

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31,
1996.

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 & ACCESSORIES, 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.)

2727 Maricopa Street, Torrance, California

90503

(Address of principal executive offices)

Zip Code

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

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes No | |

There were 4,866,000 shares of Common Stock outstanding at February 7, 1997.

MOTORCAR PARTS & ACCESSORIES, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

MOTORCAR PARTS & ACCESSORIES, INC.
Balance Sheets

A S S E T S -----	December 31, 1996 ----- (Unaudited)	March 31, 1996 -----
Current assets:		
Cash and cash equivalents.....	\$ 1,108,000	\$ 164,000
Short-term investments.....	0	8,336,000
Accounts receivable - net of allowance for doubtful accounts.....	22,886,000	17,264,000
Inventory.....	34,980,000	28,551,000
Prepaid expenses and other current assets.....	709,000	637,000
Deferred income tax asset.....	251,000	226,000
	-----	-----
Total current assets.....	59,934,000	55,178,000
Long-term investments.....	3,821,000	2,393,000
Plant and equipment - net.....	3,659,000	2,469,000
Other assets.....	206,000	149,000
	-----	-----
T O T A L.....	\$ 67,620,000	\$ 60,189,000
	=====	=====
L I A B I L I T I E S -----		
Current liabilities:		
Current portion of capital lease obligations.....	\$ 795,000	\$ 554,000
Accounts payable and accrued expenses.....	10,137,000	8,855,000
Income taxes payable.....	1,310,000	1,331,000
Due to affiliate.....	184,000	184,000
	-----	-----
Total current liabilities.....	12,426,000	10,924,000
Long-term debt.....	16,329,000	14,541,000
Capitalized lease obligations - less current portion.....	491,000	594,000
Deferred income tax liability.....	99,000	99,000
	-----	-----
T O T A L.....	29,345,000	26,158,000
	-----	-----
S H A R E H O L D E R S ' E Q U I T Y -----		
Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued.....		
Common stock; par value \$.01 per share, 20,000,000 shares authorized; 4,866,000 shares issued and outstanding at December 31, 1996 and 4,819,750 issued and outstanding at March 31, 1996.....	49,000	48,000
Additional paid-in capital.....	28,781,000	28,431,000
Retained earnings.....	9,445,000	5,552,000
	-----	-----
Total shareholders' equity.....	38,275,000	34,031,000
	-----	-----
T O T A L.....	\$67,620,000	\$ 60,189,000
	=====	=====

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

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Statements of Operations

(Unaudited)

	For the Nine Months Ended December 31,		For the Three Months Ended December 31,	
	1996	1995	1996	1995
Income:				
Net Sales.....	\$ 62,263,000	\$ 44,990,000	\$ 22,523,000	\$ 17,661,000
Operating expenses:				
Cost of goods sold.....	49,737,000	35,694,000	17,907,000	13,975,000
Selling expenses.....	1,725,000	1,467,000	674,000	592,000
General and administrative expenses.....	3,632,000	3,251,000	1,257,000	1,249,000
Total operating expenses..	55,094,000	40,412,000	19,838,000	15,816,000
Operating income.....	7,169,000	4,578,000	2,685,000	1,845,000
Interest expense - net of interest income.....	752,000	652,000	287,000	194,000
Income before income taxes.....	6,417,000	3,926,000	2,398,000	1,651,000
Provision for income taxes.....	2,524,000	1,541,000	936,000	626,000
Net income.....	\$ 3,893,000	\$ 2,385,000	\$ 1,462,000	\$ 1,025,000
Weighted average common shares outstanding.....	5,003,000	3,615,000	5,007,000	4,144,000
Net income per common share.....	\$ 0.78	\$ 0.66	\$ 0.29	\$ 0.25

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

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MOTORCAR PARTS & ACCESSORIES, INC.

Statements of Cash Flows for the Nine Months Ended December 31,

(unaudited)

	1996	1995
Cash flows from operating activities:		
Net income.....	\$ 3,893,000	\$ 2,385,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization.....	476,000	306,000
(Increase) decrease:		
Accounts receivable.....	(5,622,000)	(4,543,000)
Inventory.....	(6,429,000)	(10,606,000)
Prepaid expenses and other assets	(72,000)	(209,000)
Other assets.....	(57,000)	(39,000)
Increase (decrease) in:		
Accounts payable and accrued expenses ...	1,282,000	2,007,000
Income taxes payable.....	(46,000)	827,000
Due to related parties.....	0	110,000
Net cash (used in) operating activities.....	(6,575,000)	(9,762,000)
Cash flows from investing activities:		
Purchase of property, plant and equipment.....	(1,052,000)	(275,000)
Short-term and long-term investments.....	6,908,000	(7,350,000)

	-----	-----
Net cash provided by (used in) investing activities.....	5,856,000	(7,625,000)
	-----	-----
Cash flows from financing activities:		
Net increase (decrease) in line of credit.....	1,788,000	(571,000)
Proceeds from exercised options.....	351,000	32,000
Payments on capital lease obligation	(476,000)	(178,000)
Proceeds from secondary public offering.....	0	20,290,000
	-----	-----
Net cash provided by financing activities.....	1,663,000	19,573,000
	-----	-----
NET INCREASE (DECREASE) IN CASH.....	944,000	2,186,000
Cash - beginning of period	164,000	611,000
	-----	-----
CASH - END OF PERIOD	\$ 1,108,000	\$2,797,000
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 844,000	\$ 688,000
Income taxes	2,520,000	665,000
Non-cash investing and financing activities:		
Property acquired under capital lease.....	338,000	397,000

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

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MOTORCAR PARTS & ACCESSORIES, INC.

Notes to Financial Statements (Unaudited)

(NOTE A) - The Company and its Significant Accounting Policies:

Motorcar Parts & Accessories, Inc. (the "Company"), remanufactures and distributes alternators and starters and assembles and distributes spark plug wire sets for the automotive after-market industry (replacement parts sold for use on vehicles after initial purchase). The Company's alternators and starters are produced principally for use in imported cars. The spark plug wire sets are produced for use in imported as well as domestic cars. These automotive parts are sold to automotive retail chains and warehouse distributors throughout the United States.

[1] Cash equivalents:

The Company considers all highly liquid short-term investments with a maturity of three months or less to be cash equivalents.

[2] Investments:

The Company's marketable securities are classified as available for sale and reported at fair value which approximates amortized cost. Any unrealized gains or losses are classified as a separate component of shareholders' equity.

[3] Accounts receivable - allowance:

The Company protects itself to a limited extent from losses due to uncollectible accounts receivable through the purchase of credit

insurance except for receivables due from a limited number of accounts with leading automotive parts retailers and certain small customers. Beginning in fiscal year 1996 an allowance for estimated uncollectible accounts receivable is provided.

[4] Inventory:

Inventory is stated at the lower of cost or market, cost being determined by the average cost method.

