two of our customers. Under this program, we have the option to sell the customers receivables to their respective banks at an agreed upon discount set at the time the receivables are sold. The discount has averaged 3.1% during fiscal 2006 and has allowed us to accelerate collection of receivables aggregating $77,683,000 by an average of 189 days. On an annualized basis, the weighted average discount rate on receivables sold to banks during fiscal 2006 was 5.9%. While this arrangement has reduced our working capital needs, there can be no assurance that it will continue in the future. These programs resulted in interest costs of $2,292,000 during fiscal 2006. These interest costs will increase as interest rates rise and as our customers increase their utilization of this discounting arrangement.

Multi-year Vendor Agreements

We significantly expanded our production during fiscal 2006 to meet our obligations arising under our multi-year vendor agreements. This increased production caused significant increases in our inventories, accounts payable and employee base. With respect to merchandise covered by the pay-on-scan arrangement with our largest customer, the customer is not obligated to purchase the goods we ship to it until that merchandise is purchased by one of its customers. While this arrangement will defer recognition of income from sales to this customer, we do not believe it will ultimately have an adverse impact on our liquidity. In addition, although the significant marketing allowances we have provided our customers as part of these multi-year agreements meaningfully limit the near-term revenues and associated cash flow from these new or expanded arrangements, we believe this incremental business will improve our overall liquidity and cash flow from operations over time.

As part of our POS arrangement with our largest customer, we agreed to purchase the customer s inventory of alternators and starters that is being transitioned to a POS basis. The customer is paying us the proceeds from its POS sale of this transition inventory, and we paid for this inventory through the issuance of monthly credits to this customer, that ended in April 2006. Because we collected cash for the transition inventory before we issued the monthly credits to purchase this inventory during the initial phase of this arrangement, this transaction helped finance our inventory build-up to meet production requirements. As anticipated, satisfaction of the credit due customer through the issuance of credits against that customer s receivables has had a negative impact on our cash flow. While we did not record the approximately $24,000,000 of transition inventory that we purchased or the associated payment liability on our balance sheet, the accounting treatment that we have adopted to account for this purchase resulted in a net liability to this customer of $1,793,000 at March 31, 2006.

In the fourth quarter of fiscal 2005, we entered into a five-year agreement with one of the largest automobile manufacturers in the world to supply this manufacturer with a new line of remanufactured alternators and starters for the United States and Canadian markets. We have expanded our operations and built-up our inventory to meet the requirements of this contract and have incurred certain transition costs associated with this build-up. As part of the agreement, we agreed to grant this customer $6,000,000 of credits that are being issued as sales to this customer are made. Of the total credits, $3,600,000 was issued during fiscal 2006 and the remaining $2,400,000 is scheduled to be issued in annual payments of $600,000 from fiscal 2007 to fiscal 2010. The agreement also contains other typical provisions, such as performance, quality and fulfillment requirements that we must meet, a requirement that we provide marketing support to this customer and a provision (standard in this manufacturer s vendor agreements) granting the manufacturer the right to terminate the agreement at any time for any reason. Our cash flow has been adversely impacted by the operational steps we have taken and the marketing allowances we agreed to in order to respond to this opportunity. In addition, sales to this customer during the initial term of this agreement have been below expectations. As a result, the inventory buildup we made in connection with this new agreement has put an additional strain on our working capital. We believe, however, that this new business will improve our overall liquidity over time.

In March 2005, we entered into a new agreement with one of our major customers. As part of this agreement, our designation as this customer s exclusive supplier of remanufactured import alternators and starters was extended from

February 28, 2008 to December 31, 2012. In addition to customary promotional allowances, we agreed to acquire the customer s import alternator and starter core inventory by issuing $10,300,000 of credits over a five year period subject to adjustment if our sales to the customer decrease in any quarter by more than an agreed upon percentage. The customer is obligated to repurchase from us the cores in the customer s inventory upon termination of the agreement for any reason.

We have long-term agreements with each of our major customers. Under these agreements, which typically have initial terms of at least four years, we are designated as the exclusive or primary supplier for specified categories of remanufactured alternators and starters. In consideration for our designation as a customer s exclusive or primary supplier, we typically provide the customer with a package of marketing incentives. These incentives differ from contract to contract and can include (i) the issuance of a specified amount of credits against receivables in accordance with a schedule set forth in the relevant contract, (ii) support for a particular customer s research or marketing efforts that can be provided on a scheduled basis, (iii) discounts that are granted in connection with each individual shipment of product and (iv) other marketing, research, store expansion or product development support. We have also entered into agreements to purchase certain customers core inventory and to issue credits to pay for that inventory according to an agreed upon schedule set forth in the agreement. These contracts typically require that we meet ongoing performance, quality and fulfillment requirements, and our contract with one of the largest automobile manufacturers in the world includes a provision (standard in this manufacturer s vendor agreements) granting the manufacturer the right to terminate the agreement at any time for any reason. Our contracts with major customers expire at various dates ranging from May 2008 through December 2012.

Our customers continue to aggressively seek extended payment terms, pay-on-scan inventory arrangements, significant marketing allowances, price concessions and other terms adversely affecting our liquidity and reported operating results.

Capital Expenditures and Commitments

Our capital expenditures were $5,937,000 for fiscal 2006. Approximately $3,043,000 of these expenditures related to our Mexico production facility, with the remainder for recurring capital expenditures.

Contractual Obligations

The following summarizes our contractual obligations and other commitments as of March 31, 2006, and the effect such obligations could have on our cash flow in future periods:

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt Obligation					
Capital (Finance) Lease Obligations	$ 7,291,000	$ 1,874,000	$ 3,403,000	$ 2,014,000	
Operating Lease Obligations	$ 15,636,000	$ 2,268,000	$ 1,723,000	$ 1,591,000	$ 10,054,000
Purchase Obligations	$ 13,518,000	$ 6,491,000	$ 4,736,000	$ 2,175,000	$ 116,000
Other Long-Term Obligations	$ 11,675,000	$ 3,041,000	$ 4,511,000	$ 3,178,000	$ 945,000
Total	$ 48,120,000	$ 13,674,000	$ 14,373,000	$ 8,958,000	$ 11,115,000

Capital Lease Obligations represent amounts due under finance leases of various types of machinery and computer equipment that are accounted for as capital leases.

Operating Lease Obligations represent amounts due for rent under our leases for office and warehouse facilities in California, Tennessee, Malaysia, Singapore and Mexico.

Purchase Obligations represent our obligation to issue credits to (i) a large customer for the acquisition of transition inventory from that customer and (ii) another large customer for the acquisition of that customer s core inventory.

Other Long-Term Obligations represent commitments we have with certain customers to provide marketing allowances in consideration for supply agreements to provide products over a defined period.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4* (FAS 151). This Statement adopts the International Accounting Standard Board s (IASB) view that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. Additionally, the FASB made the decision to clarify the meaning of the term normal capacity . The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. We believe this new pronouncement may apply due to our transition of production to offshore locations, but management cannot currently quantify the impact, if any, on our financial statements in future periods.

In December 2004, the FASB issued the revised Statement No. 123R *Accounting for Stock Based Compensation* (FAS 123R), which addressed the requirement for expensing the cost of employee services received in exchange for an award of an equity

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instrument. FAS 123R will apply to all equity instruments awarded, modified or repurchased for fiscal years beginning after June 15, 2005. In April 2005, the SEC adopted a new rule amending the compliance dates for FAS 123R. In accordance with this rule, we will be adopting FAS 123R effective April 1, 2006 using the modified prospective adoption method. We did not modify the terms of any previously granted options in anticipation of the adoption of FAS 123R. We expect the application of the expensing provisions of FAS 123R to result in a pretax compensation expense of approximately $461,000 in fiscal 2007 based on the future vesting schedules of current stock based compensation grants and adjusted for estimated cancellations or forfeitures based on our historical rate for such occurrences.

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Item 9A Controls and Procedures

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

Based on this evaluation, our chief executive officer and chief financial officer concluded that there remain certain deficiencies we consider to be material weaknesses in our disclosure controls and procedures as of the end of the period covered by this report, notwithstanding the improvements we have made in this regard. These deficiencies are discussed below.

Because we receive a critical remanufacturing component through customer returns and we offer marketing allowances and other incentives that impact revenue recognition, we recognize that the accounting for our operations is more complex than that for many businesses of our size or larger. In addition, the expansion of our overseas operations and the increase in our overall level of activity have put additional strains on our system of disclosure controls and procedures. To address this, we have added an experienced new chief financial officer and a new controller to help assure that we remain current with the relevant accounting literature and official pronouncements and that our disclosure controls and procedures remain effective and up-to-date. Our chief financial officer regularly reviews our accounting controls and procedures to identify and address areas where these controls could be improved.

During the review of our financial statements for the three and six months ended September 30, 2006, Grant Thornton LLP, our independent auditing firm, notified our Audit Committee and management that they had identified material weaknesses in our internal controls. Grant Thornton noted that (i) we incorrectly recorded a duplicative entry that continued to recognize a gross profit impact resulting from the accrual for certain cores authorized to be returned, but still in-transit to us from our customers, (ii) we incorrectly recorded core charge revenue when the amount of revenue was not fixed and determinable and (iii) we did not appropriately accrue losses for all probable customer payment discrepancies. We believe these errors were mainly attributable to the use of numerous complex spreadsheets and top side adjustments to close the general ledger and prepare financial statements for quarterly and annual reporting periods. The Company s current staffing levels are not sufficient to fully review all these spreadsheets for accuracy, data integrity and logic.

As part of our current evaluation of the effectiveness of our disclosure controls and procedures under the supervision and with the participation of our chief executive officer and chief financial officer, we undertook a review of our accounting policies and procedures and the relevant accounting literature and pronouncements, and considered Grant Thornton s views in this regard, together with our own observations. Based upon this evaluation, we have concluded that there is a material weakness in our disclosure controls and procedures, as summarized above.

In an on-going effort to remedy these weaknesses, we have increased the active participation of our Audit Committee in the evaluation of our accounting policies and disclosure controls. We have hired additional accounting staff to strengthen the Company s ability to review the complex spreadsheets, the general ledger close process and assist in the preparation of financial statements. We believe these changes to our disclosure controls and procedures and the ones discussed above will be adequate to provide reasonable assurance that the objectives of these control systems will be met.

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

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

a. Documents filed as part of this report:

(1) Index to Consolidated Financial Statements:

(2) Schedules.

(3) 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 (the 1995 Registration Statement)
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 (the 1997 Form 10-K)
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.

Number	Description of Exhibit	Method of Filing
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 (the 1997 Registration Statement).
4.7	Rights Agreement, dated as of February 24, 1998, by and between the Company and Continental Stock Transfer and Trust Company, as rights agent	Incorporated by reference to Exhibit 4.8 to the 1998 Registration Statement.
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.
10.1	Amendment to Lease, dated October 3, 1996, by and between the Company and Golkar Enterprises, Ltd. relating to additional property in Torrance, California	Incorporated by reference to Exhibit 10.17 to the December 31, 1996 Form 10-Q.
10.2	Lease Agreement, dated September 19, 1995, by and between Golkar Enterprises, Ltd. and the Company relating to the Company s facility located in Torrance, California	1997 Form 10-K. Incorporated by reference to Exhibit 10.18 to the 1995 Registration Statement.
10.3	Agreement and Plan of Reorganization, dated as of April 1, 1997, by and among the Company, Mel Marks, Richard Marks and Vincent Quek relating to the acquisition of MVR and Unijoh	Incorporated by reference to Exhibit 10.22 to the 1997 Form 10-K.
10.4	Form of Indemnification Agreement for officers and directors	Incorporated by reference to Exhibit 10.25 to the 1997 Registration Statement.
10.5	Warrant to Purchase Common Stock, dated April 20, 2000, by and between the Company and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.29 to the 2001 10-K.
10.6	Amendment No. 1 to Warrant dated May 31, 2001, by and between the Company and Wells	Incorporated by reference to Exhibit 10.32 to the 2001 10-K.

	Fargo Bank, National Association	
10.7	Form of Employment Agreement dated February 14, 2003 by and between the Company and Selwyn Joffe.	Incorporated by reference to Exhibit 10.42 to the 2003 10-K.
10.8	Letter Agreement dated July 17, 2002 by and between the Company and Houlihan Lokey Howard & Zukin Capital.	Incorporated by reference to Exhibit 10.43 to the 2003 10-K.
10.9	Second Amendment to Lease dated March 15, 2002 between Golkar Enterprises, Ltd. and the Company relating to property in Torrance, California	Incorporated by reference to Exhibit 10.44 to the 2003 10-K.
10.10	Separation Agreement and Release, dated February 14, 2003, between the Company and Anthony Souza	Incorporated by reference to Exhibit 10.45 to the 2003 10-K.

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Number	Description of Exhibit	Method of Filing
10.11	Employment Agreement, dated April 1, 2003 between the Company and Charles Yeagley.	Incorporated by reference to Exhibit 10.46 to the 2003 10-K.
10.12	Form of Warrant Cancellation Agreement and Release, dated April 30, 2003, between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.47 to the 2003 10-K.
10.13	Form of Agreement, dated June 5, 2002, by and between the Company and Sun Trust Bank.	Incorporated by reference to Exhibit 10.38 to the 2002 10-K.
10.14	Credit Agreement, dated May 28, 2004, between the Company and Union Bank of California, N.A.	Incorporated by reference to Exhibit 10.15 to the Company s Annual Report on Form 10-K for the year ended March 31, 2004 (the 2004 10-K).
10.15*	Addendum to Vendor Agreement, dated May 8, 2004, between AutoZone Parts, Inc. and the Company.	Incorporated by reference to Exhibit 10.15 to the 2004 10-K.
10.16	Employment Agreement, dated November 1, 2003, between the Company and Bill Laughlin.	Incorporated by reference to Exhibit 10.16 to the 2004 10-K.
10.17	Form of Orbian Discount Agreement between the Company and Orbian Corp.	Incorporated by reference to Exhibit 10.17 to the 2004 10-K.
10.18	Form of Standard Industrial/Commercial Multi-Tenant Lease, dated May 25, 2004, between the Company and Golkar Enterprises, Ltd for property located at 530 Maple Avenue, Torrance, California.	Incorporated by reference to Exhibit 10.18 to the 2004 10-K.
10.19	Stock Purchase Agreement, dated February 28, 2001 between the Company and Mel Marks.	Incorporated by reference to Exhibit 99.2 to Form 8-K filed with the SEC on March 29, 2001.
10.20	Build to Suit Lease Agreement, dated October 28, 2004, among Motorcar Parts de Mexico, S.A. de CV, the Company and Beatrix Flourie Geoffroy.	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on November 2, 2004.
10.21	Amendment No. 1 to Employment Agreement, dated April 19, 2004, between the Company and Selwyn Joffe.	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on April 25, 2005.
10.22	Third Amendment to Credit Agreement dates as of April 10, 2006 between Motorcar Parts of America, Inc. and Union Bank of California, N.A	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on April 24, 2006

10.23	Revolving Note dated as of April 10, executed by Motorcar Parts of America. Inc and Union Bank of California. N.A.	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on April 24, 2006
10.24	Settlement Agreement and Mutual Release, Secured Promissory Note and Stock Pledge Agreement all dated June 26, 2006, between the Company and Mr. Richard Marks	Incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed on June 28, 2006
14.1	Code of Business Conduct and Ethics	Incorporated by reference to Exhibit 10.48 to the 2003 10-K.
18.1	Preferability Letter to the Company from Grant Thornton LLP	Incorporated by reference to Exhibit 18.1 to the 2001 10-K.
21.1	List of Subsidiaries	Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.	Filed herewith.

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Number	Description of Exhibit	Method of Filing
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.	Filed herewith.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.	Filed herewith

* Portions of this exhibit have been granted confidential treatment by the SEC.

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SIGNATURES

Pursuant to the requirements of Section 15(d) 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 12, 2007

By: /s/ Mervyn McCulloch
Mervyn McCulloch
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K/A has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

/s/ Selwyn Joffe Selwyn Joffe	Chief Executive Officer and Director (Principal Executive Officer)	February 12, 2007
/s/ Mervyn McCulloch Mervyn McCulloch	Chief Financial Officer (Principal Financial and Accounting Officer)	February 12, 2007
/s/ Mel Marks Mel Marks	Director	February 12, 2007
/s/ Rudolph Borneo Rudolph Borneo	Director	February 12, 2007
/s/ Philip Gay Philip Gay	Director	February 12, 2007
/s/ Irv Siegel Irv Siegel	Director	February 12, 2007

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MOTORCAR PARTS OF AMERICA, INC
AND SUBSIDIARIES
March 31, 2006, 2005 and 2004
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Motorcar Parts of America, Inc.

We have audited the accompanying consolidated balance sheets of Motorcar Parts of America, Inc. and Subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders equity and cash flows for each of the three years in the period ended March 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Motorcar Parts of America, Inc. and Subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note B, the accompanying consolidated financial statements have been restated.

/s/ Grant Thornton LLP
Los Angeles, California
June 28, 2006 (except for Note B, as to which the date is February 2, 2007)

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Restated)
March 31,

	2006	2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 400,000	$ 6,211,000
Short term investments	660,000	503,000
Accounts receivable, net of allowance for doubtful accounts of $26,000 and $20,000 in 2006 and 2005, respectively	13,902,000	14,911,000
Inventory net	57,881,000	47,335,000
Deferred income tax asset	5,809,000	6,378,000
Inventory unreturned	8,171,000	2,562,000
Prepaid expenses and other current assets	918,000	1,365,000
Total current assets	87,741,000	79,265,000
Plant and equipment net	12,164,000	5,483,000
Other assets	1,231,000	899,000
TOTAL ASSETS	$ 101,136,000	$ 85,647,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 21,882,000	$ 14,502,000
Accrued liabilities	1,587,000	1,378,000
Accrued salaries and wages	2,267,000	2,235,000
Accrued workers compensation claims	3,346,000	2,217,000
Income tax payable	1,021,000	1,036,000
Line of credit	6,300,000	
Deferred compensation	495,000	450,000
Deferred income	133,000	133,000
Other current liabilities	988,000	89,000
Credit due customer	1,793,000	12,543,000
Current portion of capital lease obligations	1,499,000	416,000
Total current liabilities	41,311,000	34,999,000
Deferred income, less current portion	388,000	521,000
Deferred income tax liability	562,000	519,000
Deferred gain on sale-leaseback	2,377,000	
Other liabilities	46,000	
Capital lease obligations, less current portion	4,857,000	938,000
Total liabilities	49,541,000	36,977,000
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; 8,316,105 and 8,183,955 shares issued and outstanding at March 31, 2006 and 2005, respectively	83,000	82,000
Additional paid in capital	54,326,000	53,627,000
Accumulated other comprehensive gain (loss)	85,000	(55,000)
Accumulated deficit	(2,899,000)	(4,984,000)
Total shareholders equity	51,595,000	48,670,000
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	$ 101,136,000	$ 85,647,000

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Restated)
Year Ended March 31,

	2006	2005	2004
Net sales	$ 108,397,000	$ 96,719,000	$ 80,349,000
Cost of goods sold	82,992,000	68,064,000	58,946,000
Gross profit	25,405,000	28,655,000	21,403,000
Operating expenses:			
General and administrative	14,337,000	11,622,000	9,629,000
Sales and marketing	3,536,000	2,759,000	1,977,000
Research and development	1,234,000	836,000	565,000
Total operating expenses	19,107,000	15,217,000	12,171,000
Operating income	6,298,000	13,438,000	9,232,000
Other (expense) income			
Interest expense	(2,974,000)	(1,794,000)	(968,000)
Interest income	20,000	102,000	37,000
Income before income tax expense	3,344,000	11,746,000	8,301,000
Income tax expense	1,259,000	4,465,000	2,901,000
Net income	$ 2,085,000	$ 7,281,000	$ 5,400,000
Basic income per share	$ 0.25	$ 0.89	$ 0.67
Diluted income per share	$ 0.25	$ 0.85	$ 0.64
Weighted average shares outstanding:			
Basic	8,251,319	8,151,459	8,023,228
Diluted	8,483,323	8,599,969	8,388,129

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Statement of Shareholders Equity (Restated)
For the years ended March 31, 2006, 2005 and 2004

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Accumulated		Comprehensive
	Shares	Amount	Capital	(Loss)	Deficit	Total	Income
Balance at March 31, 2003	7,960,455	$ 80,000	$ 53,126,000	$ (107,000)	$ (18,189,000)	$ 34,910,000	
Net effect of in-transit core adjustment					865,000	865,000	
Balance at March 31, 2003, as adjusted	7,960,455	80,000	53,126,000	(107,000)	(17,324,000)	$ 35,775,000	
Purchase and cancellation of warrants and options			(372,000)		(340,000)	(712,000)	
Exercise of options	204,500	2,000	498,000			500,000	
Tax benefit from employee stock options exercised			139,000			139,000	
Purchase of common stock	(79,000)	(1,000)	(295,000)			(296,000)	
Unrealized gain on investments				21,000		21,000	$ 21,000
Foreign currency translation				8,000		8,000	8,000
Net Income					5,400,000	5,400,000	5,400,000
Comprehensive Income							$ 5,429,000
Balance at March 31, 2004	8,085,955	81,000	$ 53,096,000	(78,000)	(12,264,000)	40,835,000	
Exercise of options	98,000	1,000	290,000			291,000	
Tax benefit from employee stock options exercised			241,000			241,000	
Unrealized gain on investments				17,000		17,000	$ 17,000
Foreign currency translation				6,000		6,000	6,000
Net Income					7,281,000	7,281,000	7,281,000

Comprehensive Income							$ 7,304,000
Balance at March 31, 2005	8,183,955	82,000	53,627,000	(55,000)	(4,984,000)	48,670,000	
Exercise of options	132,150	1,000	285,000			286,000	
Tax benefit from employee stock options exercised			414,000			414,000	
Unrealized gain on investments				76,000		76,000	$ 76,000
Foreign currency translation				64,000		64,000	64,000
Net Income					2,085,000	2,085,000	2,085,000
Comprehensive Income							$ 2,225,000
Balance at March 31, 2006	8,316,105	$ 83,000	$ 54,326,000	$ 85,000	$ (2,899,000)	$ 51,595,000	

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Restated)
Year Ended March 31,

	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 2,085,000	$ 7,281,000	$ 5,400,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,180,000	1,932,000	2,369,000
Amortization of deferred gain on sale leaseback	(218,000)		
Provision for (recovery of) inventory reserves and stock adjustments	(159,000)	812,000	2,566,000
Provision for doubtful accounts	6,000	6,000	13,000
Deferred income taxes	612,000	3,305,000	2,984,000
Tax benefit from employee stock options exercised	414,000	241,000	139,000
Loss on disposal of assets		6,000	
Changes in:			
Accounts receivable	760,000	(4,693,000)	1,178,000
Inventory	(10,143,000)	(22,328,000)	(4,758,000)
Prepaid income tax		172,000	(366,000)
Inventory unreturned	(5,609,000)	(112,000)	(276,000)
Prepaid expenses and other current assets	447,000	(180,000)	(303,000)
Other assets	(332,000)	(130,000)	338,000
Accounts payable and accrued liabilities	8,750,000	4,029,000	5,678,000
Income tax payable	(16,000)	792,000	
Deferred compensation	121,000	191,000	46,000
Deferred income	(133,000)	554,000	100,000
Credit due customer	(10,750,000)	12,543,000	
Other liabilities	945,000	26,000	44,000
Net cash provided by (used in) operating activities	(11,040,000)	4,447,000	15,152,000
Cash flows from investing activities:			
Purchase of property, plant and equipment	(4,372,000)	(2,549,000)	(322,000)
Proceeds from sale-leaseback transaction	4,110,000		
Change in short term investments	(157,000)	(199,000)	(126,000)
Net cash used in investing activities	(419,000)	(2,748,000)	(448,000)
Cash flows from financing activities:			
Net borrowings (payments) under the line of credit	6,300,000	(3,000,000)	(6,932,000)
Payments on capital lease obligations	(1,002,000)	(411,000)	(945,000)
Repurchase of warrants and stock options			(1,008,000)
Exercise of stock options	286,000	291,000	500,000
Net cash provided by (used in) financing activities	5,584,000	(3,120,000)	(8,385,000)
Effect of translation adjustment on cash	64,000	2,000	4,000

