MOTORCAR PARTS AMERICA INC
Form 10-Q
February 08, 2010

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2009

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

Commission File No. 001-33861
MOTORCAR PARTS OF AMERICA, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

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

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

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

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

There were 12,026,021 shares of Common Stock outstanding at February 1, 2010.

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MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

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

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

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2009 (Unaudited)	March 31, 2009
ASSETS		
Current assets:		
Cash	$ 465,000	$ 452,000
Short-term investments	422,000	335,000
Accounts receivable net		11,121,000
Inventory net	31,461,000	27,923,000
Inventory unreturned	4,266,000	4,708,000
Deferred income taxes	8,282,000	8,277,000
Prepaid expenses and other current assets	2,582,000	1,355,000
Total current assets	47,478,000	54,171,000
Plant and equipment net	12,961,000	13,997,000
Long-term core inventory	66,261,000	62,821,000
Long-term core inventory deposit	25,768,000	24,451,000
Long-term deferred income taxes	480,000	989,000
Intangible assets net	6,497,000	2,564,000
Other assets	1,149,000	595,000
TOTAL ASSETS	$ 160,594,000	$ 159,588,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 32,382,000	$ 24,507,000
Note payable		722,000
Accrued liabilities	3,589,000	1,451,000
Accrued salaries and wages	2,509,000	3,162,000
Accrued workers compensation claims	1,483,000	1,895,000
Income tax payable	385,000	1,158,000
Revolving loan	700,000	21,600,000
Other current liabilities	656,000	1,624,000
Current portion of term loan	2,000,000	
Current portion of capital lease obligations	1,277,000	1,621,000
Total current liabilities	44,981,000	57,740,000
Term loan, less current portion	8,000,000	
Deferred core revenue	5,761,000	5,934,000
Deferred gain on sale-leaseback	450,000	843,000
Other liabilities	834,000	587,000
Capitalized lease obligations, less current portion	533,000	1,401,000
Total liabilities	60,559,000	66,505,000

Commitments and contingencies		
Shareholders equity:		
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued		
Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued		
Common stock; par value $.01 per share, 20,000,000 shares authorized; 11,996,021 and 11,962,021 shares issued and outstanding at December 31, 2009 and March 31, 2009, respectively	120,000	120,000
Additional paid-in capital	92,701,000	92,459,000
Additional paid-in capital-warrant	1,879,000	1,879,000
Accumulated other comprehensive loss	(2,049,000)	(1,984,000)
Retained earnings	7,384,000	609,000
Total shareholders equity	100,035,000	93,083,000
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 160,594,000	$ 159,588,000

The accompanying condensed 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
(Unaudited)

	Nine Months Ended December 31,		Three Months Ended December 31,	
	2009	**2008**	**2009**	**2008**
Net sales	$ 108,609,000	$ 104,944,000	$ 36,482,000	$ 35,802,000
Cost of goods sold	79,745,000	71,428,000	25,605,000	25,672,000
Gross profit	28,864,000	33,516,000	10,877,000	10,130,000
Operating expenses:				
General and administrative	9,966,000	14,634,000	3,801,000	5,460,000
Sales and marketing	4,355,000	3,911,000	1,548,000	1,555,000
Research and development	1,023,000	1,558,000	355,000	515,000
Impairment of goodwill		2,091,000		2,091,000
Total operating expenses	15,344,000	22,194,000	5,704,000	9,621,000
Operating income	13,520,000	11,322,000	5,173,000	509,000
Other expense (income):				
Gain on acquisition	(1,331,000)			
Interest expense	3,746,000	3,188,000	1,776,000	1,204,000
Interest income		(19,000)		(1,000)
Income (loss) before income tax expense (benefit)	11,105,000	8,153,000	3,397,000	(694,000)
Income tax expense (benefit)	4,330,000	3,115,000	1,252,000	(380,000)
Net income (loss)	$ 6,775,000	$ 5,038,000	$ 2,145,000	$ (314,000)
Basic net income (loss) per share	$ 0.57	$ 0.42	$ 0.18	$ (0.03)
Diluted net income (loss) per share	$ 0.56	$ 0.42	$ 0.18	$ (0.03)
Weighted average number of shares outstanding:				
Basic	11,977,239	12,006,619	11,996,021	11,962,021
Diluted	12,098,126	12,101,685	12,126,420	11,962,021

The accompanying condensed 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
(Unaudited)