[5] Revenue Recognition:

The Company recognizes sales when products are shipped. The Company obtains used alternator and starter units, commonly known as cores, from its customers as trade-ins. Cores are an essential material need for remanufacturing operations. Beginning with the quarter ended June 30, 1996, the Company implemented a new accounting presentation with respect to its reporting of sales. In the past, net sales were reduced to reflect deductions for cores returned for credit and cost of goods sold was reduced by the cost of the cores returned. Under the new presentation, net sales

will be reported on a gross basis, that is core returns from customers will not be deducted in order to reach net sales, but rather will be included in cost of goods sold. The nine and three months ended December 31, 1995 was restated to show this change. Formerly, the nine and three months ended December 31, 1995 showed net sales of \$31,207,000 and \$12,347,000 and cost of goods sold of \$21,911,000 and \$8,661,000, respectively.

(NOTE B)- Inventory:

Inventory is comprised of the following:

	December 31, 1996 -----	March 31, 1996 -----
Raw materials.....	\$19,092,000	17,568,000
Work-in-process.....	2,970,000	3,466,000
Finished goods.....	12,918,000 -----	7,517,000 -----
T o t a l.....	\$34,980,000 =====	\$28,551,000 =====

(NOTE C) - Related Parties:

The Company conducts business with MVR Products Co. PTE, Ltd. ("MVR"). MVR operates a shipping warehouse which conducts business with Unijoh Sdn, Bhd ("Unijoh"). Unijoh operates a remanufacturing facility similar to the Company. MVR's warehouse is located in Singapore and Unijoh's factory is located in Malaysia. Two shareholders/officers/directors of the Company own two-thirds of both MVR and Unijoh, with the remaining one-third owned by an unrelated third party. All of the cores processed by Unijoh are produced for the Company on a contract remanufacturing basis. The cores and other raw materials used in production by Unijoh are supplied by the Company and are included in the Company's inventory. Inventory owned by the Company and held by MVR and Unijoh was \$632,000 as at December 31, 1996. The Company incurred costs of approximately \$1,248,000 and \$342,000 from the affiliates for the nine and three months ended December 31, 1996. The amount due to affiliate as at December 31, 1996 and March 31, 1996 was due to MVR.

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

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

Results of Operations

	Nine Months Ended December 31,		Three Months Ended December 31,	
	1996	1995	1996	1995
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	79.9	79.3	79.5	79.1
Gross profit	20.1	20.7	20.5	20.9
Selling expenses	2.8	3.3	3.0	3.4
General & administrative expenses	5.8	7.2	5.6	7.1
Operating income	11.5	10.2	11.9	10.4
Interest expense - net	1.2	1.5	1.3	1.1
Income before income taxes	10.3	8.7	10.6	9.3
Provision for income taxes	4.0	3.4	4.1	3.5
Net Income	6.3%	5.3%	6.5%	5.8%

Beginning with the quarter ended June 30, 1996, the Company implemented a new accounting presentation with respect to its reporting of sales. In the past, the Company deducted the value of all cores returned from its customers in order to reach net sales. Under the new presentation, revenues are reported on a gross basis, that is core returns from customers are not deducted in order to reach net sales, but rather are included in cost of goods sold. The nine and three month periods ended December 31, 1995 have been restated to reflect this new presentation. The Company believes that this new presentation provides a truer depiction of actual sales and cost of goods sold. In addition, it reflects a more proper relationship between sales and inventory.

Net sales for the nine months ended December 31, 1996 increased \$17,273,000 or 38.4%, from \$44,990,000 to \$62,263,000 over the nine months ended December 31, 1995. Net sales for the three months ended December 31, 1996 increased \$4,862,000 or 27.5%, from \$17,661,000 to \$22,523,000 over the three months ended December 31, 1995. The increases are attributable to the general growth of business with existing customers, including the occurrence of update orders with certain customers, which increase the number of SKUs that these customers offer in their stores. In addition, the Company believes that the continued aging of the import vehicle fleet also contributed to its increased sales. The Company also continued the expansion of its product line to include remanufactured alternators and starters for domestic car and light trucks, which generated net sales of approximately \$750,000 for the nine months ended December 31, 1996. The number of units

shipped to all customers was approximately 1,029,000 units during the recent nine-month period and approximately 758,000 units during the same period a year earlier, representing an increase of approximately 35.8%.

Cost of goods sold for the nine months ended December 31, 1996 increased \$14,043,000 or 39.3%, from \$35,694,000 to \$49,737,000, over the nine

months ended December 31, 1995. Cost of goods sold for the three months ended December 31, 1996 increased \$3,932,000 or 28.1%, from \$13,975,000 to \$17,907,000, over the three months ended December 31, 1995. The increases are primarily attributable to additional costs in connection with increased production. Cost of goods sold as a percentage of net sales increased over the nine-month periods from 79.3% to 79.9% and over the three-month periods from 79.1% to 79.5%. While the increases in cost of goods sold are minimal over the periods, they can be primarily attributed to the pricing pressures that the Company experienced during the first four months of calendar 1996 as offset by the continuing lowering of manufacturing costs by the Company.

Selling expenses for the nine months ended December 31, 1996 increased \$258,000 or 17.6%, from \$1,467,000 to \$1,725,000, over the nine months ended December 31, 1995. Selling expenses for the three months ended December 31, 1996 increased \$82,000 or 13.9%, from \$592,000 to \$674,000 over the three months ended December 31, 1995. Selling expenses as a percentage of net sales decreased to 2.8% for the nine months ended December 31, 1996 from 3.3% for the same period a year earlier and 3.0% for the three months ended December 31, 1996 from 3.4% for the same period one year earlier. These decreases in selling expenses as a percentage of net sales represent the continued leveraging of these costs over the Company's increased net sales. The increases in selling expenses in general are attributable to increased advertising allowances given to customers as well as increased payroll relating to the Company's sales department.

General and administrative expenses for the nine months ended December 31, 1996 increased \$381,000 or 11.7% from \$3,251,000 to \$3,632,000 over the nine months ended December 31, 1995. General and administrative expenses remained approximately the same at \$1,257,000 for the three months ended December 31, 1996 and \$1,249,000 for the three months ended December 31, 1995. As a percentage of net sales these expenses decreased over the nine-month periods from 7.2% to 5.8% and over the three-month periods from 7.1% to 5.6%. These decreases represent the continued leveraging of these costs over the Company's increased net sales. Approximately 65.6% of the increase over the nine-month periods was the result of costs incurred under the Company's incentive bonus plan adopted in August 1995. The balance of the increase was primarily attributable to increased insurance coverages and professional fees.

Interest expense net of interest income was \$752,000 for the nine months ended December 31, 1996 and \$287,000 for the three months ended December 31, 1996. This represents an increase of \$100,000 or 15.3% and \$93,000 or 47.9%, respectively, over the comparable periods a year earlier. Interest expense is comprised principally of interest paid on the Company's revolving credit facility. The balance of interest expense is from loans on the Company's capital leases. Interest income of \$175,000 for the nine months ended December 31, 1996 and \$43,000 for the three months

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ended December 31, 1996 was derived from investments principally from the Company's second public offering in November 1995.

Liquidity and Capital Resources

- - - - -

The Company's operations have been financed principally from cash flow from operations, the net proceeds of the Company's public offerings in March 1994 and November 1995 and borrowings under a revolving credit facility. As of December 31, 1996, the Company's working capital was \$47,508,000.

Net cash used in operating activities during the first nine months of fiscal 1997 and 1996 was \$6,575,000 and \$9,762,000, respectively. The increase was primarily due to an increase in accounts receivable of \$5,622,000, an increase in inventory of \$6,429,000 and an offsetting increase in accounts payable and accrued expenses of \$1,282,000. The increase in accounts receivable is primarily attributable to the increased sales of the Company during the nine months ended December 31, 1996. The increase in inventory was primarily attributable to the addition of approximately \$5,300,000 of inventory for the Company's recent entry into the business of remanufacturing domestic alternators and starters. Growth in inventory for this new business is expected to continue

for the foreseeable future. In connection with the Company's expansion into this business, the Company has secured a lease for an additional 160,000 square foot production and warehouse facility effective April 1, 1997 located near its existing facility in Torrance, California.

Net cash provided by (and used in) investing activities during the nine months ended December 31, 1996 and 1995 was \$5,856,000 and (\$7,625,000), respectively. During the nine months ended December 31, 1996 the Company used \$6,908,000 of investments to fund its operating and financing activities and spent \$1,052,000 in connection with the purchase of new plant and equipment.

Net cash provided by financing activities was \$1,663,000 and \$19,573,000 for the first nine months of fiscal 1997 and 1996, respectively. During the nine months ended December 31, 1996, the Company realized \$351,000 from the proceeds of exercised stock options and increased its borrowings by \$1,788,000.

The Company has a credit agreement expiring in 1998 with Wells Fargo Bank, National Association (the "Bank") that provides for a revolving credit facility in an aggregate principal amount recently increased to a maximum of \$25,000,000, which credit facility is secured by a lien on substantially all of the assets of the Company. The credit facility provides for an interest rate on borrowings at the lower of the Bank's prime rate less .25% and LIBOR plus 1.65%. Under the terms of the credit facility and included in the maximum amount thereunder, the Bank will issue letters of credit and banker's acceptances for the account of the Company in an aggregate amount not exceeding \$2,500,000. At February 9, 1997, the outstanding balance on the credit facility was approximately \$17,300,000.

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The Company's accounts receivable as of December 31, 1996 was \$22,886,000. This represents an increase of \$5,622,000 over accounts receivable on March 31, 1996. There are times when the Company extends payments terms with certain customers in order to help them finance an increase in the number of SKUs carried by that customer and for other purposes. The Company insures collection of certain of its accounts receivable through an insurance policy with an independent credit company at an annual premium of approximately \$70,000. The Company's policy generally has been to issue credit to new customers only after they have been included under the coverage of its accounts receivable insurance policy.

The Company's inventory as of December 31, 1996 was \$34,980,000, an increase of \$3,681,000 or 11.8% over September 30, 1996 and an increase of \$6,429,000 or 22.5% over March 31, 1996. The increase includes the addition of approximately \$5,300,000 of inventory predominantly over the last three months for the Company's recent entry into the business of remanufacturing domestic alternators and starters and, to a lesser extent, the Company's addition of new SKUs to its product line thus increasing the quantity of cores and finished goods needed to supply its customers.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- | | |
|------|---|
| 10.4 | Credit Agreement, dated as of June 1, 1996, by and between the Company and Wells Fargo Bank, National Association |
| 10.5 | Revolving Line of Credit Note, dated as of November 1, 1996, by and between the Company |

and Wells Fargo Bank, National Association

10.17 Amendment to Lease, dated October 3, 1996,
by and between Golkar Enterprises, Ltd. and
the Company relating to additional property
in Torrance, California.

27.1 Financial Data Schedule.

(b) Reports on Form 8-K

The Company has not filed any reports on Form 8-K during the
quarterly period ended December 31, 1996.

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SIGNATURES

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

MOTORCAR PARTS & ACCESSORIES, INC.

Dated: February 13, 1997

By: /s/ Peter Bromberg

Peter Bromberg
Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number -----	Description -----	Page Number -----
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10.17	Amendment to Lease, dated October 3, 1996, by and between Golkar Enterprises, Ltd. and the Company relating to additional property in Torrance, California.	40
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CREDIT AGREEMENT

THIS AGREEMENT is entered into as of June 1, 1996, by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITAL

Borrower has requested from Bank the credit accommodation described below, and Bank has agreed to provide said credit accommodation to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I

THE CREDIT

SECTION 1.1 LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including June 1, 1998, not to exceed at any time the aggregate principal amount of Fifteen Million Dollars (\$15,000,000.00) ("Line of Credit"), the proceeds of which shall be used for Borrower's working capital requirements. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note substantially in the form of Exhibit A attached hereto ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof, to issue sight commercial and usance commercial letters of credit for the account of Borrower and in favor of beneficiaries acceptable to Bank to finance transactions acceptable to Bank (each, a "Letter of Credit" and collectively, "Letters of Credit"); provided however, that the form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion; and provided further, that the aggregate undrawn amount of all outstanding Letters of Credit plus the aggregate amount of all outstanding drafts accepted by Bank under usance Letters of Credit plus the aggregate amount of all Acceptances shall not at any time exceed Two Million Five Hundred Thousand Dollars (\$2,500,000.00). Each Letter of Credit shall be issued for a term not to exceed ninety (90) days, as designated by Borrower; provided however, that no Letter of Credit shall have an expiration date subsequent to

September 1, 1998. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for advances thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit Agreement and related documents, if any, required by Bank in connection with the issuance thereof (each, a "Letter of Credit Agreement" and collectively, "Letter of Credit Agreements"). Each draft paid by Bank under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if the Line of Credit is not available, for any reason whatsoever, at the time any draft is paid by Bank, or if advances are not available under the Line of Credit at such time due to any limitation on borrowings set forth herein, then the full amount

of such draft shall be immediately due and payable, together with interest thereon, from the date such amount is paid by Bank to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event, Borrower agrees that Bank, at Bank's sole discretion, may debit any demand deposit account maintained by Borrower with Bank for the full amount of any such draft. Notwithstanding the foregoing, usance commercial Letters of Credit shall be issued only to finance the importation of goods into the United States, and shall contain such provisions and be issued in such manner as to satisfy Bank that any banker's acceptance created by Bank's acceptance of a draft thereunder shall be eligible for discount by a Federal Reserve Bank, will not result in a liability of Bank subject to reserve requirements under any law, Regulation or administrative order, and will not cause Bank to violate any lending limit imposed upon Bank by any law, regulation or administrative order. Usance commercial Letters of Credit shall provide for drafts thereunder with terms which do not exceed the lesser of ninety (90) days or such other period of time as may be necessary for the acceptance created thereunder to be eligible for discount and otherwise comply with this Agreement; provided however, that no usance commercial Letter of Credit shall provide for drafts with a term which ends subsequent to September 1, 1998. The amount of each matured bankers' acceptance created by Bank's acceptance of a draft under a usance commercial Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if the Line of Credit is not available, for any reason whatsoever, at the time any such acceptance matures, or if advances are not available under the Line of Credit at such time due to any limitation on borrowings set forth herein, then Borrower shall immediately pay to Bank the full amount of such matured acceptance, together with interest thereon from the date such acceptance matures to the date such amount is fully paid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event, Borrower agrees that Bank, at Bank's sole discretion, may debit any demand deposit account maintained by Borrower with Bank for the full amount of any such acceptance.

(c) Acceptance Subfeature. As a subfeature under the Line of Credit,

Bank agrees to create banker's acceptances (each an "Acceptance", and collectively, "Acceptances") for the account of Borrower by accepting drafts drawn on Bank by Borrower from time to time during the term thereof, and by accepting time drafts presented under usance commercial Letters of Credit issued by Bank for the account of Borrower, for the purpose of financing the importation

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of goods into the United States; provided however, that the form and substance of each Acceptance shall be subject to approval by Bank, in its sole discretion; and provided further, that the aggregate amount of all outstanding Acceptances plus the aggregate undrawn amount of all outstanding Letters of Credit plus the aggregate amount of all outstanding drafts accepted by Bank under usance Letters of Credit shall not at any time exceed Two Million Five Hundred Thousand Dollars (\$2,500,000.00). Each Acceptance created by Bank's acceptance of a draft drawn on Bank by Borrower shall be in the minimum amount of Two Hundred Fifty Thousand Dollars (\$250,000.00). Each Acceptance shall be subject to the additional terms and conditions of an Acceptance Agreement in form and substance satisfactory to Bank ("Acceptance Agreement"). Each Acceptance shall be granted for a term not to exceed the lesser of ninety (90) days, as designated by Borrower, or such period of time as may be necessary to comply with the Acceptance Agreement; provided however, that no Acceptance shall have an expiration date subsequent to September 1, 1998. The outstanding amount of all Acceptances shall be reserved under the Line of Credit and shall not be available for advances thereunder. The amount of each Acceptance which matures shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if the Line of Credit is not available, for any reason whatsoever, at the time any Acceptance matures, or if advances are not available under the Line of Credit at such time due to any limitation on borrowings set forth herein, then Borrower shall immediately pay to Bank the full amount of such matured Acceptance, together with interest thereon from the date such Acceptance matures to the date such amount is fully paid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event, Borrower agrees

that Bank, at Bank's sole discretion, may debit any demand deposit account maintained by Borrower with Bank for the full amount of any such Acceptance. All Acceptances created hereunder by Bank's acceptance of drafts drawn on Bank by Borrower shall be discounted with Bank. Bank shall not be obligated hereunder to discount Acceptances created by Bank's acceptance of time drafts presented under usance commercial Letters of Credit.

(d) Foreign Exchange Subfeature.

(i) Foreign Exchange Facility. As a subfeature under the Line

of Credit and subject to the terms and conditions of this Agreement, Bank hereby agrees to make available to Borrower a facility (the "Foreign Exchange Facility") under which Bank, from time to time during the term thereof, will enter into foreign exchange contracts for the account of Borrower for the purchase and/or sale by Borrower in United States dollars of foreign currencies designated by Borrower; provided however, that the maximum outstanding principal balance of all such foreign exchange contracts shall not exceed at any time an aggregate of Five Million United States Dollars (US\$5,000,000.00). No foreign exchange contract shall be executed for a term in excess of twelve (12) months or for a term which extends beyond June 30, 1998. Borrower shall have a "Delivery Limit" under the Foreign Exchange Facility not to exceed at any time the aggregate principal amount of One Million Dollars (US\$1,000,000.00), which Delivery Limit reflects the maximum principal amount of Borrower's foreign exchange contracts which may mature during any one (1) day period. All foreign exchange transactions shall be subject to the additional terms

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of Foreign Exchange Agreement between Borrower and Bank, substantially in the form of Exhibit B attached hereto ("Foreign Exchange Agreement"), all terms of which are incorporated herein by reference. The aggregate principal amount of foreign exchange contracts maturing on each day shall be available for advances or other extensions of credit thereunder.

(ii) Settlement. Bank shall, and Borrower hereby authorizes

Bank to, settle each foreign exchange contract entered into by Bank under the Foreign Exchange Facility on its maturity date, at Bank's election, by Bank either (A) debiting any demand deposit account maintained by Borrower with Bank for the full amount of such settlement, or (B) making an advance under the Line of Credit in an amount of such settlement.

(e) Borrowing and Repayment. Borrower may from time to time during the

term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

SECTION 1.2 INTEREST/FEES.

(a) Interest. The outstanding principal balance of the Line of Credit

shall bear interest at the rate of interest set forth in the Line of Credit Note.

(b) Computation and Payment. Interest shall be computed on the basis of

a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in the Line of Credit Note.

(c) Commitment Fee. Borrower shall pay to Bank a non-refundable

commitment fee for the Line of Credit equal to \$5,000.00, which fee shall be due and payable in full upon execution of this Agreement.

(d) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to

one-quarter percent (0.25%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily unused amount of the Line of Credit, which fee shall be calculated on an annual basis by Bank and shall be due and payable by Borrower in arrears within five (5) days after each billing is sent by Bank.