Net increase (decrease) in cash and cash equivalents	(5,811,000)	(1,419,000)	6,323,000
Cash and cash equivalents beginning of year	6,211,000	7,630,000	1,307,000
Cash and cash equivalents end of year	$ 400,000	$ 6,211,000	$ 7,630,000
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 2,885,000	$ 1,795,000	$ 968,000
Income taxes	$ 30,000	$ 59,000	$ 253,000
Non-cash investing and financing activities:			
Property acquired under capital lease	$ 5,675,000	$ 109,000	$ 1,577,000

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

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Note A Company Background

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

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

The Company changed its name to Motorcar Parts of America, Inc. from Motorcar Parts & Accessories, Inc. on January 8, 2004. The Company operates in one business segment pursuant to Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of Enterprise and Related Information.

Note B Restatement of Financial Statements for the Fiscal Years Ended March 31, 2006, 2005 and 2004

The consolidated balance sheets as of March 31, 2006 and 2005, the consolidated statements of operations for the fiscal years ended March 31, 2006, 2005 and 2004, and the consolidated statements of cash flows for the fiscal years ended March 31, 2006, 2005 and 2004 have been restated to correct errors which occurred when (i) the Company incorrectly recorded a duplicative entry that continued to recognize a gross profit impact resulting from the accrual for certain cores authorized to be returned, but still in-transit to the Company from its customers, (ii) the Company incorrectly recorded core charge revenue when the amount of revenue was not fixed and determinable and (iii) the Company did not appropriately accrue losses for all probable customer payment discrepancies. The estimated tax effect of the errors noted above is reflected in the restatements and the notes to the financial statements for the periods ended March 31, 2006, 2005, and 2004 have been restated as required to reflect the effect of the restatements noted above.

The impact of these restatements has been reflected throughout the consolidated financial statements and accompanying notes including notes C, E, F, J, O, and T, is as follows:

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Consolidated Balance Sheets

	March 31, 2006		
	Previously Reported	Adjustment	Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 400,000		$ 400,000
Short term investments	660,000		660,000
Accounts receivable net, as previously reported	13,775,000		
In-transit core adjustment		$ 3,098,000	
A/R discrepancy adjustment		(1,275,000)	
Core-charge revenue adjustment		(1,696,000)	
Accounts receivable net, as restated			13,902,000
Inventory net, as previously reported	59,337,000		
In-transit core adjustment		(1,456,000)	
Inventory net, as restated			57,881,000
Deferred income tax asset	5,809,000		5,809,000
Inventory unreturned, as previously reported	7,052,000		
Core-charge revenue adjustment		1,119,000	
Inventory unreturned, as restated			8,171,000
Prepaid expenses and other current assets	918,000		918,000
Total current assets	87,951,000	(210,000)	87,741,000
Plant and equipment net	12,164,000		12,164,000
Other assets	1,231,000		1,231,000
TOTAL ASSETS	$ 101,346,000	$ (210,000)	$ 101,136,000
LIABILITIES			
Current liabilities:			
Accounts payable	$ 21,882,000		$ 21,882,000
Accrued liabilities	1,587,000		1,587,000
Accrued salaries and wages	2,267,000		2,267,000
Accrued workers compensation claims	3,346,000		3,346,000
Income tax payable, as previously reported	1,094,000		
In-transit core adjustment		$ 598,000	
A/R discrepancy adjustment		(460,000)	
Core-charge revenue adjustment		(211,000)	
Income tax payable, as restated			1,021,000
Line of credit	6,300,000		6,300,000
Deferred compensation	495,000		495,000
Deferred income	133,000		133,000
Other current liabilities	988,000		988,000
Credit due customer	1,793,000		1,793,000
Current portion of capital lease obligations	1,499,000		1,499,000

Total current liabilities	41,384,000	(73,000)	41,311,000
Deferred income, less current portion	388,000		388,000
Deferred income tax liability	562,000		562,000
Deferred gain on sale-leaseback	2,377,000		2,377,000
Other liabilities	46,000		46,000
Capitalized lease obligations, less current portion	4,857,000		4,857,000
TOTAL LIABILITIES	49,614,000	(73,000)	49,541,000
SHAREHOLDERS EQUITY			
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued			
Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued			
Common stock; par value $.01 per share, 20,000,000 shares authorized; 8,316,105 shares issued and outstanding at March 31, 2006	83,000		83,000
Additional paid-in capital	54,326,000		54,326,000
Accumulated other comprehensive loss	85,000		85,000
Accumulated deficit, as previously reported	(2,762,000)		
In-transit core adjustment		1,044,000	
A/R discrepancy adjustment		(815,000)	
Core-charge revenue adjustment		(366,000)	
Accumulated deficit, as restated			(2,899,000)
TOTAL SHAREHOLDERS EQUITY	51,732,000	(137,000)	51,595,000
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	$ 101,346,000	$ (210,000)	$ 101,136,000

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Consolidated Balance Sheets (continued)

	March 31, 2005		
	Previously Reported	**Adjustment**	**Restated**
ASSETS			
Current assets:			
Cash and cash equivalents	$ 6,211,000		$ 6,211,000
Short term investments	503,000		503,000
Accounts receivable net, as previously reported	11,513,000		
In-transit core adjustment		$ 2,663,000	
A/R discrepancy adjustment		735,000	
Accounts receivable net, as restated			14,911,000
Inventory net, as previously reported	48,587,000		
In-transit core adjustment		(1,252,000)	
Inventory net, as restated			47,335,000
Deferred income tax asset	6,378,000		6,378,000
Inventory unreturned, as previously reported	2,409,000		
Core-charge revenue adjustment		153,000	
Inventory unreturned, as restated			2,562,000
Prepaid expenses and other current assets	1,365,000		1,365,000
Total current assets	76,966,000	2,299,000	79,265,000
Plant and equipment net	5,483,000		5,483,000
Other assets	899,000		899,000
TOTAL ASSETS	$ 83,348,000	$ 2,299,000	$ 85,647,000
LIABILITIES			
Current liabilities:			
Accounts payable	$ 14,502,000		$ 14,502,000
Accrued liabilities	1,378,000		1,378,000
Accrued salaries and wages	2,235,000		2,235,000
Accrued workers compensation claims	2,217,000		2,217,000
Income tax payable, as previously reported	183,000		
In-transit core adjustment		$ 511,000	
A/R discrepancy adjustment		284,000	
Core-charge revenue adjustment		58,000	
Income tax payable, as restated			1,036,000
Deferred compensation	450,000		450,000
Deferred income	133,000		133,000
Other current liabilities	89,000		89,000
Credit due customer	12,543,000		12,543,000
Current portion of capital lease obligations	416,000		416,000
Total current liabilities	34,146,000	853,000	34,999,000
Deferred income, less current portion	521,000		521,000

Deferred income tax liability	519,000		519,000
Capitalized lease obligations, less current portion	938,000		938,000
TOTAL LIABILITIES	36,124,000	853,000	36,977,000
SHAREHOLDERS EQUITY			
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued			
Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued			
Common stock; par value $.01 per share, 20,000,000 shares authorized; 8,183,955 shares issued and outstanding at March 31, 2005	82,000		82,000
Additional paid-in capital	53,627,000		53,627,000
Accumulated other comprehensive loss	(55,000)		(55,000)
Accumulated deficit, as previously reported	(6,430,000)		
In-transit core adjustment		900,000	
A/R discrepancy adjustment		451,000	
Core-charge revenue adjustment		95,000	
Accumulated deficit, as restated			(4,984,000)
TOTAL SHAREHOLDERS EQUITY	47,224,000	1,446,000	48,670,000
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	$ 83,348,000	$ 2,299,000	$ 85,647,000

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Consolidated Statements of Operations

	Year Ended March 31, 2006		
	Previously Reported	Adjustment	Restated
Net sales, as previously reported	$ 112,103,000		
A/R discrepancy adjustment		$ (2,010,000)	
Core charge revenue adjustment		(1,696,000)	
Net sales, as restated			$ 108,397,000
Cost of goods sold, as previously reported	84,188,000		
In-transit core adjustment		(230,000)	
Core-charge revenue adjustment		(966,000)	
Cost of goods sold, as restated			82,992,000
Gross profit	27,915,000	(2,510,000)	25,405,000
Operating expenses:			
General and administrative	14,337,000		14,337,000
Sales and marketing	3,536,000		3,536,000
Research and development	1,234,000		1,234,000
Total operating expenses	19,107,000		19,107,000
Operating income	8,808,000	(2,510,000)	6,298,000
Interest expense net	2,954,000		2,954,000
Income before income tax expense	5,854,000	(2,510,000)	3,344,000
Income tax expense, as previously reported	2,186,000		
In-transit core adjustment		86,000	
A/R discrepancy adjustment		(744,000)	
Core charge revenue adjustment		(269,000)	
Income tax expense, as restated			1,259,000
Net income	$ 3,668,000	$ (1,583,000)	$ 2,085,000
Basic net income per share	$ 0.44	$ 0.19	$ 0.25
Diluted net income per share	$ 0.43	$ 0.18	$ 0.25
Weighted average shares outstanding:			
basic	8,251,319		8,251,319
diluted	8,483,323		8,483,323

	Year Ended March 31, 2005		
	Previously Reported	Adjustment	Restated
Net sales, as previously reported	$ 95,785,000		
A/R discrepancy adjustment		$ 934,000	

Net sales, as restated			$ 96,719,000
Cost of goods sold, as previously reported	68,732,000		
In-transit core adjustment		(515,000)	
Core-charge revenue adjustment		(153,000)	
Cost of goods sold, as restated			68,064,000
Gross profit	27,053,000	1,602,000	28,655,000
Operating expenses:			
General and administrative	11,622,000		11,622,000
Sales and marketing	2,759,000		2,759,000
Research and development	836,000		836,000
Total operating expenses	15,217,000		15,217,000
Operating income	11,836,000	1,602,000	13,438,000
Interest expense net	1,692,000		1,692,000
Income before income tax expense	10,144,000	1,602,000	11,746,000
Income tax expense, as previously reported	3,856,000		
In-transit core adjustment		197,000	
A/R discrepancy adjustment		354,000	
Core-charge revenue adjustment		58,000	
Income tax expense, as restated			4,465,000
Net income	$ 6,288,000	$ 993,000	$ 7,281,000
Basic net income per share	$ 0.77	$ 0.12	$ 0.89
Diluted net income per share	$ 0.73	$ 0.12	$ 0.85
Weighted average shares outstanding:			
basic	8,151,459		8,151,459
diluted	8,599,969		8,599,969

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Consolidated Statements of Operations (continued)

	Year Ended March 31, 2004		
	Previously Reported	Adjustment	Restated
Net sales, as previously reported	$ 80,548,000		
A/R discrepancy adjustment		$ (199,000)	
Net sales, as restated			$ 80,349,000
Cost of goods sold, as previously reported	58,512,000		
In-transit core adjustment		434,000	
Cost of goods sold, as restated			58,946,000
Gross profit	22,036,000	(633,000)	21,403,000
Operating expenses:			
General and administrative	9,629,000		9,629,000
Sales and marketing	1,977,000		1,977,000
Research and development	565,000		565,000
Total operating expenses	12,171,000		12,171,000
Operating income	9,865,000	(633,000)	9,232,000
Interest expense net	931,000		931,000
Income before income tax expense	8,934,000	(633,000)	8,301,000
Income tax expense, as previously reported	3,123,000		
In-transit core adjustment		(152,000)	
A/R discrepancy adjustment		(70,000)	
Income tax expense, as restated			2,901,000
Net income	$ 5,811,000	$ (411,000)	$ 5,400,000
Basic net income per share	$ 0.72	$ (0.05)	$ 0.67
Diluted net income per share	$ 0.69	$ (0.05)	$ 0.64
Weighted average shares outstanding:			
basic	8,023,228		8,023,228
diluted	8,388,129		8,388,129

The decrease of $865,000 to the accumulated deficit balance at March 31, 2003 in the consolidated statement of shareholders equity results from the prior period effect of the in-transit core adjustment described in this Note B.

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Consolidated Statements of Cash Flows

	Year Ended March 31, 2006		
	Previously Reported	**Adjustment**	**Restated**
Cash flows from operating activities:			
Net income, as previously reported	$ 3,668,000		
In-transit core adjustment		$ 144,000	
A/R discrepancy adjustment		(1,266,000)	
Core-charge revenue adjustment		(461,000)	
Net income, as restated			$ 2,085,000
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,180,000		2,180,000
Amortization of deferred gain on sale-leaseback	(218,000)		(218,000)
Recovery of inventory reserves and stock adjustments	(159,000)		(159,000)
Provision for doubtful accounts	6,000		6,000
Deferred income taxes	612,000		612,000
Excess tax benefit from employee stock options exercised	414,000		414,000
Changes in current assets and liabilities:			
Accounts receivable, as previously reported	(2,512,000)		
In-transit core adjustment		(434,000)	
A/R discrepancy adjustment		2,010,000	
Core-charge revenue adjustment		1,696,000	
Accounts receivable, as restated			760,000
Inventory, as previously reported	(10,347,000)		
In-transit core adjustment		204,000	
Inventory, as restated			(10,143,000)
Inventory unreturned, as previously reported	(4,643,000)		
Core-charge revenue adjustment		(966,000)	
Inventory unreturned, as restated			(5,609,000)
Prepaid expenses and other current assets	447,000		447,000
Other assets	(332,000)		(332,000)
Accounts payable and accrued liabilities	8,750,000		8,750,000
Income tax payable, as previously reported	911,000		
In-transit core adjustment		86,000	
A/R discrepancy adjustment		(744,000)	
Core-charge revenue adjustment		(269,000)	
Income tax payable, as restated			(16,000)
Deferred compensation	121,000		121,000
Deferred income	(133,000)		(133,000)
Credit due to customer	(10,750,000)		(10,750,000)
Other liabilities	945,000		945,000
Net cash used in operating activities	$ (11,040,000)	$	$ (11,040,000)

There were no changes to previously reported cash flows from investing and financing activities.

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Consolidated Statements of Cash Flows (continued)

	Year Ended March 31, 2005		
	Previously Reported	**Adjustment**	**Restated**
Cash flows from operating activities:			
Net income, as previously reported	$ 6,288,000		
In-transit core adjustment		$ 318,000	
A/R discrepancy adjustment		580,000	
Core-charge revenue adjustment		95,000	
Net income, as restated			$ 7,281,000
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,932,000		1,932,000
Provision for inventory reserves and stock adjustments	812,000		812,000
Provision for doubtful accounts	6,000		6,000
Deferred income taxes	3,305,000		3,305,000
Excess tax benefit from employee stock options exercised	241,000		241,000
Loss on disposal of assets	6,000		6,000
Changes in current assets and liabilities:			
Accounts receivable, as previously reported	(2,787,000)		
In-transit core adjustment		(972,000)	
A/R discrepancy adjustment		(934,000)	
Accounts receivable, as restated			(4,693,000)
Inventory, as previously reported	(22,785,000)		
In-transit core adjustment		457,000	
Inventory, as restated			(22,328,000)
Inventory unreturned, as previously reported	41,000		
Core-charge revenue adjustment		(153,000)	
Inventory unreturned, as restated			(112,000)
Prepaid expenses and other current assets	(180,000)		(180,000)
Other assets	(130,000)		(130,000)
Accounts payable and accrued liabilities	4,029,000		4,029,000
Income tax payable, as previously reported	355,000		
In-transit core adjustment		197,000	
A/R discrepancy adjustment		354,000	
Core-charge revenue adjustment		58,000	
Income tax payable, as restated			964,000
Deferred compensation	191,000		191,000
Deferred income	554,000		554,000
Credit due to customer	12,543,000		12,543,000
Other liabilities	26,000		26,000
Net cash used in operating activities	$ 4,447,000	$	$ 4,447,000

There were no changes to previously reported cash flows from investing and financing activities.

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Consolidated Statements of Cash Flows (continued)

	Year Ended March 31, 2004 Previously Reported	Adjustment	Restated
Cash flows from operating activities:			
Net income, as previously reported	$ 5,811,000		
In-transit core adjustment		$ (282,000)	
A/R discrepancy adjustment		(129,000)	
Net income, as restated			$ 5,400,000
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,369,000		2,369,000
Provision for inventory reserves and stock adjustments	2,566,000		2,566,000
Provision for doubtful accounts	13,000		13,000
Deferred income taxes	2,984,000		2,984,000
Excess tax benefit from employee stock options exercised	139,000		139,000
Changes in current assets and liabilities:			
Accounts receivable, as previously reported	(628,000)		
In-transit core adjustment		1,607,000	
A/R discrepancy adjustment		199,000	
Accounts receivable, as restated			1,178,000
Inventory, as previously reported	(3,585,000)		
In-transit core adjustment		(1,173,000)	
Inventory, as restated			(4,758,000)
Inventory unreturned, as previously reported	(276,000)		(276,000)
Prepaid expenses and other current assets	(303,000)		(303,000)
Other assets	338,000		338,000
Accounts payable and accrued liabilities	5,678,000		5,678,000
Income tax payable, as previously reported	(144,000)		
In-transit core adjustment		(152,000)	
A/R discrepancy adjustment		(70,000)	
Income tax payable, as restated			(366,000)
Deferred compensation	46,000		46,000
Deferred income	100,000		100,000
Other liabilities	44,000		44,000
Net cash used in operating activities	$ 15,152,000	$	$ 15,152,000

There were no changes to previously reported cash flows from investing and financing activities.

Note C Summary of Significant Accounting Policies

1. *Principles of consolidation*

The accompanying consolidated financial statements include the accounts of Motorcar Parts of America, Inc and its wholly owned subsidiaries, MVR Products Pte. Ltd., Unijoh Sdn. Bhd. and Motorcar Parts de Mexico, S.A. de C.V. All significant inter-company accounts and transactions have been eliminated.

2. *Cash Equivalents*

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash balances at several financial institutions located in Southern California. At times, the cash balances exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents. Total amounts uninsured at March 31, 2006 and 2005 were approximately $471,000 and $5,760,000, respectively. The Company also maintains cash balances in local and US Dollar currencies in Singapore, Malaysia and Mexico for use by the facilities operating in those foreign countries. The balances in these accounts if translated into US Dollars at March 31, 2006 and 2005 were $399,000 and $152,000, respectively.

3. Accounts Receivable

The allowance for doubtful accounts is developed based upon several factors including customers credit quality, historical write-off experience and any known specific issues or disputes which exist as of the balance sheet date. Accounts receivable are written off only when all collection attempts have failed. The Company establishes an accrual for customer accounts receivable discrepancies. The Company does not require collateral for accounts receivable. See Note C8 *Revenue Recognition*.

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4. Inventory

Inventory is stated at the lower of cost or market. The standard cost of inventory is based upon the direct costs of material and labor and an allocation of indirect costs. The standard cost of inventory is continuously evaluated and adjusted to reflect current cost levels. Standard costs are determined for each of the three classifications of inventory as follows:

Finished goods cost includes the standard cost of cores and raw materials and allocations of labor and overhead. Work in process inventory historically comprises less than 3% of the total inventory balance. Work in process is in various stages of production and, on average, is 50% complete. Work in process is valued at 50% of the standard cost of a finished good. Core and other raw materials inventory are stated at the lower of cost or market. The Company determines the market value of cores based on purchases of core and core broker prices lists.

Inventory unreturned represents the value of cores and finished goods shipped to customers and expected to be returned, stated at the lower of cost or market. Upon product shipment, the Company reduces the inventory account for the amount of product shipped and establishes the inventory unreturned asset account for that portion of the shipment that is expected to be returned by the customer.

The Company provides an allowance for potentially excess and obsolete inventory based upon historical usage.

The Company applies discounts on supplier invoices by reducing related accounts payable and inventory at the time of payment.

5. Income Taxes

The Company accounts for income taxes in accordance with guidance issued by the Financial Accounting Standard Board (FASB) in Statement of Financial Accounting Standards No. 109 (SFAS), Accounting for Income Taxes, which requires the use of the liability method of accounting for income taxes.

The liability method measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax base of assets and liabilities and their reported amounts in the financial statements. The resulting asset or liability is adjusted to reflect changes in the tax laws as they occur. A valuation allowance is provided to reduce deferred tax assets when it is more likely than not that a portion of the deferred tax asset will not be realized.

The primary components of the Company s income tax provision (benefit) are (i) the current liability or refund due for federal, state and foreign income taxes, including the effect of the tax net operating loss carryback provisions of the Job Creation and Work Assistance Act of 2002 and (ii) the change in the amount of the net deferred income tax asset, including the effect of any change in the valuation allowance.

Realization of these deferred tax assets is dependent upon the Company s ability to generate sufficient future taxable income. Management believes that it is more likely than not that future taxable income will be sufficient to realize the recorded deferred tax assets. Future taxable income is based on management s forecast of the future operating results of the Company. Management periodically reviews such forecasts in comparison with actual results and there can be no assurance that such results will be achieved.

6. Plant and Equipment

Plant and equipment are stated at cost, less accumulated depreciation and amortization. The cost of additions and improvements are capitalized, while maintenance and repairs are charged to expense when incurred. Depreciation and amortization are provided on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, which range from three to ten years. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the leasehold improvements, whichever is shorter.

7. *Foreign Currency Translation*

For financial reporting purposes, the functional currency of the foreign subsidiaries is the local currency. The assets and liabilities of foreign operations are translated into the reporting currency (U.S. dollar) at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average exchange rates during the year in accordance with SFAS 52, Foreign Currency Translation. The accumulated foreign currency translation adjustment is presented as a component of Other Comprehensive Income in the Consolidated Statement of Stockholders Equity.

8. *Revenue Recognition*

The Company recognizes revenue when performance by the Company is complete. Revenue is recognized when all of the following criteria established by the Staff of the Securities and Exchange Commission in Staff Accounting Bulletin 104, Revenue Recognition, have been met:

Persuasive evidence of an arrangement exists,

Delivery has occurred or services have been rendered,

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

Collectibility is reasonably assured.

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

Unit value revenue is recorded based on the Company s price list, net of applicable discounts and allowances. The Company allows customers to return slow moving and other inventory. The Company provides for such returns of inventory in accordance with SFAS 48, Revenue Recognition When Right of Return Exists . The Company reduces revenue and cost of sales for the unit value based on a historical return analysis and information obtained from customers about current stock levels.