	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Cash flows from operating activities:		
Net income	$ 6,775,000	$ 5,038,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,419,000	2,341,000
Impairment of goodwill		2,091,000
Amortization of intangible assets	451,000	224,000
Amortization of deferred gain on sale-leaseback	(393,000)	(390,000)
Amortization of deferred financing costs	15,000	
Provision for (recovery of) inventory reserves	851,000	(278,000)
Provision for customer payment discrepencies	219,000	751,000
Provision for doubtful accounts	74,000	224,000
Deferred income taxes	702,000	(1,053,000)
Share-based compensation expense	120,000	444,000
Gain on acquisition	(1,331,000)	
Impact of tax benefit on APIC pool	36,000	
Loss on disposal of assets	5,000	
Changes in current assets and liabilities:		
Accounts receivable	9,706,000	(9,139,000)
Inventory	(3,951,000)	8,130,000
Inventory unreturned	441,000	(274,000)
Prepaid expenses and other current assets	(563,000)	564,000
Other assets	(430,000)	(30,000)
Accounts payable and accrued liabilities	8,249,000	(5,846,000)
Income tax payable	(830,000)	1,167,000
Deferred core revenue	(173,000)	1,392,000
Long-term accounts receivable		767,000
Long-term core inventory	(3,871,000)	(10,759,000)
Long-term core inventory deposits	(1,317,000)	(1,183,000)
Other liabilities	(1,349,000)	1,146,000
Net cash provided by (used in) operating activities	15,855,000	(4,673,000)
Cash flows from investing activities:		
Purchase of plant and equipment	(816,000)	(1,805,000)
Purchase of businesses	(2,622,000)	(7,170,000)
Change in short term investments	22,000	(55,000)
Net cash used in investing activities	(3,416,000)	(9,030,000)
Cash flows from financing activities:		
Borrowings under revolving loan	26,200,000	39,010,000
Repayments under revolving loan	(47,100,000)	(24,610,000)
Proceeds from term loan	10,000,000	

Deferred financing costs	(414,000)	
Payments on capital lease obligations	(1,218,000)	(1,366,000)
Exercise of stock options	123,000	
Impact of tax benefit on APIC pool	(36,000)	
Net cash (used in) provided by financing activities	(12,445,000)	13,034,000
Effect of exchange rate changes on cash	19,000	(388,000)
Net increase (decrease) in cash and cash equivalents	13,000	(1,057,000)
Cash and cash equivalents Beginning of period	452,000	1,935,000
Cash and cash equivalents End of period	$ 465,000	$ 878,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,672,000	$ 3,053,000
Income taxes	4,050,000	2,543,000
Non-cash investing and financing activities:		
Settlement of accounts receivable in connection with the purchase of business	$ 1,123,000	$
Property acquired under capital lease		357,000
Holdback on purchase of businesses		800,000
Note payable on purchase of business		1,014,000
Retirement of common stock in satisfaction of shareholder note receivable		682,000

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Condensed Notes to Consolidated Financial Statements
December 31, 2009
(Unaudited)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine and three months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2010. This report should be read in conjunction with the Company s audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2009, which are included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on June 15, 2009.

The accompanying consolidated financial statements have been prepared on a consistent basis with, and there have been no material changes to, the accounting policies described in Note 2 to the consolidated financial statements that are presented in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

1. Company Background and Organization

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

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

The Company operates in one business segment pursuant to FASB Accounting Standards Codification (ASC) 280, *Segment Reporting*.

2. Acquisitions

On August 14, 2009, the Company completed the acquisition of certain assets of Reliance Automotive, Inc. (Reliance), a privately held remanufacturer of alternators and starters based in East Berlin, Connecticut. These products are sold under the Reliance brand name. The acquisition was consummated pursuant to a definitive purchase agreement dated August 14, 2009. The Company believes the acquisition of Reliance continues an acquisition strategy designed to further enhance the Company s market share in North America, including the addition of a major automotive retail customer.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The estimated fair value of the net assets acquired exceeded the fair value of the consideration transferred of $3,023,000. After reassessing the identification of assets acquired and liabilities assumed, the $1,331,000 excess of the fair value of the net assets acquired over the purchase price was recorded as a gain on acquisition in the Company s Consolidated Statement of Operations during the nine months ended December 31, 2009. The tax impact of the gain on acquisition of $544,000 is included as a reduction to long-term deferred income tax assets in the Consolidated Balance Sheet at December 31, 2009. Acquisition related costs for the nine months

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ended December 31, 2009 of $191,000 are included in general and administrative expenses in the Company s Consolidated Statement of Operations. Pro forma information is not presented as the assets, results of operations and purchase price of Reliance were not significant to the Company s consolidated financial position or results of operations.