(e) Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the

issuance of each Letter of Credit equal to the greater of one-eighth percent (1/8%) of the face amount thereof or \$100.00, (ii) fees upon the payment or negotiation by Bank of each draft under any Letter of Credit equal to the greater of one-quarter percent (1/4%) of the amount of such draft or \$100.00, (iii) fees upon any amendment to any Letter of Credit equal to the greater of one-eighth percent (1/8%) of the amount thereof or \$80.00, and (iv) fees upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, or cancellation of

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any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

(f) Acceptance Fees. For any Acceptance created hereunder by Bank's

acceptance of a draft drawn on Bank by Borrower, Borrower shall pay to Bank an acceptance fee for each such Acceptance, payable on the date it is created, equal to the greater of \$250.00, or an amount determined by dividing by 360 the product of (i) the sum of two percent (2%) plus a percentage equal to Bank's Discount Rate in effect at the time of such Acceptance is created, (ii) the face amount of such Acceptance, and (iii) the term of such Acceptance, in days. As used herein, the term "Discount Rate" shall mean at any time the rate most recently determined by Bank as its discount rate for buying prime eligible acceptances in an amount equal to each Acceptance and with a term equal to the term of each Acceptance, with the understanding that the Discount Rate is evidenced by the recording thereof in such internal publication or publications as Bank may designate. Each change in the Discount Rate applicable to Acceptances hereunder shall become effective on the date each Discount Rate change is determined by Bank. In discounting any Acceptance, Bank may deduct the amount of the fee from Bank's payment of the amount thereof. For any Acceptance created hereunder by Bank's acceptance of a draft presented under a usance commercial Letter of Credit, Borrower shall pay to Bank, in addition to such processing and other fees as may be due to Bank in connection with such Letter of Credit, an acceptance fee for each such Acceptance, payable on the date it is created, in an amount determined by dividing by 360 the product of (A) two percent (2%), (B) the face amount of such Acceptance, and (C) the term of such Acceptance, in days. Bank shall have no obligation to repay all or any portion of any Acceptance fee payable hereunder in the event an acceptance is paid prior to maturity, by acceleration or otherwise.

SECTION 1.3 COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect interest and fees due under the Line of Credit by charging Borrower's demand deposit account number _____ with Bank, or any other demand deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such demand deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

SECTION 1.4 COLLATERAL.

As security for all indebtedness of Borrower to Bank, Borrower hereby grants to Bank security interests of first priority in all Borrower's accounts receivable and other rights to payment, general intangibles, inventory and equipment. All of the foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds of trust and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank. Borrower shall reimburse Bank immediately upon demand for all costs and expenses incurred by Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of appraisals, audits and title insurance.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 2.1 LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of the State of New York, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

SECTION 2.2 AUTHORIZATION AND VALIDITY. This Agreement, the Line of Credit Note, the Letter of Credit Agreements, the Foreign Exchange Agreement and each other document, contract and instrument required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3 NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 2.4 LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5 CORRECTNESS OF FINANCIAL STATEMENT. The financial statement of Borrower dated December 31, 1995, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower

mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

SECTION 2.6 INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 2.7 NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be

bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8 PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, franchise and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9 ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10 OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11 ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable Federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, the Federal Toxic Substances Control Act and the California Health and Safety Code, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any Federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

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ARTICLE III

CONDITIONS

SECTION 3.1 CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Approval of Bank Counsel. All legal matters incidental to the -----
extension of credit by Bank shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance -----
satisfactory to Bank, each of the following, duly executed:

- (i) This Agreement and the Line of Credit Note.
- (ii) Corporate Borrowing Resolution.
- (iii) Certificate of Incumbency.
- (iv) Articles of Incorporation.
- (v) Security Agreements covering all collateral described in Section 1.4. hereof.
- (vi) UCC-1 Financing Statements covering all collateral described in Section 1.4. hereof.

- (vii) Continuing Commercial Letter of Credit Agreement.
- (viii) Acceptance Agreement.
- (ix) Foreign Exchange Agreement.
- (x) Such other documents as Bank may require under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with loss payable endorsements in favor of Bank.

SECTION 3.2 CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

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(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

ARTICLE IV

AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 4.1 PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

SECTION 4.2 ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

SECTION 4.3 FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 90 days after and as of the end of each fiscal year, an unqualified audited financial statement of Borrower, prepared by an independent certified public accountant acceptable to Bank, to include balance sheet, income statement and statement of cash flow, together with all supporting

schedules and footnotes;

(b) not later than 45 days after and as of the end of each fiscal quarter, a financial statement as included in form 10Q as filed with the Securities and Exchange Commission, prepared by Borrower, to include balance sheet and income statement, together with all supporting schedules and footnotes, if any, included therein;

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(c) not later than 45 days after and as of the end of each fiscal quarter, an aged listing of accounts receivable and accounts payable, and a reconciliation of accounts;

(d) contemporaneously with each annual and quarterly financial statement of Borrower required hereby, a certificate of the president or chief financial officer of Borrower that the financial statements delivered pursuant thereto are accurate and that there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default, substantially in the form of Exhibit C attached hereto;

(e) from time to time such other information as Bank may reasonably request.

SECTION 4.4 COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business.

SECTION 4.5 INSURANCE. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 4.6 FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.7 TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation Federal and state income taxes and state and local property taxes and assessments, except such (a) as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8 LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower with a claim in excess of \$100,000.00.

SECTION 4.9 FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

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(a) Tangible Net Worth initially not at any time less than

\$34,000,000.00, with said minimum to increase as of each September 30 and March 31, commencing September 30, 1996, by an amount equal to 50% of Borrower's net income after taxes for the immediately preceding six (6) months, and with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets.

(b) Total Liabilities divided by Tangible Net Worth not at any time greater than 1.0 to 1.0, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" as defined above.

(c) Quick Ratio not at any time less than .70 to 1.0, with "Quick Ratio" defined as the aggregate of unrestricted cash, unrestricted marketable securities and accounts receivable convertible into cash divided by total current liabilities (to include all outstanding borrowings under the Line of Credit).

(d) Net income after taxes not less than \$1,000,000.00 on an annual basis, determined as of each fiscal year end, and pre-tax profit not less than \$1.00 on a quarterly basis, determined as of each fiscal quarter end.

SECTION 4.10 NOTICE TO BANK. Promptly (but in no event more than five (5) Business Days after the occurrences of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property in excess of an aggregate of \$100,000.00. As used herein, the term "Business Day" shall mean any day other than a Saturday, Sunday or other day designated as a holiday under Federal or California statute or regulation.

ARTICLE V

----- NEGATIVE COVENANTS -----

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

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SECTION 5.1 USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

SECTION 5.2 OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof, and (c) other liabilities not to exceed an aggregate principal amount of \$3,000,000.00.

SECTION 5.3 MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's business as conducted as of the date hereof; acquire all or substantially all of the assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

SECTION 5.4 GUARANTIES. Guarantee or become liable in any way as

surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except guaranties of the obligations of Borrower's foreign affiliates in amounts not to exceed an aggregate of \$150,000.00 at any time.

SECTION 5.5 LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity except, (a) any of the foregoing made in the ordinary course of Borrower's business in amounts not to exceed an aggregate of \$100,000.00 at any time, and (b) any investments made with or through Bank, whether in connection with a Bank deposit account or time deposit or any other Bank investment product.

SECTION 5.6 PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, any of its assets of any kind, now owned or hereafter acquired, except (a) any of the foregoing in favor of Bank, (b) liens for taxes and assessments not yet due, (c) mechanics, warehousemen, carrier, landlord and other statutory liens which arise in the ordinary course of Borrower's business for amounts not yet due, (d) liens on equipment leased by Borrower, and (e) liens in security deposits made in the ordinary course of Borrower's business.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.1 The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

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(a) Borrower shall fail to pay within five (5) Business Days following the date due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections (a) and (b) above), and with respect to any such default which by its nature can be cured, such default shall continue for a period of twenty (20) days from its occurrence.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument (other than any of the Loan Documents) pursuant to which Borrower has incurred any debt or other liability to any person or entity, including Bank, except with respect to any of the foregoing which is contested by Borrower as permitted by, and in accordance with the terms of, Section 4.7. hereof.

(e) Any defined event of default under any of the Loan Documents other than this Agreement.

(f) Any of the following which is not stayed or discharged within thirty (30) days of its occurrence: the filing of a notice of judgment lien against Borrower; or the recording of any abstract of judgment against Borrower in any county in which Borrower has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or, execution, or other like process, against the assets of Borrower; or the entry of a judgment against Borrower.

(g) Borrower shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they

become due, or shall make a general assignment for the benefit of creditors; Borrower shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or Federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or Federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower, or Borrower shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or Federal law relating to bankruptcy, reorganization or other relief for debtors.

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(h) There shall exist or occur any event or condition which Bank in good faith believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower of its obligations under any of the Loan Documents.

(i) The dissolution or liquidation of Borrower.

(j) Any change in ownership during the term of this Agreement of an aggregate of twenty-five percent (25%) or more of the common stock of Borrower in any single transaction or group of related transactions.

SECTION 6.2 REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit accommodation from Bank subject hereto and to exercise any or all of the rights of a beneficiary, or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1 NO WAIVER. No delay, failure, or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2 NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

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BORROWER: MOTORCAR PARTS & ACCESSORIES, INC.
2727 Maricopa Street
Torrance, California 90503
Attn: Richard Marks, President

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
North Orange County RCBO
100 N. Harbor Boulevard, Suite 200
Anaheim, California 92805

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3 COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, and including any of the foregoing incurred in connection with any bankruptcy proceeding relating to Borrower.

SECTION 7.4 SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit extended by Bank to Borrower, Borrower or its business, or any collateral required hereunder.

SECTION 7.5 ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to any extension of credit by Bank subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only by a written instrument executed by each party hereto.

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SECTION 7.6 NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7 TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8 SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9 GOVERNING LAW. This Agreement shall be governed by and

construed in accordance with the laws of the State of California.

SECTION 7.10 ARBITRATION.

(a) Arbitration. Upon the demand of any party, any Dispute shall be

resolved by binding arbitration (except as set forth in (e) below) in accordance with the terms of this Agreement. A "Dispute" shall mean any action, dispute, claim or controversy of any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter arising under or in connection with, or in any way pertaining to, any of the Loan Documents, or any past, present or future extensions of credit and other activities, transactions or obligations of any kind related directly or indirectly to any of the Loan Documents, including without limitation, any of the foregoing arising in connection with the exercise of any self-help, ancillary or other remedies pursuant to any of the Loan Documents. Any party may by summary proceedings bring an action in court to compel arbitration of a Dispute. Any party who fails or refuses to submit to arbitration following a lawful demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute.

(b) Governing Rules. Arbitration proceedings shall be administered by

the American Arbitration Association ("AAA") or such other administrator as the parties shall mutually agree upon in accordance with the AAA Commercial Arbitration Rules. All Disputes submitted to arbitration shall be resolved in accordance with the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents. The arbitration shall be conducted at a location in California selected by the AAA or other administrator. If there is any inconsistency between the terms hereof and any such rules, the terms and procedures set forth herein shall control. All statutes of limitation applicable to any Dispute shall apply to any arbitration proceeding. All discovery activities shall be expressly limited to matters directly relevant to the Dispute being arbitrated. Judgment upon any award

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rendered in an arbitration may be entered in any court having jurisdiction; provided however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. ss.91 or any similar applicable state law.

(c) No Waiver; Provisional Remedies, Self-Help and Foreclosure. No

provision hereof shall limit the right of any party to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security, or to obtain provisional or ancillary remedies, including without limitation injunctive relief, sequestration, attachment, garnishment or the appointment of a receiver from a court of competent jurisdiction before, after or during the pendency of any arbitration or other proceeding. The exercise of any such remedy shall not waive the right of any party to compel arbitration or reference hereunder.

(d) Arbitrator Qualifications and Powers; Awards. Arbitrators must be

active members of the California State Bar or retired judges of the state or federal judiciary of California, with expertise in the substantive laws applicable to the subject matter of the Dispute. Arbitrators are empowered to resolve Disputes by summary rulings in response to motions filed prior to the final arbitration hearing. Arbitrators (i) shall resolve all Disputes in accordance with the substantive law of the state of California, (ii) may grant any remedy or relief that a court of the state of California could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award, and (iii) shall have the power to award recovery of all costs and fees, to impose sanctions and take such other actions as they deem necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Any Dispute in which the amount in controversy is \$5,000,000 or less shall be decided by a single arbitrator who shall not render an award of greater than \$5,000,000 (including damages, costs, fees and expenses). By submission to a

single arbitrator, each party expressly waives any right or claim to recover more than \$5,000,000. Any Dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations.

(e) Judicial Review. Notwithstanding anything herein to the contrary,

in any arbitration in which the amount in controversy exceeds \$25,000,000, the arbitrators shall be required to make specific, written findings of fact and conclusions of law. In such arbitrations (A) the arbitrators shall not have the power to make any award which is not supported by substantial evidence or which is based on legal error, (B) an award shall not be binding upon the parties unless the findings of fact are supported by substantial evidence and the conclusions of law are not erroneous under the substantive law of the state of California, and (C) the parties shall have in addition to the grounds referred to in the Federal Arbitration Act for vacating, modifying or correcting an award the right to judicial review of (1) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (2) whether the conclusions of law are erroneous under the substantive law of the state of California. Judgment confirming an award in such a proceeding may be entered only if a court determines the award is supported by substantial evidence and not based on legal error under the substantive law of the state of California.

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(f) Real Property Collateral; Judicial Reference. Notwithstanding

anything herein to the contrary, no Dispute shall be submitted to arbitration if the Dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such Dispute is not submitted to arbitration, the Dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualification required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(g) Miscellaneous. To the maximum extent practicable, the AAA, the

arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business, by applicable law or regulation, or to the extent necessary to exercise any judicial review rights set forth herein. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the Dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

MOTORCAR PARTS & ACCESSORIES, INC.

WELLS FARGO BANK
NATIONAL ASSOCIATION

By: _____

By: _____

Title: _____

Title: _____

By: _____

Title: _____

WELLS FARGO BANK

REVOLVING LINE OF CREDIT NOTE

\$25,000,000.00

Anaheim, California
November 1, 1996

FOR VALUE RECEIVED, the undersigned MOTORCAR PARTS & ACCESSORIES, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at North Orange County RCBO, 100 N Harbor Blvd Ste 200, Anaheim, CA 92805, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of \$25,000,000.00, or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

(b) "Fixed Rate Term" means a period commencing on a Business Day and continuing for 1, 2, 3 or 6 months, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than \$250,000.00; and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

(c) "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) determined by dividing Base LIBOR by a percentage equal to 100% less any LIBOR Reserve Percentage.

(i) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate

including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

(d) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear

interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum .25000% below the Prime Rate in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be 1.65000% above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection option selected hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Selection of Interest Rate Options. At any time any portion of this

Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (i) the interest rate option selected by Borrower; (ii) the principal amount subject thereto; and (iii) for each LIBOR selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone so long as, with respect to each LIBOR selection, (A) Bank receives written confirmation from Borrower not later than 3 Business Days after such telephone notice is given, and (B) such notice is given to Bank prior to 10:00 a.m., California time, on the first day of the Fixed Rate Term. For each LIBOR option requested hereunder, Bank will quote the applicable fixed rate to Borrower at approximately 10:00

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a.m., California time, on the first day of the Fixed Rate Term. If Borrower does not immediately accept the rate quoted by Bank, any subsequent acceptance by Borrower shall be subject to a redetermination by Bank of the applicable fixed rate; provided however, that if Borrower fails to accept any such rate by 11:00 a.m., California time, on the Business Day such quotation is given, then the quoted rate shall expire and Bank shall have no obligation to permit a LIBOR option to be selected on such day. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

(c) Additional LIBOR Provisions.

(i) If Bank at any time shall determine that for any reason adequate and reasonable means do not exist for ascertaining LIBOR, then Bank shall promptly give notice thereof to Borrower. If such notice is given and until such notice has been withdrawn by Bank, then (A) no new LIBOR option may be selected by Borrower, and (B) any portion of the outstanding principal balance hereof which bears interest determined in relation to LIBOR, subsequent to the end of the Fixed Rate Term applicable thereto, shall bear interest determined in relation to the Prime Rate.

(ii) If any law, treaty, rule, regulation or determination of a court or governmental authority or any change therein or in the interpretation or application thereof (each, a "Change in Law") shall make it unlawful for Bank (A) to make LIBOR options available hereunder, or (B) to maintain interest rates based on LIBOR, then in the former event, any obligation of Bank to make available such unlawful LIBOR options shall immediately be cancelled, and in the latter event, any such unlawful LIBOR-based interest rates then outstanding shall be converted, at Bank's option, so that interest on the portion of the outstanding principal balance subject thereto is determined in relation to the Prime Rate; provided however, that if any such Change in Law shall permit any

LIBOR-based interest rates to remain in effect until the expiration of the Fixed Rate Term applicable thereto, then such permitted LIBOR-based interest rates shall continue in effect until the expiration of such Fixed Rate Term. Upon the occurrence of any of the foregoing events, Borrower shall pay to Bank immediately upon demand such amounts as may be necessary to compensate Bank for any fines, fees, charges, penalties or other costs incurred or payable by Bank as a result thereof and which are attributable to any LIBOR options made available to Borrower hereunder, and any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(iii) If any Change in Law or compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority shall:

(A) subject Bank to any tax, duty or other charge with respect to any LIBOR options, or change the basis of taxation of payments to Bank of principal, interest, fees or any other amount payable hereunder (except for changes in the rate of tax on the overall net income of Bank); or

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(B) impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances or loans by, or any other acquisition of funds by any office of Bank; or

(C) impose on Bank any other condition;

and the result of any of the foregoing is to increase the cost to Bank of making, renewing or maintaining any LIBOR options hereunder and/or to reduce any amount receivable by Bank in connection therewith, then in any such case, Borrower shall pay to Bank immediately upon demand such amounts as may be necessary to compensate Bank for any additional costs incurred by Bank and/or reductions in amounts received by Bank which are attributable to such LIBOR options. In determining which costs incurred by Bank and/or reductions in amounts received by Bank are attributable to any LIBOR options made available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(d) Payment of Interest. Interest accrued on this Note shall be payable

on the 1st day of each month, commencing December 1, 1996.

(e) Default Interest. From and after the maturity date of this Note, or

such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to 4% above the rate of interest from time to time applicable to this Note.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment. Borrower may from time to time during the

term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of the Credit Agreement between Borrower and Bank defined below; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on June 1, 1998.

(b) Advances. Advances hereunder, to the total amount of the principal

sum available hereunder, may be made by the holder at the oral or written request of (i) RICHARD MARKS or MEL MARKS or DEBRA L. SCHWARTZ or PETER BROMBERG, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any

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person, with respect to advances deposited to the credit of any account of any Borrower with the holder, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

(c) Application of Payments. Each payment made on this Note shall be

credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

PREPAYMENT:

(a) Prime Rate. Borrower may prepay principal on any portion of this

Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

(b) LIBOR. Borrower may prepay principal on any portion of this Note

which bears interest determined in relation to LIBOR at any time and in the minimum amount of \$250,000.00; provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

(i) Determine the amount of interest which would have accrued

each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.

(ii) Subtract from the amount determined in (i) above the amount

of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

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Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or

liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum 4.000% above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of June 1, 1996, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default as defined in -----
the Credit Agreement, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or -----
entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

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(c) Governing Law. This Note shall be governed by and construed in -----
accordance with the laws of the state of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

MOTORCAR PARTS & ACCESSORIES, INC.

By: _____

Title: _____

By: _____

Title: _____

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AMENDMENT TO LEASE

This Amendment to Lease, dated for reference purposes only, October 3, 1996, between Golkar Enterprises, Ltd., Lessor and Motorcar Parts and Accessories, Inc., Lessee, who agree as follows:

1. Recitals: This Amendment to Lease is made with reference to the following facts and objectives:

a. Lessor and Lessee entered into a written Lease (the "Lease") dated September 19, 1995, whereby Lessor leased to Lessee an approximately 79,708 square foot portion of a larger building commonly known as 2931 California Street, Torrance, California 90503;

b. Lessee desires to expand the leased Premises to add approximately 147,600 square feet commonly known as 2929 California Street (the "additional space") and extend the term through March 31, 2002.

2. Additions to Leased Premises: Commencing December 1, 1996, Lessee shall take possession of an approximately 22,700 square foot portion of the 147,600 square feet of the additional space. Commencing April 1, 1997, Lessee shall take possession of the balance of the space resulting in a total leased Premises of approximately 227,368 square feet and parking as described in Exhibit "A" - 325 spaces.

3. Term: The Term of the Lease is extended through March 31, 2002.

4. Base Rent: Commencing December 1, 1996 monthly Base Rent will be the following:

79,708 square feet	\$21,000
22,700 square feet	6,015

	\$27,015

Commencing April 1, 1997, and continuing through September 30, 1999, base rent on the entire 227,368 square feet will be \$60,252.00 per month. From October 1, 1999 through March 31, 2002, Base Rent shall be \$64,771.00 per month.

5. Security Deposit: Lessee's present security deposit of \$17,000.00 shall be increased to \$60,252.00, bearing interest at 7 1/4% per annum with accrued interest earned on said deposit payable to Lessee on April 1, of each year of the lease term or any extension thereof.

6. Condition of Additional Space: The additional space shall be delivered in broom clean condition with all systems in good working order as described in Paragraph 2.2 of

the Lease. Lessor warrants that these systems remain in good working order for six (6) months after April 1, 1997. In addition, the roof shall be in a water-tight condition.

7. Non-Disturbance Agreement: Concurrently with the execution of this Amendment to Lease, Lessor will use its best efforts to obtain a Non-Disturbance Agreement from Lessor's mortgage holder existing at that time or any future time in which the Lease is in effect.

8. Tenant Improvements: Lessor, at Lessor's sole cost and expense will

do the modifications described in Exhibit "B" commencing April 1, 1997. Lessor and Lessee agree to cooperate in facilitating the completion of such improvements inasmuch as Lessee will be in possession of the Premises during the time the work is being performed.

9. Right to Sublease or Assign. Lessee shall have the right to

sublease all or any portion of the Premises, or assign its rights under the Lease, subject to Lessor's prior consent, which shall not be unreasonably withheld. Lessee shall have the right to sublease all or any portion of the Premises, or assign all of the Premises, to any parent, subsidiary and/or affiliate.

10. Options to Extend Term. If this Lease has not been cancelled or

terminated prior to March 31, 2002, and if the Lessee is at the time of exercise and through March 31, 2002, in possession of the Premises and is not at the time of exercise and through March 31, 2002 in default of any of terms, covenants or conditions of this Lease, Lessee is hereby granted two (2) options to extend the Term of this Lease for two (2) additional terms of five (5) years each from and after March 31, 2002; provided that Lessee gives written notice to Lessor of the exercise of each option of extension at least one hundred twenty (120) days prior to the expiration of the preceding Term. The terms and conditions of the Lease during the extended five (5) year option periods shall be the same as herein contained, except that the monthly Base Rent shall be increased to ninety-five percent (95%) of the then prevailing fair rental value as of the commencement date of each option period, which shall be mutually agreed upon by Lessor and Lessee, if possible. However, no reevaluation shall result in a rental rate less than that established for the prior rental period. In the event that Lessor and Lessee cannot mutually agree upon the then prevailing fair rental value of the Premises, the determination of the fair rental value as of the commencement date of each option period shall be based upon an appraisal by an S.I.R. broker or an M.A.I. appraiser acceptable to both Lessor and Lessee to the Los Angeles Chapter of the American Arbitration Association. All costs and fees of said broker or of the American Arbitration Association shall be borne equally by Lessor and Lessee. The fair rental value shall be increased during the second thirty (30) months of each five (5) year extended term, the amount of such increases to be agreed upon at the time the fair rental value is established.

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Except as expressly set forth herein, all other terms and conditions of the Lease shall remain unaffected by this Amendment, and are hereby ratified and affirmed.

GOLKAR ENTERPRISES, LTD.

MOTORCAR PARTS & ACCESSORIES, INC.

BY: DAVID V. KARNEY
GENERAL PARTNER

DATED: _____

DATED: _____

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[Exhibit A is a floor plan of the leased premises and adjacent parking area.]

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Exhibit B

1. Upgrade power to meet Lessee's requirements not to exceed 3,000 AMPS, 277/480 volt 3 phase power, exact amount of power and location to be agreed upon by Lessor and Lessee.
2. Complete installation of 400 watt metal halide light fixtures in balance of 2929 California Street and replace existing lighting at 2931 California Street with 400 watt metal halide lighting fixtures; both lighting grids to be the same as those existing at 2929 California Street.
3. Construct additional restrooms to accommodate requirements for a total of 400 employees for the entire Premises, the location to be mutually agreed upon by the Lessor and Lessee per the approximate location indicated on the attached plan.
4. Remove excess offices (both levels) in easterly side of 2929 California Street (see plan) and modify sprinklers and lighting to match existing high bay warehouse.
5. Paint and recarpet remaining office areas at 2929 California Street after removing demountable partitions as shown on plan.
6. Remove most of lab area in northeast side as agreed upon by Lessor and Lessee.
7. Add six (6) dock levelers at locations to be specified by Lessee.
8. Reopen three (3) existing openings between 2929 and 2931 California Street.
9. Patch and repaint existing east-west partition separating high bay space.
10. Install fire sprinkler earthquake bracing in areas not already in compliance.

[Exhibit B includes a floor plan depicting the planned tenant improvements.]

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[LETTERHEAD OF MOTORCAR PARTS & ACCESSORIES, INC.]

November 14, 1996

David V. Karney
12011 San Vicente Blvd., Suite 600
Los Angeles, California 90049

Re: 2929-31 California Street
2727 Maricopa Street

Dear David:

At long last, attached please find four (4) executed Lease Addendums for the above-referenced property for your review and execution. We appreciate your patience while we have been finalizing various issues concerning our occupancy.

Based upon our recent walk-through of the property with Al Drake and further evaluation of our requirements, we would like to request that the following

clarifications to Exhibit B be incorporated herein into the agreement for 2929-31 California Street.

1. Restrooms

Paragraph 3 is hereby amended to reflect the parties agreement that the additional restrooms to be added shall be based upon a mutually agreeable plan to be prepared by Lessor to accommodate code requirements for a total of 400 employees, said plan to include expanding the existing warehouse restrooms located near the southerly loading doors and expanding the existing office restrooms in 2929 California, in addition to new restrooms to be located in the warehouse area per the approximate location on the attached plan.

2. Office Area

Since we do not yet have a final layout for our use of the office area in 2929 California Street, it is understood that Paragraph 4 of Exhibit B is hereby amended to reflect the parties agreement that Lessor and Lessee shall mutually agree to a final space plan for the office area that will provide for the removal of most of the demountable partitions in the office area and the addition of a lunchroom with sink and cabinets in a mutually agreeable location next to the existing restrooms. In addition, Lessee shall have the right to select paint and carpet specifications, and Lessee shall be responsible for the cost of any upgrade to paint and carpet above Lessor's building standard.

Letter to Mr. David V. Karney

November 14, 1996

Page Two

3. Electrical Upgrade

We have reviewed the proposed location for the new electrical service, as indicated on the attached plan (Exhibit B), and the parties agree that it shall be Lessor's responsibility for the cost of the electrical installation.

We are appreciative of your patience and cooperation in concluding this transaction and we look forward to many years of future success in the properties. Please do not hesitate to contact me should you have any questions.

Best regards,

Richard Marks

President and Chief Operating Officer

Agreed to and accepted:

- -----
David V. Karney

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