The Company accounts for revenues and cost of sales on a net-of-core-value basis. Management has determined that the Company s business practices and contractual arrangements result in the return to the Company of more than 90% of all used cores. Accordingly, management excludes the value of cores from revenue in accordance with Statement of Financial Accounting Standards 48, Revenue Recognition When Right of Return Exists (SFAS 48). Core values charged to customers and not included in revenues totaled $66,938,000, $79,000,000, and $71,173,000 for the fiscal years ended March 31, 2006, 2005, and 2004, respectively.

When the Company ships a product, it recognizes an obligation to accept a returned core by recording a contra receivable account based upon the agreed upon core charge and establishing an inventory unreturned account at the standard cost of the core expected to be returned. Upon receipt of a core, the Company grants the customer a credit based on the core value billed, and restores the returned core to inventory. The Company generally limits core returns to the number of similar cores previously shipped to each customer.

When the Company ships a product, it invoices certain customers for the core portion of the product at full sales price. For cores invoiced at full sales price, the Company recognizes core charge revenue based upon an estimate of the rate at which customers will pay cash for cores in lieu of returning cores for credits.

The amount of revenue recognized for core charges for the fiscal years ended March 31, 2006, 2005 and 2004, was $7,341,000, $5,046,000 and $3,120,000, respectively.

During fiscal 2004, the Company began to offer products under a pay-on-scan (POS) arrangement with one of its customers. For POS inventory, revenue is recognized when the customer has notified the Company that it has sold a specifically identified product to another person or entity. POS inventory represents inventory held on consignment at customer locations. This customer bears the risk of loss of any consigned product from any cause whatsoever from the time possession is taken until a third party customer purchases the product or its absence is noted in a cycle or physical inventory count.

The Company also maintains accounts to accrue for estimated returns and to track unit and core returns. The accrual for anticipated returns reduces revenues and accounts receivable. The estimated unit sales returns and estimated core returns account balances are as follows:

	2006	2005
Estimated sales returns	$ 977,000	$ 694,000
Estimated core inventory returns	$6,457,000	$2,288,000

9. *Marketing Allowances*

The Company records the cost of all marketing allowances provided to its customers in accordance with EITF 01-09, Accounting for Consideration Given by a Vendor to a Customer. Such allowances include sales incentives and concessions. Voluntary marketing allowances related to a single exchange of product are recorded as a reduction of revenues at the time the related revenues are recorded or when such incentives are offered. Other marketing allowances, which may only be applied against future purchases, are recorded as a reduction to revenues in accordance with a schedule set forth in the relevant contract. Sales incentive amounts are recorded based on the value of the incentive provided. See Note K-Commitments and Contingencies for a more complete description of all marketing allowances.

10. *Advertising Costs*

The Company expenses all advertising costs as incurred. Advertising expenses for the fiscal years ended March 31, 2006, 2005 and 2004 were $320,000, $87,000 and $84,000, respectively.

11. *Net Income Per Share*

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

The following represents a reconciliation of basic and diluted net income per share.

	Year end March 31		
	2006	2005	2004
Net income, as restated	$ 2,085,000	$ 7,281,000	$ 5,400,000
Basic shares	8,251,319	8,151,459	8,023,228
Effect of dilutive options and warrants	232,004	448,510	364,901
Diluted shares	8,483,323	8,599,969	8,388,129
Net income per share, as restated:			
Basic	$ 0.25	$ 0.89	$ 0.67
Diluted	$ 0.25	$ 0.85	$ 0.64

The effect of dilutive options and warrants excludes 24,875 options with exercise prices ranging from $11.81 to $19.13 per share in 2006, 361,525 options with exercise prices ranging from $8.70 to $19.13 per share in 2005, and 127,250 options with exercise prices ranging from $6.35 to $19.13 per share in 2004 all of which were anti-dilutive.

12. *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. On an on-going basis, the Company evaluates its estimates, including those related to the carrying amount of property, plant and equipment; valuation allowances for receivables, inventories, and deferred income taxes; accrued liabilities; and litigation and disputes.

The Company uses significant estimates in the calculation of sales returns. These estimates are based on the Company s historical return rates and specific evaluation of customers.

The Company uses significant estimates in the calculation of inventory unreturned. These estimates are based on the Company s historical core return rates to historical sales volumes.

The Company s calculation of inventory reserves involves significant estimates. The basis for the inventory reserve is a comparison of inventory on hand to historical sales volumes.

The Company records an estimate of its liability for self-insured workers compensation by including an estimate of the total claims incurred and reported as well as an estimate of incurred, but not reported, claims by applying the Company s historical claims development factor to its estimate of incurred and reported claims.

The Company uses significant estimates in the calculation of its income tax provision or benefit by using forecasts to estimate whether it will have sufficient future taxable income to realize its deferred tax assets. There can be no assurances that the Company s taxable income will be sufficient to realize such deferred tax assets.

A change in the assumptions used in the estimates for sales returns, inventory reserves and income taxes could result in a difference in the related amounts recorded in the Company s consolidated financial statements.

13. *Financial Instruments*

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these instruments. The carrying amounts of the line of credit and other long-term liabilities approximate their fair value based on current rates for instruments with similar characteristics.

14. *Stock-Based Compensation*

The Company accounts for stock-based employee compensation as prescribed by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and has adopted the disclosure provisions of SFAS 123, Accounting for Stock-Based Compensation, and SFAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123.

Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if, any, of the quoted market price of the Company s common stock at the date of the grant over the amount an employee must pay to acquire the stock. SFAS 123 requires pro forma disclosures of net income and net income per share as if the fair value based method accounting for stock-based awards had been applied. Under the fair value based method, compensation cost is recorded based on the value of the award at the grant date and is recognized over the service period. The following table presents pro forma net income as if compensation costs associated with the Company s option arrangements had been determined in accordance with SFAS 123.

	2006	**2005**	**2004**
Net income, as restated:	$ 2,085,000	$ 7,281,000	$ 5,400,000
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects:			
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects:	(277,000)	(909,000)	(198,000)
Pro forma net income:	$ 1,808,000	$ 6,372,000	$ 5,202,000

Basic income per share as restated	$	0.25	$	0.89	$	0.67
Basic income per share pro forma	$	0.22	$	0.78	$	0.65
Diluted income per share as restated	$	0.25	$	0.85	$	0.64
Diluted income per share pro forma	$	0.21	$	0.74	$	0.62

The fair value of stock options used to compute the pro forma net income and pro forma net income per share disclosures is estimated using the Black-Scholes option pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model requires the input of subjective assumptions including the expected volatility of the underlying stock and the expected holding period of the option. These subjective assumptions are based on both historical and other information. Changes in the values assumed and used in the model can materially affect the estimate of fair value. The table below summarizes the Black-Scholes option pricing model assumptions used to derive the weighted average fair value of the stock options granted during the periods noted.

	2006	2005	2004
Risk free interest rate	4.12%	3.22%	3.28%
Expected holding period (years)	5	5	5
Expected volatility	27%	45%	51%
Expected dividend yield	0%	0%	0%
Weighted average fair value of options granted	$3.19	$3.91	$1.76

15. Credit Risk

The majority of the Company s sales are to leading automotive after market parts suppliers. Management believes the credit risk with respect to trade accounts receivable is limited due to the Company s credit evaluation process and the nature of its customers. However, should the Company s customers experience significant cash flow problems, the Company s financial position and results of operations could be materially and adversely affected.

16. Deferred Compensation Plan

The Company has a deferred compensation plan for certain management. The plan allows participants to defer salary, bonuses and commission. The assets of the plan are held in a trust and are subject to the claims of the Company s general creditors under federal and state laws in the event of insolvency. Consequently, the trust qualifies as a Rabbi trust for income tax purposes. The plan s assets consist primarily of mutual funds and are classified as available for sale. The investments are recorded at market value, with any unrealized gain or loss recorded as other comprehensive loss in shareholders equity. Adjustments to the deferred compensation obligation are recorded in operating expenses. The carrying value of plan assets was $660,000 and $503,000, and deferred compensation obligation was $495,000 and $450,000 at March 31, 2006 and 2005, respectively.

17. Comprehensive Income

SFAS 130, Reporting Comprehensive Income, established standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income 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 consists of net income, foreign currency translation adjustments and unrealized gains/losses. The Company has presented Comprehensive Income on the Consolidated Statement of Shareholders Equity.

18. Recent Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement NO. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4* (FAS 151). This Statement adopts the International Accounting Standard Board s (IASB) view that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. Additionally, the FASB made the decision to clarify the meaning of the term normal capacity . The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Company believes this new pronouncement may apply due to the Company s transition of production to offshore locations, but management can not currently quantify the impact, if any, on the Company s financial statements in future periods.

In December 2004, the FASB issued the revised Statement No. 123R *Accounting for Stock Based Compensation* (FAS 123R), which addressed the requirement for expensing the cost of employee services received in exchange for an award of an equity instrument. FAS 123R will apply to all equity instruments awarded, modified or repurchased for fiscal years beginning after June 15, 2005. In April 2005, the SEC adopted a new rule amending the compliance dates for FAS 123R. In accordance with this rule, the Company will be adopting FAS 123R 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 123R. The Company expects the application of the expensing provisions of FAS 123R to result in a pretax compensation expense of approximately $461,000 in fiscal 2007 based on the future vesting schedules of current stock based compensation grants and adjusted for estimated cancellations or forfeitures based on the Company s historical rate for such occurrences.

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Note D Short Term Investments

The short term investments account contains the assets of the Company s deferred compensation plan. The plan s assets consist primarily of mutual funds and are classified as available for sale. As of March 31, 2006 and 2005, the fair market value of the short term investments was $660,000 and $503,000, and the cost basis was $495,000 and $454,000, respectively.

Note E Inventory

Inventory is comprised of the following at March 31:

	2006	2005
Raw materials and cores	$ 19,237,000	$ 18,612,000
Work-in-process	495,000	681,000
Finished goods POS consignment inventory	15,944,000	17,036,000
Finished goods	24,194,000	13,398,000
	59,870,000	49,727,000
Less allowance for excess and obsolete inventory	(1,989,000)	(2,392,000)
Total	$ 57,881,000	$ 47,335,000

Note F Inventory Unreturned

Inventory unreturned is comprised of the following at March 31:

	2006	2005
Cores	$ 7,223,000	$ 1,505,000
Finished goods	948,000	1,057,000
Total	$ 8,171,000	$ 2,562,000

Note G Plant and Equipment

Plant and equipment, at cost, are as follows at March 31:

	2006	2005
Machinery and equipment	$ 19,756,000	$ 15,052,000
Office equipment and fixtures	5,153,000	5,269,000
Leasehold improvements	3,813,000	1,153,000
	28,722,000	21,474,000
Less accumulated depreciation and amortization	(16,558,000)	(15,991,000)
Total	$ 12,164,000	$ 5,483,000

Plant and equipment located in the foreign countries where the Company has production facilities, net of accumulated depreciation, totaled $3,104,000 and $165,000 at March 31, 2006 and 2005, respectively. These assets constitute substantially all the long-lived assets of the Company located outside of the United States.

Note H Credit Due Customer under an Exclusive Multi-Year Arrangement and Inventory Transaction

In May 2004, the Company entered into an agreement with its largest customer to become the customer s primary supplier of import alternators and starters for its eight distribution centers. As part of this four-year agreement, the Company entered into a POS arrangement with the customer. Under this arrangement, the customer is not obligated to purchase the POS merchandise the Company has shipped to the customer until that merchandise is ultimately sold to the end user. As part of this agreement, the Company purchased approximately $24,000,000 of the customer s then-current inventory of import starters and alternators transitioning to the POS program at the price the customer originally paid for this inventory. The Company is paying for this inventory over 24 months, without interest, through the issuance of monthly credits against receivables generated by sales to the customer. The contract requires that the Company continue to meet its historical performance and competitive standards.

The Company did not record the inventory acquired from the customer as part of this transaction (the transition inventory) as an asset because it does not meet the description of an asset provided in FASB Concepts Statement No. 6, Elements of Financial

Statements (CON 6). Therefore, the Company does not recognize revenues from the customer s POS sales of the transition inventory.

The Company agreed to issue credits in an amount equal to the transition inventory. Based on the description of a liability in CON 6, the Company recognizes the amount of its obligation to the customer as the customer sells the transition inventory and recognizes a payable to the Company. During the contract period from May 2004 through fiscal 2006, the customer sold $21,883,000 of the transition inventory and MPA issued credits of $20,090,000, resulting in a net obligation to the customer of $1,793,000 as reflected on the Company s March 31, 2006 balance sheet. As of March 31, 2005, the customer had sold $19,643,000 of the transition inventory and MPA had issued credits of $7,100,000 resulting in a net obligation of $12,543,000.

As the issuance of credits to the customer generally lagged sales of the transition inventory, the Company received cash in the early months of the agreement which is now being offset by lower cash collections resulting from credits issued to the customer. As of March 31, 2006, $3,910,000 of credits remained to be issued to the customer.

In connection with this POS arrangement, the Company recognized a liability of approximately $460,000 to reflect that the price the Company is paying for the cores included within the non-MPA portion of the transition inventory is greater than the market value of these cores.

The Company also agreed to cooperate with the customer to use reasonable commercial efforts to convert all products sold by MPA to the customer to the POS arrangement by April 2006. As the conversion was not accomplished by April 2006, the Company is required by the agreement to acquire an additional $24,000,000 of inventory and to provide the customer with an additional $24,000,000 of credit memos to be issued and applied in equal monthly installments to current receivables over a 24-month period ending April 2008. However, the Company is currently in discussions with the customer concerning the POS arrangement and it is uncertain if or how this arrangement might be modified.

Note I Capital Lease Obligations

The Company leases various types of machinery and computer equipment under agreements accounted for as capital leases and included in plant and equipment as follows at March 31,:

	2006	**2005**
Cost	$ 7,879,000	$ 2,299,000
Less accumulated amortization	(1,680,000)	(1,127,000)
Total	$ 6,199,000	$ 1,172,000

Future minimum lease payments at March 31, 2006 for the capital leases are as follows:

Year Ending March 31,	
2007	$ 1,874,000
2008	1,761,000
2009	1,642,000
2010	1,387,000
2011	627,000
Total minimum lease payments	7,291,000
Less amount representing interest	(935,000)
Present value of future minimum lease payment	6,356,000
Less current portion	(1,499,000)
	$ 4,857,000

On October 26, 2005, the Company entered into a capital sale-leaseback agreement with a bank. The agreement provided the Company with $4,110,000 in equipment financing repayable in monthly installments of $81,000 over the 60 month term of the lease agreement, with a one dollar purchase option at the end of the lease term. The financing arrangement has an effective interest rate of 6.75%. The proceeds from the agreement were used to reduce the outstanding balance in the Company s line of credit with the bank, which had been used in fiscal 2006 to fund the purchase of fixed assets.

Assets financed under the agreement had a net book value of $1,517,000. The difference between the financing provided, which was based on the fair market value of the equipment, and the net book value of the equipment financed was accounted for as a

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deferred gain on the sale-leaseback agreement. The deferred gain is being amortized at a monthly rate of $43,000 over the estimated five year life of the capital lease asset and is accounted for as an offset to general and administrative expenses. At March 31, 2006, the deferred gain remaining to be amortized was $2,377,000.

Note J Line of Credit and Factoring Agreements

In April 2006, the Company entered into an amended credit agreement with the bank that increased its credit availability from $15,000,000 to $25,000,000, extended the expiration date of the credit facility from October 2, 2006 to October 1, 2008 and changed the manner in which the margin over the benchmark interest rate is calculated. Starting June 30, 2006 the interest rate will fluctuate based upon the (i) bank s reference rate or (ii) LIBOR, as adjusted to take into account any bank reserve requirements, plus a margin dependant upon the leverage ratio as noted below:

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

The bank holds a security interest in substantially all of the Company s assets. The Company had reserved $4,364,000 of the line for standby letters of credit for worker s compensation insurance, and $6,300,000 was outstanding under this revolving line of credit as of March 31, 2006 and had reserved $4,301,000 of the line for standby letters of credit for worker s compensation insurance, and had no outstanding balance under this revolving line of credit at March 31, 2005.

The credit agreement as amended includes various financial conditions, including minimum levels of tangible net worth, cash flow, fixed charge coverage ratio, maximum leverage ratios and a number of restrictive covenants, including prohibitions against additional indebtedness, payment of dividends, pledge of assets and capital expenditures as well as loans to officers and/or affiliates. In addition, it is an event of default under the loan agreement if Selwyn Joffe is no longer the Company s CEO. As a result of the restatement adjustments described in Note B, as of March 31, 2006, we were in default under our loan agreement for failing to maintain a fixed charge coverage ratio of not less than 1.50 to 1.00 as of the last day of the fiscal quarter. On February 12, 2007, the bank provided us with a waiver of this covenant default.

Under the amended credit agreement, we have also agreed to pay a quarterly fee, commencing on June 30, 2006 of 0.375% per year if the leverage ratio as of the last day of the previous fiscal quarter was greater than or equal to 1.50 to 1.00 or 0.25% per year if the leverage ratio is less than 1.50 to 1.00 as of the last day of the previous fiscal quarter on any difference between the $25,000,000 commitment and the average of the daily outstanding amount of credit we actually use during each quarter. A fee of $125,000 was charged by the bank in order to complete the amendment. The fee is payable in three installments of $41,666, one on the date of the amendment to the credit agreement, one on or before February 1, 2007 and one on or before February 1, 2008.

Under two separate agreements executed on July 30, 2004 and August 21, 2003 with two customers and their respective banks, the Company may sell those customers receivables to those banks at an agreed-upon discount set at the time the receivables are sold. One of the agreements was amended on April 5, 2006 to provide for a different discounting agent, which resulted in a reduction in the discount rate. These discount arrangements have allowed the Company to accelerate collection of the customers receivables aggregating $77,683,000 and $81,487,000 for the years ended March 31, 2006 and 2005, respectively, by an average of 189 days and 187 days, respectively. On an annualized basis the weighted average discount rate on the receivables sold to the banks during the years ended March 31, 2006, 2005 and 2004 was 5.9%, 4.2% and 3.0%, respectively. The amount of the discount on these receivables, $2,292,000, $1,539,000 and $588,000 for the years ended March 31, 2006, 2005 and 2004, respectively, was recorded as interest expense.

Note K Shareholders Equity

In connection with the fiscal 2002 execution of an amendment to its then existing credit agreement, the exercise price of the warrants previously issued by the Company to its relevant lender was reduced to $.01 per share. This warrant provided the bank with the right to purchase 400,000 shares of the Company s common stock. During fiscal 2004, the Company obtained replacement financing and paid its former lender $700,000 to cancel this warrant. This transaction resulted in a reduction of $340,000 in retained earnings and a reduction of $360,000 in additional paid in capital.

During the twelve months ended March 31, 2004, the Company also repurchased at market value 79,000 shares of its common stock for $296,000.

Preferred Stock:

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

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

The Rights are not exercisable or transferable apart from the Common Stock until an Acquiring Person, as defined in the Rights Agreement, without the prior consent of the Company s Board of Directors, acquires 20% or more of the outstanding shares of the Common Stock or announces a tender offer that would result in 20% ownership. The Company is entitled to redeem the Rights, at $0.001 per Right, any time until ten days after a 20% position has been acquired. Under certain circumstances, including the acquisition of 20% of the Company s common stock without the prior consent of the Board, each Right not owned by a potential Acquiring Person will entitle its holder to receive, upon exercise, shares of Common Stock having a value equal to twice the exercise price of the Right.

Holders of a Right will be entitled to buy stock of an Acquiring Person at a similar discount if, after the acquisition of 20% or more of the Company s outstanding Common Stock, the Company is involved in a merger or other business combination transaction with another person in which it is not the surviving company, the Company s common stock is changed or converted, or the Company sells 50% or more of its assets or earning power to another person.

The Rights expire on March 12, 2008 unless earlier redeemed by the Company.

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

Note L Financial Risk Management and Derivatives

Purchases and expenses denominated in currencies other than the U.S. dollar, which are primarily related to the Company s production facilities overseas, expose the Company to market risk from material movements in foreign exchange rates between the U.S. dollar and the foreign currency. The Company s primary risk exposure is from changes in the rate between the U.S. dollar and the Mexican peso related to the operation of the Company s facility in Mexico. In August 2005, the Company began to enter into forward foreign exchange contracts to exchange U.S. dollars for Mexican pesos. The extent to which forward foreign exchange contracts are used is modified periodically in response to management s estimate of market conditions and the terms and length of specific purchase requirements to fund those overseas facilities.

The Company enters into forward foreign exchange contracts in order to reduce the impact of foreign currency fluctuations and not to engage in currency speculation. The use of derivative financial instruments allows the Company to reduce its exposure to the risk that the eventual cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in exchange rates. The Company does not hold or issue financial instruments for trading purposes. The forward foreign exchange contracts are designated for forecasted expenditure requirements to fund the overseas operations. These contracts expire in a year or less.

The forward foreign exchange contracts entered into require the Company to exchange Mexican pesos for U.S. dollars at maturity, at rates agreed at the inception of the contracts. The counterparty to this derivative transaction is a major financial institution with investment grade or better credit rating; however, the Company is exposed to credit risk with this institution. The credit risk is limited to the potential unrealized gains (which offset currency fluctuations adverse to the Company) in any such contract should this counterparty fail to perform as contracted. Any changes in the fair values of foreign exchange contracts are reflected in current period earnings and accounted for as an increase or offset to general and administrative expenses. For the fiscal year ended March

31, 2006, the Company offset general and administrative expenses by a $36,000 gain associated with these foreign exchange contracts.

Note M Commitments and Contingencies

Operating Lease Commitments

The Company leases office and warehouse facilities in California, Tennessee, Malaysia, Singapore and Mexico under operating leases expiring through 2007. The Company also has short term contracts of one year or less with its fee warehouses. These agreements have contingent payment levels based on the level of sales that are processed through the fee warehouse. The contingent payments have not been, nor are they expected to be, materially above the minimum monthly contract payments. At March 31, 2006, the remaining future minimum rental payments under the above operating leases are as follows:

Year ending March 31,	
2007	$ 2,268,000
2008	862,000
2009	862,000
2010	881,000
2011	709,000
Thereafter	10,054,000
	$ 15,636,000

On October 28, 2004, the Company s wholly owned subsidiary, Motorcar Parts de Mexico, S.A. de C.V., entered into a build-to-suit lease covering approximately 125,000 square feet of industrial premises in Tijuana, Baja California, Mexico for a remanufacturing facility. The Company guarantees the payment obligations of its wholly owned subsidiary under the terms of the lease. The lease provides for a monthly rent of $47,500, which increases by 2% each year beginning with the third year of the lease term. The lease has a term of 10 years from the date the facility was available for occupancy, and Motorcar Parts de Mexico has an option to extend the lease term for two additional 5-year periods. In May 2005, the Company took possession of these premises, and in June 2005, the Company began limited remanufacturing at the location. In April 2006, Motorcar Parts de Mexico leased an additional 61,000 square feet adjoining its existing space. Base monthly rent on the additional space is $23,200 and carries the same terms and rent escalation clauses as the original lease.

During fiscal years 2006, 2005 and 2004, the Company incurred total lease expenses of $2,428,000, $1,466,000 and $1,263,000, respectively.

Commitments to Provide Marketing Allowances under Long Term Customer Contracts

The Company has long-term agreements with each of its major customers. Under these agreements, which typically have initial terms of at least four years, the Company is designated as the exclusive or primary supplier for specified categories of remanufactured alternators and starters. In consideration for its designation as a customer s exclusive or primary supplier, the Company typically provides the customer with a package of marketing incentives. These incentives differ from contract to contract and can include (i) the issuance of a specified amount of credits against receivables in accordance with a schedule set forth in the relevant contract, (ii) support for a particular customer s research or marketing efforts on a scheduled basis, (iii) discounts granted in connection with each individual shipment of product and (iv) other marketing, research, store expansion or product development support. These contracts typically require that the Company meet ongoing performance, quality and fulfillment requirements, and its contract with one of the largest automobile manufacturers in the world includes a provision (standard in this manufacturer s vendor agreements) granting the manufacturer the right to terminate the agreement at any time for any reason. The Company s contracts with major customers expire at various dates ranging from May 2008 through December 2012. The Company typically grants its customers marketing allowances in connection with these customers purchase of goods. The Company records the cost of all marketing allowances provided to its customers in accordance with EITF 01-9, Accounting for Consideration Given by a Vendor to a Customer. Such allowances include sales incentives and concessions and typically consist of the following three types: (i) allowances which may only be applied against future purchases and are recorded as a reduction to revenues in accordance with a schedule set forth in the long term contract, (ii) allowances related to a single exchange of product that are recorded as a reduction of revenues at the time the related revenues are recorded or when such incentives are offered and (iii) allowances that are made in connection with the purchase of inventory from a customer.

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The following table presents the breakout of marketing allowances recorded as a reduction to revenues in the years ended March 31:

	2006	2005	2004
Marketing allowances incurred under long-term customer contracts:	$ 5,825,000	$ 2,224,000	$ 2,052,000
Marketing allowances related to a single exchange of product:	11,533,000	9,668,000	4,978,000
Marketing allowances related to core inventory purchase obligations:	1,262,000	104,000	
Total marketing allowances recorded as a reduction of revenues:	$ 18,620,000	$ 11,996,000	$ 7,030,000

The following table presents the commitments to incur marketing allowances which will be recognized as a charge against revenue in accordance with the terms of the relevant long-term customer contracts:

Year ending March 31,	
2007	$ 3,041,000
2008	2,622,000
2009	1,889,000
2010	1,889,000
2011	1,289,000
Thereafter	945,000
	$ 11,675,000

The Company has also entered into agreements to purchase certain customers core inventory and to issue credits to pay for that inventory according to an agreed upon schedule set forth in the agreements. Under the largest of these agreements, the Company agreed to acquire other core inventory by issuing $10,300,000 of credits over a five-year period that began in March 2005 (subject to adjustment if customer sales decrease in any quarter by more than an agreed upon percentage) on a straight-line basis. As the Company issues these credits, it establishes a long-term asset account for the value of the core inventory estimated to be in customer hands and subject to repurchase upon agreement termination, and reduces revenue by recognizing the amount by which the credit exceeds the estimated core inventory value as a marketing allowance. The amounts charged against revenues under this arrangement in the years ended March 31, 2006 and 2005 were $1,166,000 and $104,000, respectively. As of March 31, 2006, the long-term asset account was approximately $826,000. The Company will regularly review the long-term asset account for impairment and make any necessary adjustment to the carrying value of this asset. As of March 31, 2006, approximately $8,064,000 of credits remains to be issued under this arrangement and an additional $1,544,000 under other similar arrangements.

The following table presents the core inventory purchase and credit issuance obligations which will be recognized in accordance with the terms of the relevant long-term contracts:

Year ending March 31,	
2007	$ 2,581,000
2008	2,480,000
2009	2,256,000
2010	2,044,000
2011	131,000
Thereafter	116,000

$ 9,608,000

The foregoing table does not include the credits to be issued in connection with the purchase of transition inventory discussed in Note H.

Workers Compensation Self Insurance

The Company is partially self-insured for workers compensation insurance and is liable for the first $250,000 of each claim, with an aggregate amount of $2,500,000 per year. Above these limits, the Company has purchased insurance coverage which management considers adequate. The Company records an estimate of its liability for self-insured workers compensation by including an estimate of the total claims incurred and reported as well as an estimate of incurred, but not reported, claims by applying the Company s historical claims development factor to its estimate of incurred and reported claims.

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Note N Major Customers

The Company s three largest customers accounted for the following total percentage of sales and accounts receivable for the fiscal years ended March 31:

Sales	**2006**	**2005**	**2004**
Customer A	71%	72%	64%
Customer B	12%	12%	16%
Customer C	9%	9%	13%

Accounts Receivable	**2006**	**2005**
Customer A	60%	68%
Customer B	10%	10%
Customer C	21%	18%

During the fiscal year ended March 31, 2006, the third and fourth largest customers of the Company changed positions thus the information for Customer C was related to one customer in fiscal years 2004 and 2005 and related to another customer in fiscal 2006.

Note O Income Taxes

The income tax expense for the years ended March 31, 2006, 2005 and 2004 is as follows:

	2006	**2005**	**2004**
Current tax (expense) benefit			
Federal	$ (424,000)	$ (945,000)	$ 85,000
State	(100,000)	(184,000)	5,000
Foreign	(123,000)	(31,000)	(7,000)
Total current tax expense	(647,000)	(1,160,000)	83,000
Deferred tax (expense) benefit			
Federal	(668,000)	(2,908,000)	(2,781,000)
State	68,000	(397,000)	(203,000)
Foreign	(12,000)		
Total deferred tax expense	(612,000)	(3,305,000)	(2,984,000)
Total income tax expense	$ (1,259,000)	$ (4,465,000)	$ (2,901,000)

Deferred income taxes consist of the following at March 31:

	2006	**2005**
Assets		
Net operating loss carry-forwards	$	$ 853,000
Inventory valuation	1,016,000	1,225,000
Estimate for returns	3,149,000	2,195,000
Allowance for customer incentives	1,036,000	1,300,000
Inventory capitalization	214,000	173,000
Vacation pay	337,000	256,000
Deferred compensation	210,000	193,000
Accrued bonus	450,000	510,000
Tax credit		328,000

Other	19,000	
Total deferred tax assets	6,431,000	7,033,000
Liabilities		
Deferred state tax	(292,000)	(355,000)
Deferred tax on unrealized gain	(33,000)	(17,000)
Accelerated depreciation	(847,000)	(802,000)
Other	(12,000)	
Total deferred tax liabilities	(1,184,000)	(1,174,000)
Net deferred tax assets	$ 5,247,000	$ 5,859,000
Net current deferred income tax asset	$ 5,809,000	$ 6,378,000
Net long-term deferred income tax liability	(562,000)	(519,000)
Total	$ 5,247,000	$ 5,859,000

Realization of the deferred tax assets is dependent upon the Company s ability to generate sufficient taxable income. Management believes that it is more likely than not that future taxable income will be sufficient to realize the recorded deferred tax assets. At March 31, 2006, the Company had fully used its federal net operating loss carry forwards. For fiscal 2006, 2005 and 2004, the primary components of the Company s income tax provisions are (i) the current liability due for federal, state and foreign income taxes, including, in fiscal 2004, the effect of the tax net operating loss carryback provisions of the Job Creation and Work Assistance Act of 2002 and (ii) the change in the amount of the net deferred income tax asset, including the effect of any change in the valuation allowance. The Job Creation and Work Assistance Act of 2002 (the Act) was passed by Congress and then signed by the President on March 9, 2002. One of the provisions of the Act extends the carry-back period five years for losses arising in years ending during 2001 and 2002. Under the Act, the Company received tax refunds of $93,000 in fiscal 2004 related to the five-year carry-back provision of the Act. The difference between the income tax expense at the federal statutory rate and the Company s effective tax rate is as follows:

	2006	**2005**	**2004**
Statutory federal income tax rate	34%	34%	34%
State income tax rate, net of federal benefit	6%	6%	5%
State income tax credits		(3)%	(3)%
Change in tax law			(1)%
Other income tax	(3)%	1%	
	37%	38%	35%

Note P Defined Contribution Plan

The Company has a 401(k) plan covering all employees who are 21 years of age with at least six months of service. The plan permits eligible employees to make contributions up to certain limitations, with the Company matching 25% of each participating employee s contribution up to the first 6% of employee compensation. Employees are immediately vested in their voluntary employee contributions and vest in the Company s matching contributions ratably over five years. The Company s matching contribution to the 401(k) plan was $71,000, $67,000 and $48,000 for the fiscal years ended March 31, 2006, 2005 and 2004, respectively.

Note Q Stock Options

In January 1994, the Company adopted the 1994 Stock Option Plan (the 1994 Plan), under which it was authorized to issue non-qualified stock options and incentive stock options to key employees, directors and consultants. After a number of shareholder-approved increases to this plan, at March 31, 2002 the aggregate number of stock options approved was 960,000 shares of the Company s common stock. The term and vesting period of options granted is determined by a committee of the Board of Directors with a term not to exceed ten years. At the Company s Annual Meeting of Shareholders held on November 8, 2002 the 1994 Plan was amended to increase the authorized number of shares issued to 1,155,000. As of March 31, 2006, there were 565,850 options outstanding under the 1994 Plan and no options were available for grant.

At the Company s Annual Meeting of Shareholders held on December 17, 2003, the shareholders approved the Company s 2003 Long-Term Incentive Plan (Incentive Plan) which had been adopted by the Company s Board of Directors on October 31, 2003. Under the Incentive Plan, a total of 1,200,000 shares of our Common Stock were reserved for grants of Incentive Awards and all of the Company s employees are eligible to participate. The 2003 Incentive Plan will terminate on October 31, 2013, unless terminated earlier by the Company s Board of Directors. As of March 31, 2006, there were 725,950 options outstanding under the Incentive Plan and 469,050 options were available for grant.

In November 2004, the Company s shareholders approved the 2004 Non-Employee Director Stock Option Plan (the 2004 Plan) which provides for the granting of options to non-employee directors to purchase a total of 175,000 shares of the Company s common stock. As of March 31, 2006, there were 59,000 options issued, of which 22,666 options are not immediately exercisable under the 2004 Plan and 116,000 options were available for grant.

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A summary of stock option transactions follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2003	940,375	$ 2.82
Granted	112,875	$ 6.04
Exercised	(204,500)	$ 2.44
Cancelled	(55,500)	$ 2.77
Outstanding at March 31, 2004	793,250	$ 3.31
Granted	401,150	$ 8.83
Exercised	(98,000)	$ 2.98
Cancelled	(2,750)	$ 6.82
Outstanding at March 31, 2005	1,093,650	$ 5.29
Granted	405,800	$ 10.08
Exercised	(132,150)	$ 2.16
Cancelled	(16,500)	$ 8.73
Outstanding at March 31, 2006	1,350,800	$ 7.05

The followings table summarizes information about the options outstanding at March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Shares	Weighted Average Exercise Price
$1.100 to $1.800	34,600	$ 1.19	5.17	34,600	$ 1.19
$2.160 to $3.600	415,000	$ 2.80	5.82	415,000	$ 2.80
$6.345 to $9.270	479,525	$ 8.29	8.18	462,859	$ 8.32
$9.650 to $19.125	421,675	$ 10.30	9.27	147,139	$ 10.88
	1,350,800			1,059,598	

The stock options exercisable at end of year fiscal 2006, 2005 and 2004 were 1,059,598, 1,060,318 and 793,250, respectively.

The Company will be adopting FAS 123R 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 123R. At March 31, 2006, there was $884,000 of total unrecognized compensation expense from stock-based compensation granted under the plans, which is related to non-vested shares. The compensation expense is expected to be recognized over a weighted average vesting period of 1.51 years. The Company expects the application of the expensing provisions of FAS 123R to result in a pretax compensation expense of approximately $461,000 in fiscal 2007 based on the future vesting schedules of current stock based compensation grants and adjusted for estimated cancellations or forfeitures based on the Company s historical rate for such occurrences. This amount does not include additional grants of options that may occur in fiscal 2007.

In accordance with SEC Staff Accounting Bulletin No. 107, (SAB 107) the Company will classify the stock based compensation within cost of goods sold, selling, general and administrative and research and development costs corresponding to the same line item as the cash compensation paid to respective employees, officers, and non-employee directors.

Currently the Company presents all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statement of Cash Flow. FAS 123R will require that the cash flows resulting from the tax benefits from tax deductions in excess of the compensation expense recognized for those options (excess tax benefit) to be classified as financing cash flows.

Note R Litigation

In fiscal 2003, the SEC filed a civil suit against the Company and its former chief financial officer, Peter Bromberg, arising out of the SEC s investigation into the Company s fiscal 1997 and 1998 financial statements (Complaint). Simultaneously with the filing of the SEC Complaint, the Company agreed to settle the SEC s action without admitting or denying the allegations in the Complaint. Under the terms of the settlement agreement, the Company is subject to a permanent injunction barring the Company from future violations of the antifraud and financial reporting provisions of the federal securities laws. No monetary fine or penalty was imposed upon the Company in connection with this settlement with the SEC.

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

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 agreed to plead guilty to the criminal charges, and on June 17, 2005 he was sentenced to nine months in prison, nine months of home detention, 18 months of probation and fined $50,000. In settlement of the SEC s civil fraud action, Mr. Marks paid over $1.2 million and was permanently barred from serving as an officer or director of a public company.

Based upon the terms of agreements it had previously entered into with Mr. Richard Marks, the Company has paid the costs he incurred in connection with the SEC and United States Attorney s Office s investigation. During the years ended March 31, 2006, 2005 and 2004, the Company incurred costs of approximately $368,000, $556,000 and $966,000, respectively, pursuant to this indemnification arrangement. Following the conclusion of these investigations, the Company sought reimbursement from Mr. Marks of certain of the legal fees and costs the Company advanced. In June 2006, the Company entered into a Settlement Agreement and Mutual Release with Mr. Marks. Under this agreement Mr. Marks is obligated to pay the Company $682,000 on January 15, 2008 and to pay interest at the prime rate plus one percent on June 15, 2007 and January 15, 2008. Mr. Marks has agreed to pledge 80,000 shares of the Company s common stock that he owns to secure this obligation, and he has advised the Company that the delivery of these pledged shares to the Company is in process. If at any time the market price of the stock pledged by Mr. Marks is less than 125% of Mr. Marks obligation, he is required to pledge additional stock so as to maintain no less than the 125% coverage level. The settlement with Mr. Marks was unanimously approved by a Special Committee of the Board consisting of Messrs. Borneo, Gay and Siegel.

The United States Attorney s Office has informed the Company that it does not intend to pursue criminal charges against the Company arising from the events involved in the SEC Complaint.

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

Note S Related Party Transactions

The Company has entered into agreements with three members of its Board of Directors, Messrs. Mel Marks, Philip Gay and Selwyn Joffe.

In August 2000, the Company s Board of Directors agreed to engage Mr. Mel Marks to provide consulting services to the Company. Mr. Marks is currently paid an annual consulting fee of $350,000 per year. He was paid $350,000 in fiscal 2006 and 2005 and $350,000 plus a $50,000 bonus in fiscal 2004. The Company can terminate this arrangement at any time.

The Company agreed to pay Mr. Gay $90,000 per year for serving on the Company s Board of Directors, as well as assuming the responsibility for being Chairman of the Company s Audit and Ethics Committees.

On February 14, 2003, Mr. Joffe accepted his current position as President and Chief Executive Officer in addition to serving as the Chairman of the Board of Directors. Mr. Joffe s agreement called for an annual salary of $542,000, the continuation of his prior agreement relative to payment of 1% of the value of any transactions which close by March 31, 2006 and other compensation generally provided to the Company s other executive staff members. His contract was scheduled to expire on March 31, 2006.

On April 22, 2005, the Company entered into an amendment to its employment agreement with Mr. Joffe. Under the amendment, Mr. Joffe s term of employment was extended from March 31, 2006 to March 31, 2008, and his base salary, bonus arrangements, 1% transaction fee right and fringe benefits remain unchanged. Before the amendment, Mr. Joffe had the right to terminate his employment upon a change of control and receive his salary and benefits through March 31, 2006. Under the amendment, upon a change of control (which has been redefined pursuant to the amendment), Mr. Joffe will be entitled to a sale bonus equal to the sum of (i) two times his base salary plus (ii) two times his average bonus earned for the two years immediately prior to the change of control. The amendment also grants Mr. Joffe the right to terminate his employment within one year of a change of control and to then receive salary and benefits for a one-year period following such termination plus a bonus equal to the average bonus Mr. Joffe earned during the two years immediately prior to his voluntary termination.

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

Note T Unaudited and Restated Quarterly Financial Data

The unaudited quarterly financial data for each of the four quarters of fiscal 2006 and each of the four quarters of fiscal 2005 have been restated to correct errors which occurred when (i) the Company incorrectly recorded a duplicative entry to recognize the gross profit impact from the accrual of certain cores authorized to be returned, but still in-transit to the Company from its customers, (ii) the Company incorrectly recorded core charge revenue when the amount of revenue was not fixed and determinable and (iii) the Company did not appropriately accrue for all existing and potential future customer payment discrepancies.

The following summarizes selected quarterly financial data for the fiscal year ended March 31, 2006, including restated numbers for each of the four quarters of fiscal 2006:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales, as previously reported	$ 21,351,000	$ 30,139,000	$ 30,895,000	$ 29,718,000
A/R discrepancy adjustment	(650,000)	98,000	(278,000)	(1,180,000)
Core-charge revenue adjustment	(380,000)	(461,000)	(463,000)	(392,000)
Net sales, as restated	20,321,000	29,776,000	30,154,000	28,146,000
Cost of goods sold, as previously reported	17,965,000	22,389,000	22,696,000	21,138,000
In-transit core adjustment	56,000	(897,000)	918,000	(307,000)
Core-charge revenue adjustment	(223,000)	(261,000)	(256,000)	(226,000)
Cost of goods sold, as restated	17,798,000	21,231,000	23,358,000	20,605,000
Gross profit, as previously reported	3,386,000	7,750,000	8,199,000	8,580,000
Net effect of adjustments to gross profit	(863,000)	795,000	(1,403,000)	(1,039,000)
Gross profit, as restated	2,523,000	8,545,000	6,796,000	7,541,000
Total operating expenses	5,189,000	5,086,000	3,912,000	4,920,000
Operating income (loss) as restated	(2,666,000)	3,459,000	2,884,000	2,621,000
Interest expense net	548,000	654,000	958,000	794,000
Income tax expense (benefit), as restated	(1,250,000)	1,126,000	776,000	607,000
Net income (loss), as previously reported	(1,420,000)	1,181,000	2,031,000	1,876,000
	(544,000)	498,000	(881,000)	(656,000)

Net effect of adjustments on net income (loss)				
Net income (loss), as restated	$ (1,964,000)	$ 1,679,000	$ 1,150,000	$ 1,220,000
Basic income (loss) per share, as previously reported	$ (0.17)	$ 0.14	$ 0.25	$ 0.22
Basic income (loss) per share from adjustments	(0.07)	0.06	(0.11)	0.07
Basic income (loss) per share, as restated	$ (0.24)	$ 0.20	$ 0.14	$ 0.15
Diluted income (loss) per share, as previously reported	$ (0.17)	$ 0.14	$ 0.24	$ 0.22
Diluted income (loss) per share from adjustments	(0.07)	0.05	(0.11)	0.08
Diluted income (loss) per share, as restated	$ (0.24)	$ 0.19	$ 0.13	$ 0.14

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The following summarizes selected quarterly financial data for the fiscal year ended March 31, 2005, including restated numbers for each of the four quarters of fiscal 2005:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales, as previously reported	$ 21,209,000	$ 24,993,000	$ 24,295,000	$ 25,288,000
A/R discrepancy adjustment	563,000	309,000	243,000	(181,000)
Net sales, as restated	21,772,000	25,302,000	24,538,000	25,107,000
Cost of goods sold, as previously reported	17,338,000	17,997,000	16,373,000	17,024,000
In-transit core adjustment	(1,339,000)	1,130,000	298,000	(604,000)
Core-charge revenue adjustment				(153,000)
Cost of goods sold, as restated	15,999,000	19,127,000	16,671,000	16,267,000
Gross profit, as previously reported	3,871,000	6,996,000	7,922,000	8,264,000
Net effect of adjustments to gross profit	1,902,000	(821,000)	(55,000)	576,000
Gross profit, as restated	5,773,000	6,175,000	7,867,000	8,840,000
Total operating expenses	3,422,000	3,136,000	4,155,000	4,504,000
Operating income, as restated	2,351,000	3,039,000	3,712,000	4,336,000
Interest expense net	351,000	449,000	526,000	366,000
Income tax expense, as restated	764,000	950,000	1,182,000	1,569,000
Net income, as previously reported	57,000	2,149,000	2,038,000	2,044,000
Net effect of adjustments on net income	1,179,000	(509,000)	(34,000)	357,000
Net income, as restated	$ 1,236,000	$ 1,640,000	$ 2,004,000	$ 2,401,000
Basic income per share, as previously reported	$ 0.01	$ 0.26	$ 0.25	$ 0.25
Basic income (loss) per share from adjustments	0.14	(0.06)	(0.02)	0.04
Basic income per share, as restated	$ 0.15	$ 0.20	$ 0.23	$ 0.29
Diluted income per share, as previously reported	$ 0.01	$ 0.25	$ 0.24	$ 0.24
Diluted income (loss) per share from adjustments	0.13	(0.06)	(0.02)	0.04
Diluted income per share, as restated	$ 0.14	$ 0.19	$ 0.22	$ 0.28

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Schedule II Valuation and Qualifying Accounts

Accounts Receivable Allowance for doubtful accounts

Year Ended March 31,	Description	Balance at beginning of period	Charge to (recovery of) bad debts expense	Amounts written off	Balance at end of period
2006	Allowance for doubtful accounts	$20,000	$ 9,000	$ 3,000	$26,000
2005	Allowance for doubtful accounts	$14,000	$20,000	$14,000	$20,000
2004	Allowance for doubtful accounts	$87,000	$13,000	$86,000	$14,000

Accounts Receivable Allowance for stock adjustments

Year Ended March 31,	Description	Balance at beginning of period	Estimated stock adjustment returns	Returns received	Balance at end of period
2006	Allowance for stock adjustments	$1,524,000	$2,140,000	$1,896,000	$1,768,000
2005	Allowance for stock adjustments	$ 467,000	$3,837,000	$2,780,000	$1,524,000
2004	Allowance for stock adjustments	$ 793,000	$1,996,000	$2,322,000	$ 467,000

Inventory Allowance for excess and obsolete inventory*

Year Ended March 31,	Description	Balance at beginning of period	Net change	Balance at end of period
2006	Allowance for excess and obsolete inventory	$2,392,000	$(403,000)	$1,989,000
2005	Allowance for excess and obsolete inventory	$2,637,000	$(245,000)	$2,392,000
2004	Allowance for excess and obsolete inventory	$3,149,000	$(512,000)	$2,637,000

* The allowance for excess and obsolete inventory is not a general type reserve that can be rolled forward. Every month the Company calculates the reserve based on a rolling

12 months of sales activity for each affected part number, and an adjustment is recorded to reflect the calculated reserve balance. Accordingly, the net activity is presented versus the gross increases and decreases to the account.