The following table reflects the allocation of the purchase price:

Consideration	
Cash consideration	$ 1,900,000
Settlement of accounts receivable	1,123,000
Total	$ 3,023,000
Purchase price allocation	
Plant and equipment	$ 145,000
Trademarks	185,000
Customer relationships	4,053,000
Non-compete agreements	146,000
Current liabilities	(175,000)
Fair value of net assets acquired	4,354,000
Gain on acquisition	$ (1,331,000)

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

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

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

The definitive purchase agreement was amended on May 16, 2008. The amendment provided for an additional contingent consideration of up to $400,000 to AIM if the net sales to certain customers exceed an agreed upon dollar threshold during the period June 1, 2008 to May 31, 2009. The net sales to these customers did not exceed the agreed upon threshold and the Company does not expect to make any additional payments under this definitive purchase agreement.

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

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

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

Consideration and acquisition costs	
Cash consideration	$ 2,448,000
Purchase price hold back	300,000
Note payable	1,293,000
Acquisition costs	279,000
Total	$ 4,320,000
Purchase price allocation	
Accounts receivable, net of allowances	$ (95,000)
Inventory	1,366,000
Trademarks	156,000
Customer relationships	970,000
Non-compete agreements	61,000
Goodwill	1,862,000
Total purchase price	$ 4,320,000

The note payable to SCP of $1,293,000 bears interest at prime plus 1% and is payable in monthly installments of $100,000 beginning in October 2008. During the nine months ended December 31, 2009, the remaining principal and interest of $722,000 and $11,000, respectively, were paid on the note payable to SCP.

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

3. Intangible Assets

The following is a summary of the Company s intangible assets at December 31, 2009 and March 31, 2009.

		December 31, 2009		March 31, 2009	
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Trademarks	5 - 15 years	$ 553,000	$ 96,000	$ 368,000	$ 45,000
Customer relationships	5 - 15 years	6,464,000	637,000	2,411,000	265,000
Non-compete agreements	5 years	257,000	44,000	111,000	16,000
Total		$ 7,274,000	$ 777,000	$ 2,890,000	$ 326,000

Amortization expense related to intangible assets was $451,000 and $224,000 during the nine months ended December 31, 2009 and 2008, respectively. Amortization expense related to intangible assets was $193,000 and $132,000 during the three months ended December 31, 2009 and 2008, respectively. The aggregate estimated future amortization expense for intangible assets is as follows:

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Year ending March 31,	
2010 remaining three months	$ 194,000
2011	774,000
2012	774,000
2013	774,000
2014	738,000
Thereafter	3,243,000
Total	$ 6,497,000

4. Accounts Receivable Net

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

Accounts receivable net is comprised of the following:

	December 31, 2009	**March 31, 2009**
Accounts receivable trade	$ 29,911,000	$ 40,126,000
Allowance for bad debts	(317,000)	(243,000)
Customer allowances earned	(7,554,000)	(5,109,000)
Customer payment discrepancies	(825,000)	(681,000)
Customer finished goods returns accruals	(9,431,000)	(10,097,000)
Customer core returns accruals	(13,864,000)	(12,875,000)
Less: total accounts receivable offset accounts	(31,991,000)	(29,005,000)
Total accounts receivable net	$ (2,080,000)(1)	$ 11,121,000

(1) Accounts receivable net has been reclassified to accrued liabilities in the Company s Consolidated Balance Sheet at December 31, 2009.

Warranty Returns

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

	Nine Months Ended December 31,		Three Months Ended December 31,	
	2009	2008	2009	2008
Balance at beginning of period	$ (2,596,000)	$ (2,824,000)	$ (3,139,000)	$ (3,109,000)
Charged to expense	26,668,000	24,588,000	8,262,000	8,168,000
Amounts processed	(26,788,000)	(24,251,000)	(8,925,000)	(8,116,000)
Balance at end of period	$ (2,476,000)	$ (3,161,000)	$ (2,476,000)	$ (3,161,000)

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5. Inventory

Inventory includes non-core inventory, inventory unreturned, long-term core inventory, long-term core inventory deposit and is comprised of the following: