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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED MARCH 31, 2002.

OR

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

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

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 ☐

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this Form 10-K. ☒

Issuer's revenues for its most recent fiscal year: $172,040,000

The aggregate market value, calculated on the basis of the average bid and asked prices of such stock on the Internet Billboard, of Common Stock held by non-affiliates of the Registrant as of June 12, 2002 was approximately $19,915,235.

There were 7,960,455 shares of Common Stock outstanding at June 13, 2002.

MOTORCAR PARTS & ACCESSORIES, INC.

PART I

Item 1. Business.

General

The Company is a leading remanufacturer of replacement alternators and starters for imported and domestic cars and light trucks. These vehicles, which are manufactured both in the United States and overseas, include many of the most recognizable brands from companies such as General Motors, Ford, Chrysler, Toyota, Honda, Nissan, Mazda, and Volkswagen. The Company also assembles and distributes starter ignition

wire sets for imported and domestic cars and light trucks.

The Company's products are sold throughout the United States to many of the nation's largest chains of retail automotive stores, including AutoZone, CSK Automotive, The Pep Boys, and Ozark Automotive**.** The Company also supplies remanufactured alternators and starters to General Motors. These General Motors units are sold through their Service Parts Operation, which includes distribution throughout the United States and Canada. The Company's products are also sold in Mexico through a number of the retail chain stores' distribution channels. During the last several years, the Company's marketing and sales efforts have been principally geared toward automotive chain stores and General Motors' Service Parts Operation, which the Company believes is the fastest growing segment of the automotive after-market industry, and is consistent with its existing targeted customers. During fiscal 2002, 2001 and 2000, approximately 97%, 97% and 89% respectively, of the Company's sales were to automotive chain stores, which is comprised of approximately 5,500 stores and General Motors. The balance of sales went primarily to large warehouse distributors and smaller retail chains as well as the sale of spark plug wire sets, which the Company assembles both in the United States and Malaysia.

The Automotive After-market Industry

The automotive after-market for alternators and starters has grown in recent years. The Company believes that this growth has resulted from, among other trends, (1) the increased number of vehicles in use, (2) the increased number of miles driven each year and (3) the growth of vehicles at their prime repair age of four years and older. Based upon market information it has reviewed, the Company believes the average age of vehicles in operation in the United States is 9.1 years.

Two distinct groups of end-users buy replacement automotive parts: (1) individual "do-it-yourself" consumers; and (2) professional "do-it-for-me" installers. The individual consumer market is typically supplied through retailers and retail arms of warehouse distributors. Automotive repair shops generally purchase parts through local independent parts wholesalers, through national warehouse distributors and, at a growing rate, through commercial account programs with automotive parts retailers, aimed at servicing the professional "do-it-for-me" installers. It is through efforts by automotive parts retailers to expand their sales to the professional "do-it-for-me" installers, that the Company sees a portion of its future growth being realized.

The increasing complexity of cars and light trucks and the number of different makes and models of these vehicles have resulted in a significant increase in the number of different alternators and starters required to service imported and domestic cars and light trucks. To respond to this market development, the Company has had to increase the number of inventory items it maintains in stock. The technology used in alternators and starters has become more advanced in response to the installation in vehicles of an increasing number of electrical components such as cellular telephones, electrically powered windows, air conditioning equipment, high-powered radio and stereo systems and audio/visual equipment. Consequently, per unit sale prices have increased for such alternators and starters.

Remanufacturing, which involves the reuse of parts which might otherwise be discarded, creates a supply of parts at a significantly lower cost to the user than newly manufactured parts, and makes available automotive parts which are no longer being manufactured. By making readily available parts for automotive general use, remanufacturing benefits automotive repair shops by relieving them of the need to rebuild worn parts on an individual basis and conserves material which would otherwise be used to manufacture new replacement parts. Most importantly, however, the Company's remanufactured parts are sold at significantly lower prices than competitive new replacement parts.

Company Products

The Company's primary products are remanufactured replacement alternators and starters for both imported and domestic cars and light trucks. The Company also assembles and distributes ignition wire sets for the automotive after-market for use in a wide variety of makes and models of foreign and domestic vehicles. During fiscal years ending 2002, 2001 and 2000, sales of replacement alternators and starters constituted 99%, 99% and 98% respectively, of the Company's fiscal year 2002, 2001 and 2000 total sales. The balance of the Company's sales was attributable to sales of wire sets. Alternators, starters and ignition wire sets are essential components in all makes and models of vehicles. These products constitute non-elective replacement parts, which are required for a vehicle to operate. Approximately 99% of the Company's products are sold for resale under customer private labels, with the remaining 1% being sold under the Company's brand name, which includes the use of its registered trademark, "MPA". Customers that sell the Company's products under private label include AutoZone, CSK Automotive, The Pep Boys, Ozark Automotive, and General Motors.

The Company's alternators and starters are produced to meet or exceed automobile manufacturer specifications. The Company remanufactures a broad assortment of alternators and starters in order to accommodate the proliferation of applications and products in use. Currently, the Company provides a full line of approximately 1,481 different alternators and 923 different starters. The Company's alternators and starters are provided for virtually all foreign and domestic manufacturers.

Customers and Customer Concentration

The Company's products are marketed throughout the United States, Canada and Mexico. The Company's customers consist of many of the largest retail automotive stores and automotive warehouse distributors and General Motors who all sell the Company's products in the United States. The Company also sells its products throughout Canada and Mexico through the Company's current distribution channels. The Company services automotive retail chain store accounts servicing approximately 5,500 retail outlets.

Many of the largest chains of retail automotive stores in the United States obtain their imported car alternators and starters from the Company. Consequently, a significant percentage of the Company's sales have been concentrated among a relatively small number of customers. The Company's three largest customers, AutoZone, CSK Automotive and Ozark Automotive, accounted for approximately 86% of total net sales during fiscal 2002. Similarly, during fiscal 2001 and 2000, the Company's three largest customers accounted for approximately 69% and 59% respectively, of total net sales. There can no assurance that this concentration of sales among customers will not continue or conversely will increase in the future. The loss of a significant customer or substantial decrease in sales to such a customer would have a material adverse effect on the Company's sales and operating results. In addition, customers may demand price concessions or product returns and allowances from the Company that could adversely affect profit margins. The Company's arrangements with most of its customers are based principally on the receipt

of purchase orders.

Operations of the Company

Cores

In its remanufacturing operations, the Company obtains used alternators and starters, commonly known as "cores", which are sorted by make and model and stored until needed. When needed for remanufacturing, the cores are completely disassembled into component parts. Components, which can be incorporated into the remanufactured product, are thoroughly cleaned, tested and refinished. All components known to be subject to major wear and those components determined not to be reusable or repairable are replaced by new components. The unit is then reassembled on an assembly line into a finished product. Inspection and testing are conducted at various stages of the remanufacturing process, and each finished product is inspected and tested on equipment designed to simulate performance under operating conditions. Components of cores, which are not used by the Company in its remanufacturing process, are sold as scrap.

The majority of the cores remanufactured by the Company are obtained from customers as trade-ins, which are credited against future purchases. The Company's customers offer consumers a credit to exchange their used units at the time of purchase. To a lesser extent, the Company also purchases cores in the open market from core brokers, who are dealers specializing in buying and selling cores. Although the Company believes that the open market does not and will continue not to be a primary source of cores, this market offers a supplemental source for maintaining stock balance. Other materials and components used in remanufacturing are also purchased in the open market. The ability to obtain cores of the types and quantities required by the Company is essential to the Company's ability to meet demand.

The price of a finished product sold to the Company's customers is generally comprised of a separately invoiced amount for the core included in the product ("core value") and an amount for remanufacturing ("value added"). Upon receipt of a core from a customer, the Company generally gives a credit to the customer for the core value originally invoiced with respect to that core. Typically, the core value credit given to a customer exceeds the market value of the core accepted as a trade-in. The Company records this difference in cost of sales. The Company generally limits core returns to cores sold to the specific customer, which are in remanufacturable condition. Core values fluctuate on the basis of several economic factors, including market availability, seasonality and demand.

Production Process

The initial step in the Company's remanufacturing process begins with the receipt of cores from various sources, including trade-ins from customers and purchases in the open market. The cores are assessed and evaluated for inventory control purposes and then sorted by part number. Each core is completely disassembled into all of its fundamental components. The components are cleaned in a process that employs customized equipment and cleaning materials. The cleaning process is accomplished in accordance with the required specifications of the particular component.

After the cleaning process is complete, the component parts are inspected and tested as prescribed by the Company's rigorous and QS 9000 approved quality control program. (QS 9000, is an internationally recognized, world class, automotive quality system.) This program, which is implemented throughout the operational process, is known as statistical process control. Upon passage of all tests, which are monitored by designated quality control personnel, the components are ready for assembly into required units. Each fully assembled unit is then subjected to additional testing to ensure performance and quality. Finished products are then either stored in the Company's warehouse facility or packaged for immediate delivery. To maximize manufacturing efficiency, the Company stores component parts ready for assembly in its warehousing facilities. The Company's management information systems, including hardware and software, facilitate the remanufacturing process from cores

to finished products. The complete remanufacturing process from core disassembly through final assembly and testing takes approximately three days.

The Company generally assembles ignition wires from components manufactured by third parties. The assembly process involves the cutting of predetermined lengths of wire, which have been manufactured to the Company's specifications, and the attaching of terminals and boots to the ends of such wire. Ultimately, the final product is tested and packaged under the customer's private label.

The Company also conducts business through two wholly owned foreign subsidiaries, MVR Products Pte Limited ("MVR"), which operates a shipping and receiving warehouse, testing facility and maintains office space in Singapore and Unijoh Sdn, Bhd ("Unijoh"), which conducts remanufacturing operations in Malaysia, similar to those conducted by the Company at its remanufacturing facility in Torrance. These foreign operations are conducted with quality control standards and other internal controls similar to those currently implemented at the Company's remanufacturing facilities in Torrance. The facilities of MVR and Unijoh are located approximately one hour drive apart. The Company believes that the operations of its foreign subsidiaries are important because of the lower labor costs experienced by these entities in the same remanufacturing process. The foreign subsidiaries produced in fiscal 2002, 2001 and 2000 approximately 195,000, 197,000, and 209,000 units, respectively, or about 9% of the Company's total production for each of the last three years.

Product Warranty

The Company has a warranty policy that it believes is typical for the remanufactured automotive replacement parts industry. Like other re-manufacturers, the Company only accepts product warranties from on-going customers. If a customer ceases doing business with the Company, the Company recognizes no further obligations to that customer with respect to product warranties and hence, no additional warranty returns would be accepted by the Company. This is standard industry practice. The customer would ordinarily send any returnable products to a new remanufacturer maintaining the same policy, which remanufacturer would accept the product warranty and grant appropriate credits regardless of whether the units were originally purchased from that new remanufacturer. The Company generally follows this industry practice and provides the

same warranty and trade-in rights when it takes over businesses that had previously been supported by another remanufacturer.

As a result of this product warranty policy, the Company accounts for product warranties on a current basis. No reserve is made for future product warranties since there is no on-going obligation to accept such warranties in the absence of continuing sales to the returning customer. The Company believes that its warranty rate has been consistent with rates generally experienced in its industry.

Marketing and Distribution

The Company markets and distributes its products regionally through salaried personnel. The Company's products are sold principally under private label names.

The Company focuses its sales efforts on automotive retail chains, which the Company believes constitutes the dominant distribution channel in the Company's market. The Company also sells its alternators and starters to General Motors. Products are delivered directly by or on behalf of the Company to the chain's distribution centers which then deliver the merchandise directly to the retail stores for purchase by consumers or, in the case of General Motors, to its Service Parts Operation for distribution. The Company believes that it has obtained significant marketing, distribution and manufacturing efficiencies by focusing its sales efforts on chains of automotive retail stores.

The Company prepares and publishes a comprehensive catalog of its alternators and starters, and a detailed technical glossary and explanation guide. The Company believes that it maintains one of the market's most extensive catalog and product identification systems, offering one of the widest varieties

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of alternators and starters available in that market. The Company further believes that certain of its customers' use of and reliance on the catalog and product identification system provide incentives to those customers to continue to purchase products from the Company.

Change in Accounting for Inventory; Stock Adjustments

Effective April 1, 1999, management adopted a new methodology for accounting for inventory. Management believes that the new methodology better reflects the economics of its business while providing a better measurement under generally accepted accounting principles. Under the Company's new accounting methodology, in recording core inventory at the lower of cost or market, the Company determines the market value based upon comparisons to current core broker prices. Beginning with fiscal year 2001, management refined this policy to reduce the standard cost for cores when purchases of any particular core is greater than 25% of the total number of that particular core on hand. Such values are normally less than the core value credited to customers' accounts when cores are returned to the Company as trade-ins. In prior years, when the Company valued its inventory at the lower of cost or market, cost was determined using an average weighted cost method and the market value of cores was determined by the weighted average of the repurchase price of cores acquired from the Company's customers and the price of cores purchased from core brokers. Additionally, management reviews core inventory to identify excess quantities and maturing product lines. An allowance for obsolescence is provided to reduce the carrying (market) value to its estimated market value.

In addition to the change in its Company's policy of accounting for cores, the Company recently modified its accounting for stock adjustments. Under the terms of certain Company agreements with its customers and industry practice, the Company's customers from time to time are allowed stock adjustments when the inventory level of certain product lines exceed their anticipated levels of sales to their end-user customers. These adjustments are made by the Company's acceptance into inventory of these customer's overstocks, and they do not come at any specific time during the year and can have a distorting effect on the financial statements.

Historically, the Company charged a portion of stock adjustment returns against net sales and expensed the balance as cost of goods sold when the returns were made. In the third quarter of fiscal 2001, because of an unprecedented large return from one customer the Company recognized adjustments of $898,000. Due to current and expected changes in customer return practices, in the fourth quarter of fiscal 2001, the Company began to provide for a monthly $75,000 allowance to address the anticipated impact of stock adjustments. The adjustments recognized and the allowance that was established resulted in gross profit and net income decreasing by $1,123,000 during fiscal year 2001. Currently, the Company accrues $75,000 monthly and the cost associated with stock adjustments, are charged against this allowance. As of March 31, 2002, the balance in the stock adjustment reserve account was $609,000. This allowance will be reviewed quarterly looking back at a rolling 12 months to determine if the monthly accrual should be adjusted. Use of this estimating technique in fiscal 2000 would not have had a material impact on the Company's results of operation.

Seasonality of Business

Due to the nature and design as well as the current limits of technology, alternators and starters traditionally fail when operating in extreme conditions. That is, during summer months, when the temperature typically increases over a sustained period of time, alternators and starters are more apt to fail and thus, an increase in demand for the Company's products typically occurs. Similarly, during winter months, when the temperature is colder, alternators and starters tend to fail and require replacing immediately, since these parts are mandatory for the operation of the vehicle. As such, summer months tend to show an increase in overall volume with a few spikes in the winter.

Competition

The automotive after-market industry of remanufacturers and rebuilders of alternators and starters for imported and domestic cars and light trucks is highly competitive. The Company's direct competitors include two other large remanufacturers and a number of small regional rebuilders.

The reputation for quality and customer service, which a supplier enjoys, is a significant factor in a purchaser's decision as to which product lines to carry in the limited space available. The Company believes that these factors favor the Company, which provides quality replacement automotive products, rapid and reliable delivery capabilities and promotional support. In this regard, there is increasing pressure from customers,

particularly the large ones that the Company sells to, for suppliers to provide "just-in-time" delivery, which allows delivery on an as-needed basis to promptly meet customer orders. The Company believes that its ability to provide "just-in-time" delivery distinguishes it from many of its competitors and provides a significant competitive advantage and may also represent a barrier to entry to current or future competitors.

In addition, price is a very important competitive factor. The concentration of the Company's sales among a small group of customers has increasingly limited the Company's ability to negotiate favorable prices for its products.

The Company's products have not been patented nor does the Company believe that its products are patentable. The Company will continue to attempt to protect its proprietary processes and other information by relying on trade secret laws and non-disclosure and confidentiality agreements with certain of its employees and other persons who have access to its proprietary processes and other information.

Governmental Regulation

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

Employees

The Company has approximately 805 full-time employees. Of the Company's employees, 63 are considered administrative personnel and 7 are sales personnel. None of the Company's employees is a party to any collective bargaining agreement. The Company has not experienced any work stoppages and considers its employee relations to be satisfactory.

Item 2. Properties.

The Company presently maintains facilities in Torrance, California, and Nashville, Tennessee. The Company has completed the consolidation of its two Torrance facilities into a single building containing an aggregate of approximately 227,000 square feet. The Company recently negotiated a new lease extending the lease term for an additional five years commencing April 1, 2002 and ending March 31, 2007 and providing for a base rental rate of $94,358 per month. This represents an increase of $29,587 per month or a 45.7% increase in the rent the Company had been paying during the prior lease term for the single facility it has continued to utilize. However, when compared to the total monthly rent the Company previously paid for both buildings in Torrance prior to their consolidation, this new rent

represents a decrease in total rent payments of $18,014 per month. The Company believes that cost and efficiencies realized from being located in a single building were equally the reason for this consolidation. The Company believes that its facilities are sufficient to satisfy its foreseeable production requirements. In fiscal 2001, the Company recorded restructuring expenses of $914,000, of which $738,000 was related primarily to future rent expense and $176,000 was a write-down of tenant improvements.

The Company has approximately 1,000 square feet of office space in Nashville, Tennessee. This office is used for managing the purchasing activities of the Company.

In addition, the Company's subsidiaries have facilities at locations in Singapore and Malaysia. The Company has moved a portion of its operation for the assembly of spark plug wire sets to Malaysia and plans to have essentially all spark plug wire assembly operations moved to Malaysia by the second quarter of fiscal 2003.

Item 3. Legal Proceedings.

The Company has settled the class action lawsuit that had been filed against the Company in the United States District Court, Central District of California, Western Division. The class action lawsuit alleged that, over a four-year period during 1996 to 1999, the Company misstated earnings in violation of securities laws. Under the terms of the settlement agreement, the class action plaintiffs will receive $7,500,000. Of this amount, the Company's directors and officer's insurance carrier paid $6,000,000 and the Company has paid the balance. Final approval of this settlement was entered into Court Records on September 18, 2001 and all parties have exchanged releases in connection with this settlement.

To finance the Company's portion of the settlement, the Company and Mel Marks, the Company's founder and a board member, entered into a stock purchase agreement. Under the terms of this agreement, Mr. Marks purchased shares of the Company's common stock, which were issued on September 19, 2001. The total purchase price for the stock was $1,500,000. The price per share was $1.00. The valuation firm that the Company engaged to render a fairness opinion of this transaction concluded that this price per share was fair to the Company's shareholders, from a financial point of view. For purposes of this determination, the fairness of the transaction was evaluated as of November 30, 2000, the date that Mr. Marks agreed to provide $1,500,000 to the Company to finance a portion of the class action settlement. (The Company's stock closed on November 30, 2000 at $1.00 per share.) On that date, the Company did not have the resources to pay their portion of the settlement from operating cash flow and was required to raise these funds from an external source.

On January 20, 2000, the Securities and Exchange Commission issued a formal order of investigation with respect to the Company. In this order, the SEC authorized an investigation into, among other things; the accuracy of the financial information previously filed with the Commission and potential deficiencies in the Company's records and system of internal control. The SEC investigation is proceeding. There can be no assurance with respect to the outcome of the SEC's investigation. The United States Attorney's Office for the Central District of California is conducting a similar investigation.

In addition, the Company has not filed a number of periodic reports that it is obligated to file under the Securities Exchange Act of 1934.

However, the Company is current with all of its reporting to the SEC for the past 12 months. The SEC is aware of this failure and has reminded the Company that it has the authority to revoke or suspend the Company's registration under the Securities Exchange Act of 1934 as a result of this failure, which SEC action would prevent sales of the Company's common stock through broker/dealers.

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

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock, par value $0.01 per share (the "Common Stock"), is currently de-listed from the National Association of Securities Dealers' Automated Quotation ("NASDAQ") system. As such, and until the Company regains listing status, the Company's stock can be tracked on the Internet billboard. Trading on the Internet Billboard can be sporadic, and this may not constitute an established trading market for the Common Stock. The following table sets forth the high and low bid prices for the Common Stock during each quarter of fiscal 2000, 2001 and 2002 as tracked on the Internet billboard. The prices reflect inter-dealer quotations and may not represent actual transactions and do not include any retail mark-ups, markdowns or commissions.

	Fiscal 2002		Fiscal 2001		Fiscal 2000	
	High	Low	High	Low	High	Low
1st Quarter	$ 1.40	$ 1.04	$ 2.00	$ 0.87	$ 12.75	$ 5.25
2nd Quarter	$ 2.95	$ 1.10	$ 0.99	$ 0.41	$ 5.75	$ 1.50
3rd Quarter	$ 3.40	$ 2.33	$ 3.00	$ 0.52	$ 2.75	$ 0.87
4th Quarter	$ 5.00	$ 3.18	$ 1.85	$ 0.66	$ 3.75	$ 1.06

As of March 31, 2002, there were 7,960,455 shares of Common Stock outstanding held by 51 holders of record.

The Company has never declared or paid dividends on its Common Stock.

The declaration of dividends in the future will be at the discretion of the Board of Directors and will depend upon the earnings, capital requirements and financial position of the Company, general economic conditions, state law requirements and other relevant factors. In addition, the Company's agreement with its lender prohibits payment of dividends without the bank's prior consent, except dividends payable in Common Stock.

During fiscal year 2002, the Company sold 1,500,000 shares of unregistered securities. As noted in the discussion under the caption "Item 3—Legal Proceedings", the Company sold these 1,500,000 shares of its Common Stock for $1,500,000 in cash. The proceeds of this stock sale were used to pay the Company's portion of the settlement of the class action lawsuit against the Company. The shares were sold to Mr. Marks without registration under the Securities Act of 1933 due to reliance upon an exemption from registration provided under Section 4(2) of the Securities Act of 1933 and Regulation D issued by the Securities and Exchange Commission.

Item 6. Selected Financial Data.

The following selected financial data has been derived from the Company's audited financial statements. The Income Statement Data relating to the fiscal years 2002, 2001, and 2000 and the Balance Sheet Data as of March 31, 2002 and 2001 should be read in conjunction with the Company's audited financial statements and notes thereto appearing elsewhere herein. The Company has not included financial statements at the period March 31, 1999 and 1998 in this Form 10-K because the Company has not restated these financial statements to give effect to the change in the Company's

method of accounting for inventory or any adjustments that might result from an audit or review of these statements.

	Fiscal Year Ended March 31,		
	2002	2001	2000
Income Statement Data:			

	2002	2001	2000
Net Sales	$ 172,040,000	$ 160,699,00	$ 194,293,000
Operating Income (Loss)	11,241,000	(389,000)	(8,535,000)
Income (Loss) before Cumulative Effect of Accounting Change	11,689,000	(4,102,000)	(10,542,000)
Cumulative Effect of Accounting Change(1)	—	—	(17,702,000)
Net Income (Loss)	11,689,000	(4,102,000)	(28,244,000)
Basic Income (Loss) per share before Cumulative Effect of Accounting Change	$ 1.61	$ (.63)	$ (1.63)
Diluted Income (Loss) per share	$ 1.51	$ (.63)	$ (4.37)

	March 31		
	2002	2001	2000
Balance Sheet Data:			
Total assets	71,296,000	60,108,000	71,801,000
Working capital	9,404,000	1,836,000	2,996,000
Line of credit	28,029,000	28,950,000	36,661,000
Long-term debt and capitalized lease obligations—less current portions	915,000	2,099,000	3,062,000
Shareholders' equity	26,823,000	13,298,000	17,393,000

(1) Effective April 1, 1999, the Company changed their method of valuing inventory and recorded a cumulative effect of accounting change of $17,702,000, which is reflected in the March 31, 2002 Consolidated Statement of Operations.

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

General

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

Results of Operations

	Fiscal Year Ended March 31,		
	2002	2001	2000
Net Sales	100.0%	100.0%	100.0%
Cost of Goods Sold	88.0%	92.6%	96.8%
Gross Margin	12.0%	7.4%	3.2%
General and Administrative Expenses	4.2%	5.2%	6.1%
Selling Expenses	0.7%	0.8%	0.9%
Litigation Settlement	—	0.9%	—
Restructuring Expenses	—	0.5%	—
Research and Development	0.3%	0.3%	0.4%
Provision for Doubtful Accounts	0.2%	(0.1)%	0.2%
Operating Income (Loss)	6.6%	(0.2)%	(4.4%)
Interest Expense, net of Interest Income	2.1%	2.3%	1.6%
Income (Loss) Before Income Taxes and Cumulative Effect of Accounting Change	4.5%	(2.5%)	(6.0%)
Income Tax Benefit	2.3%	—	0.6%
Income (Loss) Before Cumulative Effect of Accounting Change	6.8%	(2.5%)	(5.4%)
Cumulative Effect of Accounting Change	—	—	(9.1%)
Net Income (Loss)	6.8%	(2.5%)	(14.5%)

Fiscal 2002 compared to Fiscal 2001

Net sales for fiscal 2002 were $172,040,000, an increase of $11,341,000 or 7.1% from the prior years' sales of $160,699,000. Of this increase in net sales, $6,200,000 was due to the Company's expansion into new product lines; $1,500,000 was a direct result of increased sales to existing customers; and $3,600,000 was related to a decrease in warranty and sales returns attributable to the engineering department's focus on warranty reductions. The engineering department's focus on quality-related issues includes, but is not limited to: (1) Failure Mode Analysis, (2) Root Cause Analysis and (3) Durability Testing which resulted in improved processes and better quality componentry.

Cost of goods sold, as a percentage of net sales, decreased in fiscal 2002 to 88.0%—an improvement of 4.6% from 92.6% for fiscal 2001. This percentage decrease is principally attributable to a reduction in material costs, freight costs and labor costs associated with greater manufacturing efficiencies and improved productivity due to the Company's consolidation of its facilities.

Under the terms of certain agreements with its customers and industry practice, the Company's customers from time to time are allowed stock adjustments when the inventory level of certain product lines exceed the anticipated level of sales to end-user customers. These adjustments are made when the Company accepts into inventory these customers' overstocks, which do not occur at any specific time during the year. Due to current and expected changes in customer return practices, in the fourth quarter of fiscal 2001, the Company began to provide for a monthly allowance to address the

anticipated impact of stock adjustments. During the fiscal year 2002, the Company expensed $898,000 in cost of goods sold as an additional allowance for stock adjustments. The allowance for stock adjustments was $609,000 and $225,000 as of March 31, 2002 and 2001 respectively. The allowance policy is reviewed quarterly looking back at a trailing 12 months to determine if the monthly accrual should be adjusted.

The Company provides for potential excess and obsolete inventory based upon historical usage and a product's life cycle. This reserve account decreased in fiscal 2002 by $428,000 from $3,874,000 in fiscal year 2001 to $3,451,000 in fiscal year 2002. This decrease was due to the increased quality of the inventory on hand and the continued focus on sale or scrap of obsolete inventory.

The Company adjusts the value of cores in three ways, (1) when purchases constitute 25% or more of quantity on hand, then a weighted average cost is applied, (2) cores not adjusted for purchases in #1, are adjusted every six months by obtaining core broker prices. All cores that have a 35% or greater price difference are adjusted, and (3) a valuation reserve has been set up for those cores not adjusted by the above policies. This reserve is based upon the estimated life cycle for cores of 25 years. This reserve account decreased in fiscal year 2002 by $110,000 from $379,000 in fiscal year 2001 to $264,000 in fiscal 2002. This decrease was principally the result of the Company continuing to decrease its core inventory by selling and scrapping cores.

General and administrative expense for fiscal 2002 was $7,203,000, which represents a decrease of $1,088,000 or 13%, from the prior year's expense of $8,291,000. As a percentage of net sales, general and administrative expense for fiscal 2002 was 4.2%, which is a decrease of 1% from fiscal year 2001. The key contributors to the $1,088,000 decrease from fiscal 2001 were: (1) a reduction in the Company's legal and accounting fees of nearly $1,400,000, primarily due to the termination of the class action lawsuit during fiscal 2002 and the reduction in the legal fees and significant accounting costs associated with that litigation, (2) a decrease of nearly $500,000 in executive salaries and related expenses, (3) a reduction in rent expense of over $145,000 due to the Company's consolidation of its operations in California into a single facility in fiscal 2002 and accounted for the rent of the vacated building as a restructuring cost totaling $914,000 that was recorded in fiscal 2001, and (4) a decrease in bank fees of $155,000, all of which were partially offset by an increase in bonuses paid to executive officers and other Company employees of nearly $1,300,000.

Selling expenses decreased $49,000 or 4% in fiscal 2002 to $1,167,000 from $1,216,000 in fiscal 2001. This decrease was principally the result of a reduction in outside commissions paid of over $100,000 and a decrease in other selling expenses offset by an increase in employee bonuses of $90,000.

In fiscal 2001, the Company established a $1,500,000 reserve in connection with the settlement of the class action litigation against the Company. For additional information, see the discussion under the caption "Item 3—Legal Proceedings". The Company also recorded $914,000 in restructuring expenses and related asset impairment charges during the year ended March 31, 2001 in connection with the consolidation of business operations into one location in California from two in California and one in Tennessee. These expenses consist primarily of future rent expense of $738,000 and write down of tenant improvements of $176,000.

Research and development expenses increased by $80,000 or 16.9% in fiscal 2002 to $552,000 over the $472,000 spent in fiscal 2001. This increase of $80,000 consists principally of (1) an increase in supplies of nearly $60,000 and (2) an increase of over $20,000 in hourly wages paid.

Provision for doubtful accounts expense for fiscal 2002 was $412,000 compared to ($36,000) for fiscal 2001. This increase from the prior year of $448,000 was principally the result of the resolution of certain shipping and pricing issues with current and former customers that resulted in a write-down of certain receivables. Approximately $70,000 was the result of one of the Company's customers filing for bankruptcy.

Net interest expense for fiscal 2002 was $3,556,000. This was a decrease of $144,000 or 3.9% from fiscal 2001, net interest expense of $3,700,000. This decrease is principally the result of (1) generally lower interest rates, and (2) a reduction in the principal balance outstanding; however, these reductions were partially offset when the Company amended its loan agreement with its bank in May, 2001. As part of this amendment, the Company re-priced 400,000 warrants previously issued to the bank. This resulted in a one-time charge of $360,000.

Fiscal 2001 compared to Fiscal 2000

Net sales for fiscal 2001 were $160,699,000, a decrease of $33,594,000 or 17.3% from the prior years' sales of $194,293,000**.** This decrease in net sales was principally the result of the Company eliminating an unprofitable line of domestic business and discontinuing sales to certain warehouse distributor customers in fiscal 2001.

Cost of goods sold for fiscal 2001 decreased as a percentage of net sales by 4.2% to 92.6% in fiscal 2001 from 96.8% in fiscal 2000. This improvement is related to all categories—from material to direct labor to overhead—and is the result of the Company eliminating an unprofitable line of domestic business in fiscal 2001.

General and administrative expense, for fiscal 2001 was $8,291,000, a decrease from fiscal 2000 of $3,541,000 or 29.9%. The key

contributors to this decrease, were: (1) a reduction in outside services related to the implementation of a new computer system of $780,000 in fiscal 2000, (2) a one-time adjustment of $1,150,000 to fixed assets and accumulated depreciation based upon a review of the fixed assets register and (3) a reduction of legal and accounting costs of $1,350,000. The remaining decrease in general and administrative expenses of $261,000 consists of a number of other items including reductions in executive salaries, travel and insurance.

Selling expenses decreased $648,000 or more than 34% in fiscal 2001 to $1,216,000 from $1,864,000 in fiscal 2000. This decrease is primarily attributable to a reduction in sales personnel and related expenses and the reduction of expenses related to participating at trade shows. Since approximately 99% of the Company's private label sales are to large national retailers, the Company realized there was no need for brand name recognition. By eliminating the cost of these trade shows, the Company saved over $166,000 from the previous year.

Research and development expenses decreased by $242,000 or 33.9% from $714,000 in fiscal 2000 to $472,000 in fiscal 2001. The key contributors to this decrease were reductions in wages, expendable tools and supplies.

Provision for doubtful accounts expense for fiscal 2001 was ($36,000) compared to $312,000 for fiscal 2000. The net recovery in fiscal 2001 as compared to fiscal 2000 was the result of the Company favorably settling various customer accounts.

Net interest expense was $3,700,000 for fiscal 2001. This was an increase of $520,000 or 16.4% over fiscal 2000 of $3,180,000. This increase is due to generally higher interest rates, coupled with a 1% interest rate increase charged by the bank in connection with the default waivers that the bank granted the Company in September 2000.

Liquidity and Capital Resources

The Company has financed its working capital needs through the use of its bank credit facility and the cash flow generated from operations. The Company currently has available bank debt of $32,750,000 under two separate credit facilities—a revolving line of credit facility of up to $24,750,000 and an $8,000,000 term loan. The interest rate for these two facilities is 1.75% and 2.00%, respectively, above the bank's prime rate of lending which was 4.75% on March 31, 2002. On March 31, 2002, the interest rates for the line of credit facility and the term loan were 6.50% and 6.75%, respectively.

On June 25, 2002, the Company and the bank agreed to extend the credit agreement to April 30, 2003. The new agreement calls for a restructuring fee of 3% or $982,500 fully earned, but only $327,500 or 1% of which is payable at closing. The balance of this restructuring fee of $655,000 is deferred until December 15, 2002. If both the term loan of $8,000,000 and the line of credit facility of $24,750,000 are fully repaid before December 15, 2002 then the unpaid restructuring fee of $655,000 will be waived. The term loan provides for principal reduction payments on the 15th of every month of $500,000 each for June 2002 through October 2002; $750,000 each for November and December of 2002; $1,000,000 in January 2003 and $1,500,000 each for February 2003 through April 2003. In addition, $1,000,000 of the April 2003 payment is to be applied to the line of credit facility and both loans provide a 1.5% per annum commitment fee on the unused portion, which is payable monthly.

The Company's liquidity has also been impacted by the extension in payment terms that it has afforded a number of its key customers. This extension is an important factor behind the $10,551,000 increase in accounts receivable at March 31, 2002 when compared to the accounts receivable balance at March 31, 2001. The Company has recently entered into an agreement with one of its customer's bank whereby the Company may have the option to sell this customer's receivables to the bank, at an agreed upon discount. While this agreement may reduce the Company's working capital needs, there can be no assurance in this regard.

Disclosure Regarding Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements with respect to the future performance of the Company that involve risks and uncertainties. Various factors could cause actual results to differ materially from those projected in such statements. These factors include, but are not limited to: concentration of sales to certain customers, changes in the Company's relationship with any of its customers, the Company's failure to meet the financial covenants or the other obligations set forth in its bank credit agreement and the bank's refusal to waive any such defaults, the Company's ability to refinance its bank debt at maturity, the potential for changes in consumer spending, consumer preferences and general economic conditions, increased competition in the automotive parts remanufacturing industry, unforeseen increases in operating costs associated with and the anticipated savings from the Company's consolidation of facilities and other factors discussed herein and in the Company's other filings with the Securities and Exchange Commission.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative Disclosures. The Company is subject to interest rate risk on its existing debt and any future financing requirements. The Company's variable rate debt relates to borrowings under the Credit Facility (see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources").

The following table presents the weighted-average interest rates expected on the Company's existing debt instruments.

Principal (Notional) Amount by Expected Maturity Date

(As of March 31, 2002)

	Fiscal 2003	Fiscal 2004

Liabilities		
Bank Debt, Including Current Portion		
Line of Credit Facility	$24,750,000	$24,750,000
Interest Rate	Prime + 1.75%*	Prime + 1.75%*
Term Loan	$8,000,000	
Interest Rate	Prime + 2.00%*	

* As noted in the discussion under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources", the spread above the bank's prime rate can increase or decrease depending upon changes in the ratio of the Company's funded debt to cash flow.

Qualitative Disclosures. The Company's primary exposure relates to (1) interest rate risk on its long-term and short-term borrowings, (2) the Company's ability to pay or refinance its borrowings at maturity at market rates and (3) the impact of interest rate movements on the Company's ability to meet interest expense requirements and exceed financial covenants. While the Company cannot predict or mange its ability to refinance existing debt or the impact interest rate movements will have on its existing debt, management evaluates the Company's financial position on an on-going basis.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The directors and executive officers of the Company, their ages and present positions with the Company are as follows:

Name	Age	Position in Company	Directors Term
Selwyn Joffe*	44	Chairman of the Board of Directors	**
Anthony Souza	47	President, Chief Executive Officer and Director	**
Mel Marks	74	Director	**
Murray Rosenzweig*	78	Director	**
Steven Kratz	47	Sr. Vice President—QA/Engineering	N/A
Chuck Yeagley	54	Chief Financial Officer	N/A

* Member of Audit and Compensation Committees

** All directors are elected for a term of one-year. Commencement date is the date of the annual shareholders meeting.

Information about Directors and Nominees

All directors of the Company hold office until the next annual meeting of shareholders and until their successors have been elected and qualified. The officers of the Company are elected by the Board of Directors at the first meeting after each annual meeting of the Company's shareholders and hold office until their resignation, removal from office or death.

The following is a brief summary of the background of each director:

Selwyn Joffe has been a director of the Company since June 1994, a member of the Company's audit and compensation committees since July 1994, and has served as a consultant to the Company since September 1995. In November 1999, Mr. Joffe was elected to his current position as Chairman of the Board of Directors of the Company. Mr. Joffe is currently Chairman and CEO of Protea Group, Inc. a company specializing in consulting and acquisition services. From September 2000 to December 2001, Mr. Joffe served as President and CEO of Netlock Technologies, a company that specializes in securing network communications. In 1997, Mr. Joffe co-founded Palace Entertainment, a roll-up of amusement parks and served as its President and COO until August 2000. Prior to founding of Palace Entertainment, Mr. Joffe was the President and CEO of Wolfgang Puck Food Company from 1989 to 1996. Mr. Joffe is a graduate of Emory University in Atlanta with degrees in both Business and Law and is a member of the Georgia State Bar as well as a Certified Public Accountant.

Anthony Souza served as a consultant to the Company from September 1999 through November 1999. In December 1999, Mr. Souza was elected to his current position as President and Chief Executive Officer of the Company responsible for the overall direction of all Company activities relating to Finance, Sales, Marketing, Engineering, and Production Operations as well as their corresponding support functions. From

January 1980 to December 1995 Mr. Souza served as the President of TELACU Industries. This entity consisted of numerous subsidiary companies—among them a: Thrift and Loan with branch offices, an Affordable Housing Corporation, a Commercial Real Estate Development Company, a Building Material Company, and an Underground Utility Company. Annual sales for these companies were in excess of $200 million. From January 1996 through August 1999, Mr. Souza was involved in commercial and residential real estate development as well as serving as President of a start-up company in business to sell an innovative potentially life-saving police

firearms device. Mr. Souza is a graduate of the University of Southern California and is a licensed Certified Public Accountant in the state of California.

Mel Marks founded the Company in 1968. Mr. Marks has served as the Company's Chairman of the Board of Directors and Chief Executive Officer from that time until July 1999. Prior to founding the Company, Mr. Marks was employed for over twenty years by Beck/Arnley-Worldparts, a division of Echlin, Inc. (one of the largest importers and distributors of parts for imported cars), where he served as Vice President. Mr. Marks has continued to serve as a consultant and director to the Company since July 1999.

Murray Rosenzweig is a Certified Public Accountant and has served as director of the Company since February 1994. Mr. Rosenzweig serves as the Chairman of both the audit and compensation committees. Since 1973, Mr. Rosenzweig has been the President and Chief Executive Officer of Linden Maintenance Corp., which operates a large fleet of taxicabs in New York City.

Information About Non-Director Executive Officers

Chuck Yeagley has been the Company's Chief Financial Officer since June 2000, responsible for all Company Finance issues, including investor relations and through support staff, Product Costing, Cash Flow, Capital Expenditures, Budgeting, Forecasting, and Financial Planning. Mr. Yeagley is also responsible for the management of the Accounting, Purchasing, Information Technology, Material and Human Resource Departments. From 1995 to June 2000, Mr. Yeagley was the Chief Financial Officer for Goldenwest Diamond Corporation—DBA The Jewelry Exchange, which is the largest privately-held manufacturer and retailer of fine jewelry. From July 1979 to December 1994, Mr. Yeagley was a principal in Faulkinbury and Yeagley, a certified public accounting firm that he co-founded. Mr. Yeagley is a Certified Public Accountant and holds a Bachelor of Business Administration Degree with an emphasis in Accounting from Fort Lauderdale University and a Master of Business Administration Degree from Golden Gate University.

Steven Kratz has been employed by the Company since 1988. Before joining the Company, Mr. Kratz was the General Manager of GKN Products Company, a division of Beck/Arnley-Worldparts. As Senior Vice-President—QA/Engineering, Mr. Kratz heads the Company's quality assurance, research and development and engineering departments.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than ten percent of the Company's Common Stock, to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company during the fiscal year ended March 31, 2002, there were no late or delinquent filings.

Item 11. Directors Compensation and Executive Officers

The following table sets forth information concerning the annual compensation of the Company's Chief Executive Officer and the other most highly compensated executive officers and directors, whose salary and bonus exceeded $100,000 for the 2002 fiscal year and for services in all capacities to the Company during the Company's 2002, 2001 and 2000 fiscal years.

Name & Principal Position	Year	Salary	Bonus	Other Annual Compensation	Shares Underlying Options	All Other Compensation (2)
Selwyn Joffe(1)	2002	—	—	$ 159,996	1,500	—
Chairman of the Board	2001	—	—	$ 160,220	1,500	—
	2000	—	—	$ 83,667	41,500	—
Anthony Souza(2)	2002	$ 293,108	$ 593,189	—	—	$ 25,037(4)
President & CEO	2001	$ 301,985	$ 25,000	—	60,000	$ 8,332(4)
	2000	$ 121,154	—	—	60,000	$ 24,996(4)
Mel Marks	2002	—	—	$ 197,500	1,500	—
Director	2001	$ 57,692	—	$ 105,000	1,500	$ 11,481(5)
	2000	$ 269,231	—	—	—	$ 19,336(5)
Steven Kratz	2002	$ 219,345	$ 25,000	—	—	$ 3,604(5)
Sr. VP—Engineering	2001	$ 250,000	$ 10,000	—	—	$ 5,604(5)
	2000	$ 250,000	—	$ 526,423(3)	—	$ 5,604(5)
Charles Yeagley	2002	$ 175,257	$ 88,974	—	—	$ 25,037(4)

Chief Financial Officer	2001	$	109,644	$	10,000	—	25,000	$	18,747(4)
	2000		—		—	—	—		—
Richard Marks	2002	$	318,000	$	483,118	—	—		—
Advisor to the Board	2001	$	298,783	$	25,000	—	—		—
and the CEO	2000	$	391,692		— $	276,474(3)	—	$	13,904(5)

(1) Includes payments to Protea Group Inc., a Company wholly-owned by Mr. Joffe.
(2) Employment commenced December 1, 1999.
(3) Represents deferred compensation distribution.
(4) Represents reimbursement for health insurance premiums paid by employee.
(5) Represents value of car allowance.

Compensation of Directors

Two of the Company's Board members have supplemental compensatory arrangements with the Company. In August 2000, the Company's Board of Directors agreed to engage Mr. Mel Marks to provide consulting services to the Company. Mr. Marks has 45 years of relevant experience in the industry and the Company and has relationships with key industry executives. Mr. Marks was paid an annual consulting fee of $180,000—which was increased in January, 2002 to $250,000 per year. The Company can terminate this arrangement at any time.

Effective December 1, 1999, the Company entered into a consulting agreement with Mr. Selwyn Joffe, the Chairman of the Board of the Company, pursuant to which he has been retained as a consultant to provide oversight, management, strategic and other advisory services to the Company. The consulting agreement was scheduled to expire on June 1, 2001 but has been extended by mutual agreement through June 1, 2003 and provides for annual compensation to Mr. Joffe in the amount of $160,000. As additional consideration for the consulting services, Mr. Joffe was granted an option to

purchase 40,000 shares of the Company's Common Stock pursuant to the Company's 1994 Stock Option Plan. Of these options, 20,000 options were exercisable on the date of grant and the remaining 20,000 options were fully vested on the first anniversary of the date of grant. The options have an exercise price of $2.20 per share and expire ten (10) years after the grant date. Mr. Joffe is currently serving as the Chairman of the Board of Directors.

Mr. Joffe and the Company entered into an additional consulting services agreement dated as of May 9, 2002, providing for Mr. Joffe to assist the Company in considering and pursuing potential transactions and relationships intended to enhance stockholder value. In connection with this arrangement, the Company has agreed to pay Mr. Joffe $10,000 per month for one year and 1% of the value of any transactions, which close by the second anniversary of the agreement, less any monthly fees, paid.

In addition, each of the Company's other non-employee directors receives annual compensation of $10,000, is paid a fee of $2,000 for each meeting of the Board of Directors attended and $500 for each meeting of a Committee of the Board of Directors attended and is reimbursed for reasonable out-of-pocket expenses in connection therewith.

The Company's 1994 Non-Employee Director Stock Option Plan (the "Non-Employee Director Plan") provides that each non-employee director of the Company will be granted thereunder ten-year options to purchase 1,500 shares of Common Stock upon his or her initial election as a director, which options are fully exercisable on the first anniversary of the date of grant. The exercise price of the option will be equal to the fair market value of the Common Stock on the date of grant. The Non-Employee Director Plan, was adopted by the Board of Directors on October 1, 1994, and by the shareholders in August 1995, in order to attract, retain and provide incentive to directors who are not employees of the Company. The Board of Directors does not have the authority, discretion or power to select participants who will receive options pursuant to the Non-Employee Director Plan, to set the number of shares of Common Stock to be covered by each option, to set the exercise price or period within which the options may be exercised or to alter other terms and conditions specified in such plan.

In addition, the Company's 1994 Stock Option Plan (the "1994 Stock Option Plan") provides that each non-employee director of the Company receive formula grants of stock options as described below. Each person who served as non-employee director of the Company during all or part of a fiscal year (the "Fiscal Year") of the Company, including March 31 of that Fiscal Year, will receive in that Fiscal Year, an award under the 1994 Stock Option Plan of immediately exercisable ten-year options to purchase 1,500 shares of Common Stock in the Award Date. Each non-employee director who served during the year less than all of the Fiscal Year is awarded one-twelfth of a Full Award for each month or portion thereof that he or she served as a non-employee director of the Company. As formula grants under the 1994 Stock Option Plan, the forgoing grants of options to directors are not subject to the determinations of the Board of Directors or the Compensation Committee.

Compensation Committee; Interlocks and Insider Participation

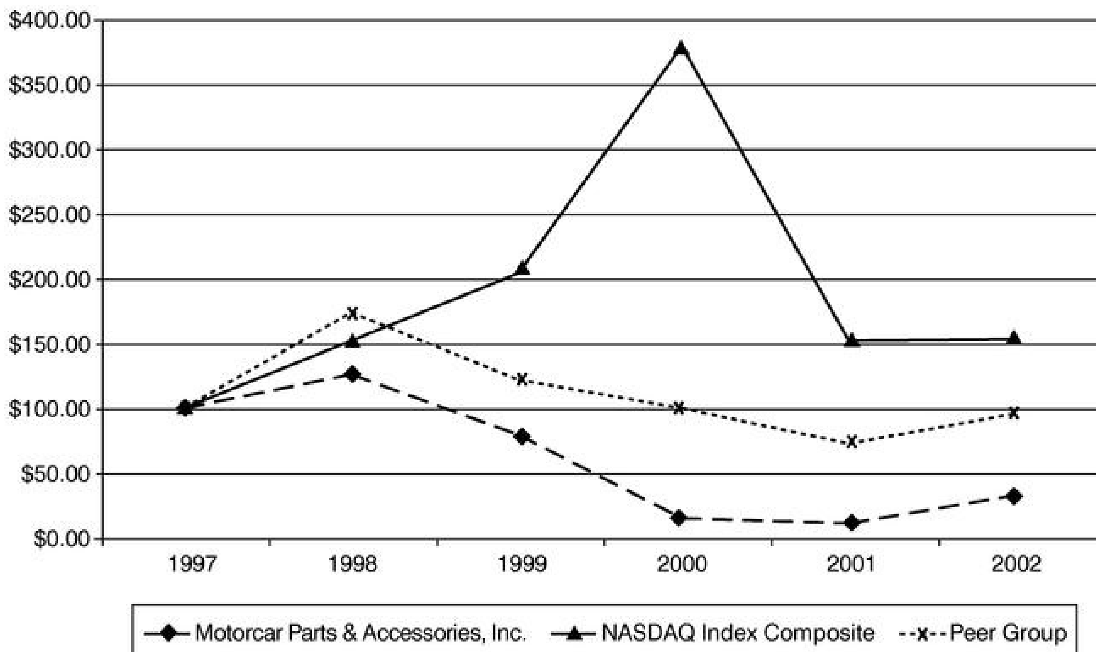
The members of the Compensation Committee during Fiscal 2002 were Mssrs. Joffe and Rosenzweig. The Compensation Committee is responsible for developing and making recommendations to the Board with respect to the Company's executive compensation policies. The Compensation Committee is also responsible for evaluating the performance of the Company's chief executive officer and other senior Company officers and to make recommendations concerning the salary, bonuses and stock options to be awarded to these Company officers. For a discussion of the contractual rights that certain Company officers have to bonuses and option grants, see "Employment Agreements" below. Although several key officers were not entitled to a bonus under the terms of their respective employment agreements, during the year ended March 31, 2002, the Compensation Committee decided to provide bonuses to key members of management, in order to retain these employees.

No member of the Compensation Committee has a relationship that would constitute as interlocking relationship with executive officers or directors of another entity.

Performance Graph

The following graph compares the cumulative return to holders of Common Stock for the fiscal years ended March 31, 1998, 1999, 2000, 2001, and 2002 with the National Association of Securities Dealers Automated Quotation ("NASDAQ") Market Index and a peer group index of five competing companies for the same periods. The comparison assumes $100 was invested at the close of business on March 31, 1997 in the Common Stock and in each of the comparison groups, and assumes reinvestment of dividends.

Total Shareholder Returns—Dividends Reinvested



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

	Year Ended March 31,				
	1998	1999	2000	2001	2002
Motorcar Parts & Accessories, Inc	**26.11%**	**-37.19%**	**-83.02%**	**-28.95%**	**225.00%**
Peer Group	**74.48%**	**-30.76%**	**-17.73%**	**-27.97%**	**32.84%**
NASDAQ	**51.57%**	**35.10%**	**86.03%**	**-60.01%**	**0.58%**

Indexed Returns—Based upon historical performance, the following table displays the results of $100 invested at the close of business on March 31, 1997 in the Common Stock of each of the comparison groups and assumes reinvestment of dividends:

	Year Ended March 31,					
	Base Period					
	31-Mar-97	1998	1999	2000	2001	2002
Motorcar Parts & Accessories, Inc	**100.0**	**126.11**	**79.21**	**13.45**	**9.56**	**31.06**
Peer Group	**100.0**	**174.48**	**120.81**	**99.39**	**71.60**	**95.11**
NASDAQ Index Composite	**100.0**	**151.57**	**204.77**	**380.94**	**152.35**	**153.23**

Note: Data complete through last fiscal year
Note: Corporate Performance Graph with peer group uses peer group performance only (excludes only company)
Note: Peer group indices uses beginning of period market capitalization weighting
Note: S& P index returns are calculated by Zacks

Peer Group Population

Champion Parts, Incorporated
Dana Corporation
Hastings Manufacturing Company
Standard Motor Production Company
Superior Industries International, Incorporated

Option Grants in the Last Fiscal Year

The following table provides summary information regarding stock options granted during the year ended March 31, 2002 to each of the Company's named executive officers. The potential realizable value is calculated assuming that the fair market value of the Company's Common Stock appreciates at the indicated annual rate compounded annually for the entire term of the options, and that the option is exercised and sold on the last day of its term for the appreciated stock price. The assumed rates of appreciation are mandated by the rules of the SEC and do not represent the Company's estimate of the future prices or market value of the Company's Common Stock.

Option Grants in Last Fiscal Year

					Potential Realizable Value at Assumed Annual Rates of Stock price Appreciate for Option Terms	
Name	**Number of Securities Underlying Options Granted**	**% of Total Options Granted to Employees in Fiscal 2002**	**Exercise or Base Price**	**Expiration Date**	**5%($)**	**10%($)**
Anthony Souza	60,000(1)	40.1%	$1.10/share	4/12/2011	$ 41,507	$ 105,187

(1) The options are exercisable immediately.

During fiscal 2001, the Board of Directors approved a program to give the Company's executives and other key employees an opportunity to cancel previously granted stock options in exchange for the grant of an equal number of new options in the future (the "Exchange Program"). The Company

cancelled outstanding stock options (the "initial options") to purchase an aggregate of 232,350 shares of the Company's common stock that had been granted to these executives. The options covered by such cancellations had exercise prices ranging from $7.25 to $19.06 per share, with a weighted average exercise price of $13.30 per share. The Exchange Program was approved by the Compensation Committee based upon the determination that the initial options no longer provided meaningful incentive for these executives. Subject to their continued employment with the Company, these executives were awarded new stock options (the "new options") to purchase an aggregate of 232,350 shares of common stock six months and one day after the date of the cancellation of the executive's initial options. The following table indicates the impact that this re-pricing had on options held by the five most highly compensated executives of the Company:

Name	**Date**	**Securities underlying number of options/SARs reissued or amended(#)**	**Market price of stock at time of reissuance ($)**	**Exercise price at time of cancellation ($)**	**New exercise price**	**Length of original option term remaining at date of repricing or amendment**
Selwyn Joffe	November 15, 2001	1,500	$ 3.15	$ 8.00	$ 3.15	2yrs, 3mos
	November 15, 2001	6,250	$ 3.15	$ 13.13	$ 3.15	3yrs, 2mos
	November 15, 2001	1,500	$ 3.15	$ 17.31	$ 3.15	3yrs, 11mos
	November 15, 2001	15,000	$ 3.15	$ 13.44	$ 3.15	4yrs, 3mos
	November 15, 2001	1,500	$ 3.15	$ 15.63	$ 3.15	4yrs, 11mos
	November 15, 2001	15,000	$ 3.15	$ 19.06	$ 3.15	5yrs, 2mos
	November 15, 2001	1,500	$ 3.15	$ 18.38	$ 3.15	5yrs, 11mos
	November 15, 2001	1,500	$ 3.15	$ 11.81	$ 3.15	6yrs,7mos
Steve Kratz	November 15, 2001	8,600	$ 3.15	$ 7.25	$ 3.15	1yr, 9mos
	November 15, 2001	35,000	$ 3.15	$ 13.13	$ 3.15	3yrs, 2mos
	November 15, 2001	20,000	$ 3.15	$ 16.00	$ 3.15	3yrs, 10mos
Richard Marks	November 15, 2001	50,000	$ 3.15	$ 14.69	$ 3.15	4yrs, 5mos
	November 15, 2001	75,000	$ 3.15	$ 11.16	$ 3.15	6yrs, 7mos
Total		232,350				

Employment Agreements

The Company has entered into an employment agreement with Mr. Anthony Souza pursuant to which he is employed full-time as the Company's President and Chief Executive Officer. The original agreement, entered into on December 1, 1999, which was scheduled to expire on June 1, 2001, has been extended through mutual consent to June 1, 2003 and provides for an annual base salary of $300,000. As additional consideration for services to be rendered, in January 2000, Mr. Souza was granted a ten-year option to purchase 60,000 shares of the Company's Common Stock, at $2.20 per share, pursuant to the terms of the Company's 1994 Stock Option Plan. In April 2001, Mr. Souza was granted an

additional ten-year option to purchase 60,000 shares of the Company's Common Stock at $1.10 per share, pursuant to the terms of the Company's 1994 Stock Option Plan. Furthermore, Mr. Souza is entitled to an incentive bonus ("Bonus") equal to six and two-thirds percent ($6^{2}/_{3}$%) of the pre-tax income (without giving effect to any tax on such income, whether actual or offset by loss carryovers) earned by the Company in each fiscal year; provided that no bonus shall be payable for any such year unless and until the amount of such pre-tax income in such year shall be at least $1.5 million, without carryover from year to year. The Company's Board of Directors may also grant supplemental bonuses or increase the base salary payable to Mr. Souza. In addition to his cash compensation, Mr. Souza receives an automobile allowance and other benefits, including those generally provided to other employees of the Company.

The Company has entered into an employment agreement with Mr. Richard Marks pursuant to which he is employed full-time as a direct report to the Board of Directors and Chief Executive Officer of the Company. This agreement entered into on January 1, 2000 is scheduled to expire on January 1, 2004 and provides for an annual base salary of $300,000. As an incentive, Mr. Marks shall be paid a bonus ("Bonus") equal to five percent (5%) of the pre-tax income (without giving effect to any tax on such income, whether actual or offset by loss carryovers) earned by the Company in each fiscal year; provided that no bonus shall be payable for any such year and until the amount of such pre-tax income in such year shall be at least $2 million, without carryover from year to year. The Company's Board of Directors may also grant supplemental bonuses or increase the base salary payable to Mr. Marks. In addition to his cash compensation, Mr. Marks receives an automobile allowance and other benefits, including those generally provided to other employees of the Company as well as an allowance for the purpose of obtaining life insurance on the lives of the Employee and his spouse. The agreement further provides, under certain circumstances, that the Company, as liquidated damages or severance pay or both, shall pay Mr. Marks (I) salary through the termination date at the annual rate in effect immediately prior to the termination date and (II) three times the amount of such annual rate. Mr. Richard Marks is the son of Mr. Mel Marks, the Company's founder and a member of its Board of Directors.

The Company has entered into an employment agreement with Mr. Chuck Yeagley pursuant to which he is employed full-time as the Company's Chief Financial Officer. The agreement, entered into on June 26, 2000 which was scheduled to expire on June 1, 2001, has been extended through mutual consent to May 31, 2003 and provides for an annual base salary of $175,000. As additional consideration for services to be rendered, Mr. Yeagley was granted, for a period of ten years from date of said grant, an option to purchase 25,000 shares of the Company's Common Stock, at $0.93 per share, pursuant to the terms of the Company's 1994 Stock Option Plan. Furthermore, Mr. Yeagley shall be paid an incentive bonus ("Bonus") equal to one percent (1%) of the pre-tax income (without giving effect to any tax on such income, whether actual or offset by loss carryovers) earned by the Company in each fiscal year of the term of this Agreement, provided that no bonus shall be payable for any such year unless and until the amount of such pre-tax income in such year shall be at least $2 million, without carryover from year to year. The Company's Board of Directors may also grant supplemental bonuses or increase the base salary payable to Mr. Yeagley. In addition to his cash compensation, Mr. Yeagley receives an automobile allowance and other benefits, including those generally provided to other employees of the Company.

The Company has entered into a three year employment agreement dated February 23, 2000 with Mr. Steven Kratz pursuant to which he is employed full-time as the Company's Senior Vice President—QA/Engineering. The agreement expires on February 23, 2003 and provides for an annual base salary of $250,000 and a one-year severance agreement, which guarantees $300,000 to be paid within 60 days of termination. The Company's Board of Directors may also grant bonuses or increase the base salary payable to Mr. Kratz. In addition to his cash compensation, Mr. Kratz has exclusive use of a Company-owned automobile and he receives additional benefits, including those that are generally provided to other employees of the Company. Mr. Kratz has outstanding, options under the 1994 Stock Option Plan to purchase 63,600 shares of Common Stock at an exercise price of $3.15 per share, all of which are fully vested.

In conformity with the Company's policy, all of its directors and officers execute confidentiality and nondisclosure agreements upon the commencement of employment with the Company. The agreements generally provide that all inventions or discoveries by the employee related to the Company's business and all confidential information developed or made known to the employee during the term of employment shall be the exclusive property of the Company and shall not be disclosed to third parties without prior approval of he Company. The Company's employment agreements with Messrs. Souza, Marks, and Yeagley also contain non-competition provisions that preclude each employee from competing with the Company for a period of two years from the date of termination of his employment. The Company's employment agreement with Mr. Kratz contains a non-competition provision, which precludes him from competing with the Company, for a period of one year from the date of termination of his employment. Public policy limitations and the difficulty of obtaining injunctive relief may impair the Company's ability to enforce the non-competition and nondisclosure covenants made by its employees.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of May 16, 2002, certain information as to the Common Stock ownership of each of the Company's directors and nominees for director, each of the officers included in the Summary Compensation Table below, all executive officers and directors as a group and all persons known by the Company to be the beneficial owners of more than five percent of the Company's Common Stock.

Name and Address of Beneficial Shareholder	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Mel Marks C/o Motorcar Parts & Accessories, Inc. 2929 California Street Torrance, CA 90503	2,152,431(2)	24.6%

Richard Marks C/o Motorcar Parts & Accessories, Inc 2929 California Street Torrance, CA 90503	513,566(3)	7.8%
Anthony Souza C/o Motorcar Parts & Accessories, Inc 2929 California Street Torrance, CA 90503	120,000(4)	1.4%
Steven Kratz C/o Motorcar Parts & Accessories, Inc 2929 California Street Torrance, CA 90503	63,600(5)	(12)
Selwyn Joffe C/o Motorcar Parts & Accessories, Inc 2929 California Street Torrance, CA 90503	86,750(6)	1.0%
Murray Rosenzweig C/o Linden Maintenance Corp. 134-02 33rd Avenue Flushing, NY 11354	50,000(7)	(12)
Charles Yeagley C/o Motorcar Parts & Accessories, Inc 2929 California Street Torrance, CA 90503	25,000(8)	(12)
Dimensional Fund Advisors, Inc 1299 Ocean Avenue Santa Monica, CA 90401	341,700(9)	3.9%
Wells Fargo Bank 333 S. Grand Avenue, Suite 940 Los Angeles, CA 90071	400,000(10)	4.6%
Directors and executive officers as a group—6 persons	2,497,781(11)	28.5%

1. The listed shareholders, unless otherwise indicated in the footnotes below, have direct ownership over the amount of shares indicated in the table.

2. Includes 1,500,000 shares of common stock, which was issued to Mr. Marks as part of the settlement of the class action lawsuit and 3,000 shares issuable upon exercise of options under the 1994 Stock Option Plan. For additional information, see the discussion under the caption "Item 3—Legal Proceedings".

3. Includes 125,000 shares issuable upon exercise of currently exercisable options granted under the 1994 Stock Option Plan, 142,857 shares held by The Marks Family Trust, of which Richard Marks is a Trustee and beneficiary and 11,586 shares held by Mr. Marks' wife and their sons.

4. Includes 120,000 shares issuable upon exercise of options exercisable under the 1994 Stock Option Plan.

5. Represents 63,600 shares issuable upon exercise of options exercisable under the 1994 Stock Option Plan.

6. Represents 30,000 shares issuable upon exercise of options exercisable under the 1996 Stock Option Plan (the "1996 Stock Option Plan"); 52,250 shares issuable upon exercise of options exercisable under the 1994 Stock

Option Plan; and 4,500 shares issuable upon exercise of currently exercisable options granted under the Non-Employee Director Plan.

7. Includes 4,500 shares issuable upon exercise of currently exercisable options granted under the Non-Employee Director Plan; 32,500 shares issuable upon exercise of options exercisable under the 1994 Stock Option Plan and 13,000 shares of common stock which were purchased subsequent to the Company's initial public offering.

8. Represents 25,000 shares issuable upon exercise of currently exercisable under the 1994 Stock Option Plan.

9. The amount and nature of beneficial ownership of these shares by Dimensional Fund Advisors, Inc. is based solely on the Schedule 13G filings, as submitted to the Company. The Company's Board of Directors has no independent knowledge of the accuracy or completeness of the information set forth in such Schedule 13G filings, but has no reason to believe that such information is not complete or accurate.

10. Includes the total number of shares of common stock issuable upon exercise of the warrants issued to the bank by the Company, pursuant to an earlier loan agreement.

11. Includes 335,350 shares issuable upon exercise of currently exercisable options granted under the 1994 Stock Option Plan; 30,000 shares issuable upon exercise of currently exercisable options granted under the 1996 Stock Option Plan; 9,000 shares issuable upon exercise of currently exercisable options granted under the Non-Employee Director Plan; and 1,500,000 shares of new common stock issued to Mr. Mel Marks in return for his cash contribution to assist with the settlement of the class action lawsuit.

12. Less than 1%.

Item 13. Certain Relationships and Related Transactions

The Company has entered into consulting agreements with two of the members of its Board of Directors, Selwyn Joffe and Mel Marks. For more information, see the discussion under the caption "Item 11—Compensation of Directors".

In connection with the settlement of the class action lawsuit, the Company agreed to sell Mel Marks 1,500,000 shares of its Common Stock for a total cash price of $1,500,000. The proceeds from the sale of this stock were used to pay the Company's portion of the settlement of the class action lawsuit against the Company. For additional information, see the discussion under the caption "Item 3—Legal Proceedings".

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

a. **Documents filed as part of this report:**

(1) **Index to Consolidated Financial Statements:**

Reports of Independent Certified Public Accountants	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Operations	F-3
Consolidated Statement of Shareholders' Equity	F-4
Consolidated Statements of Cash Flow	F-5
Notes to Consolidated Financial Statements	F-6

(2) **Schedules.**

None.

(3) **Exhibits:**

Number	Description of Exhibit	Method of Filing
3.1	Certificate of Incorporation of the Company.	Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 (No. 33-74528) declared effective on March 22, 1994 (the "1994 Registration Statement.").
3.2	Amendment to Certificate of Incorporation of the Company.	Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-97498) declared effective on November 14, 1995 (the "1995 Registration Statement").
3.3	Amendment to Certificate of Incorporation of the Company.	Incorporated by reference to Exhibit 3.3 to the Company' s Annual Report on Form 10-K for the fiscal year ended March 31, 1997 (the "1997 Form 10-K").
3.4	Amendment to Certificate of Incorporation of the Company.	Incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1998 (the "1998 Form 10-K").
3.5	By-Laws of the Company.	Incorporated by reference to Exhibit 3.2 to the 1994 Registration Statement.
4.1	Specimen Certificate of the Company's Common Stock	Incorporated by reference to Exhibit 4.1 to the 1994 Registration Statement.
4.2	Form of Underwriter's Common Stock Purchase Warrant.	Incorporated by reference to Exhibit 4.2 to the 1994 Registration Statement.
4.3	1994 Stock Option Plan	Incorporated by reference to Exhibit 4.3 to the 1994 Registration Statement.
4.4	Form of Incentive Stock Option Agreement	Incorporated by reference to Exhibit 4.4. to the 1994 Registration Statement.

4.5	1994 Non-Employee Director Stock Option Plan.	Incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995.
4.6	1996 Stock Option Plan.	Incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-2 (No. 333-37977) declared effective on November 18, 1997 (the "1997 Registration Statement").
4.7	Executive and Key Employee Incentive Bonus Plan.	Incorporated by reference to Exhibit 4.6 to the 1995 Registration Statement.
4.8	Rights Agreement, dated as of February 24, 1998, by and between the Company and Continental Stock Transfer and Trust Company, as rights agent.	Incorporated by reference to Exhibit 4.8 to the 1998 Registration Statement.
10.1	Credit Agreement, dated as of June 1, 1996, by and between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 (the "December 31, 1996 Form 10-Q")
10.2	First Amendment to Credit Agreement, dated as of November 1, 1996, by and between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.2 to the 1997 Form 10-K.
10.3	Second Amendment to Credit Agreement, dated as of August 8, 1997, by and between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.3 to the 1997 Registration Statement.
10.4	Third Amendment to Credit Agreement, dated as of February 10, 1998, by and between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.5 to the 1998 Registration Statement.
10.5	Lease Agreement, dated March 9, 1993, by and between the Company and Maricopa Enterprises, Ltd., relating to the Company's initial facility located in Torrance, California.	Incorporated by reference to Exhibit 10.3 to the 1994 Registration Statement.
10.6	Second Amendment to Lease, dated October 1, 1996, by and between the Company and Maricopa Enterprises, Ltd., relating to the Company's initial facility located in Torrance, California	Incorporated by reference to Exhibit 10.5 to the 1997 Form 10-K.
10.7	Amendment to Lease, dated October 3, 1996, by and between the Company and Golkar Enterprises, Ltd. relating to additional property in Torrance, California.	Incorporated by reference to Exhibit 10.17 to the December 31, 1996 Form 10-Q.

10.8	Amended and Restated Employment Agreement, dated as of September 1, 1995, by and between the Company and Mel Marks.	Incorporated by reference to Exhibit 10.7 to the 1995 Registration Statement.
10.9	First Amendment to Amended and Restated Employment Agreement, dated as of April 1, 1997, by and between the Company and Mel Marks.	Incorporated by reference to Exhibit 10.8 to the 1997 Form 10-K.
10.10	Amended and Restated Employment Agreement, dated as of September 1, 1995, by and between the Company and Richard Marks.	Incorporated by reference to Exhibit 10.8 to the 1995 Registration Statement.
10.11	First Amendment to Amended and Restated Employment Agreement, dated as of April 1, 1997, by and between the Company and Richard Marks.	Incorporated by reference to Exhibit 10.10 to the 1997 Form 10-K.
10.12	Employment Agreement, dated as of February 1, 1994, by and between the Company and Steven Kratz.	Incorporated by reference to Exhibit 10.7 to the 1994 Registration Statement.
10.13	First Amendment to Employment Agreement, dated as of September 1, 1995, by and between the Company and Steven Kratz.	Incorporated by reference to Exhibit 10.12 to the 1995 Registration Statement.

10.14	Second Amendment to Employment Agreement, dated as of April 1, 1997, by and between the Company and Steven Kratz.	Incorporated by reference to Exhibit 10.13 to the 1997 Form 10-K.
10.15	Employment Agreement, dated as of March 1, 1994, by and between the Company and Peter Bromberg.	Incorporated by reference to Exhibit 10.12 to the 1994 Registration Statement.
10.16	First Amendment to Employment Agreement, dated as of September 1, 1995, by and between the Company and Peter Bromberg	Incorporated by reference to Exhibit 10.12 to the 1995 Registration Statement.
10.17	Second Amendment to Employment Agreement, dated as of April 1, 1997, by and between the Company and Peter Bromberg.	Incorporated by reference to Exhibit 10.16 to the 1997 Form 10-K.
10.18	Employment Agreement, dated as of September 1, 1995, be and between the Company and Eli Makowitz.	Incorporated by reference to Exhibit 10.13 to the 1995 Registration Statement.
10.19	Employment Agreement, dated as of April 1, 1997, by and among MVR, Unijoh and Vincent Quek.	Incorporated by reference to Exhibit 10.18 to the 1997 Form 10-K.

10.20	Form of Consulting Agreement, dated as of September 1, 1995, by and between the Company and Selwyn Joffe.	Incorporated by reference to Exhibit 10.14 to the 1995 Registration Statement.
10.21	Form of Employment Agreement, dated as of October 1, 1997, by and between the Company and Karen Brenner.	Incorporated by reference to Exhibit 10.20 to the 1997 Registration Statement.
10.22	Lease Agreement, dated March 28, 1995, by and between the Company and Equitable Life Assurance Society of the United States, relating to the Company's facility located in Nashville, Tennessee.	Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995.
10.23	Lease Agreement, dated September 19, 1995, by and between Golkar Enterprises, Ltd. and the Company relating to the Company's facility located in Nashville, Tennessee.	Incorporated by reference to Exhibit 10.18 to the 1995 Registration Statement.
10.24	Agreement and Plan of Reorganization, dated as of April 1, 1997, by and among the Company, Mel Marks, Richard Marks and Vincent Quek relating to the acquisition of MVR and Unijoh.	Incorporated by reference to Exhibit 10.22 to the 1997 Form 10-K.
10.25	Form of Indemnification Agreement for officers and directors.	Incorporated by reference to Exhibit 10.25 to the 1997 Registration Statement.
10.26	Employment Agreement, dated December 1, 1999, by and between the Company and Anthony Souza.	Incorporated by reference to Exhibit 10.26 to the 2001 10-K.
10.27	Consulting Agreement, dated December 1, 1999, by and between the Company and Selwyn Joffe.	Incorporated by reference to Exhibit 10.27 to the 2001 10-K.
10.28	Employment Agreement, dated January 1, 2000, by and between the Company and Richard Marks.	Incorporated by reference to Exhibit 10.28 to the 2001 10-K.
10.29	Warrant to Purchase Common Stock, dated April 20, 2000, by and between the Company and Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 10.29 to the 2001 10-K.
10.30	Investor Rights Agreement, dated April 20, 2000, by and between the Company and Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 10.30 to the 2001 10-K.
10.31	Second Amended and Restated Credit Agreement, dated May 31, 2001, by and between the Company and Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 10.31 to the 2001 10-K.
10.32	Amendment No. 1 to Warrant, dated May 31, 2001, by and between the Company and Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 10.32 to the 2001 10-K.

10.33	Term Note, dated May 31, 2001, by and between the Company and Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 10.33 to the 2001 10-K.
10.34	Revolving Line of Credit Note, dated May 31, 2001, by and between Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 10.34 to the 2001 10-K.
10.35	Form of Third Amended and Restated Credit Agreement, dated as of June 28, 2002 by and between the Company and Wells Fargo Bank, National Association.	Filed Herewith.
10.36	Form of Term Note, dated June 28, 2002 by the Company in favor of Wells Fargo, National Association.	Filed Herewith.
10.37	Form of Reducing Revolving Line of Credit Note dated June 28, 2002 by the Company in favor of Wells Fargo, National Association.	Filed Herewith.
10.38	Form of Agreement, dated June 5, 2002, by and between the Company and SunTrust Bank.	Filed Herewith.
10.39	Form of Consulting Agreement, dated May 9, 2002 by and between the Company and Selwyn Joffe.	Filed Herewith.
18.1	Preferability Letter to the Company from Grant Thornton LLP.	Incorporated by reference to Exhibit 18.1 to the 2001 10-K.
21.1	List of Subsidiaries.	Incorporated by reference to Exhibit 21.1 to the 1998 Registration Statement.

b. Reports on Form 8-K:

Current Report on Form 8-K, dated on May 2, 2002.

SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOTORCAR PARTS & ACCESSORIES, INC.

Dated: June 28, 2002

By: /s/ CHARLES W. YEAGLEY

Charles W. Yeagley
Chief Financial Officer, Vice President and Secretary

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Anthony Souza his true and lawful attorney-in-fact with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign and all amendments to this Report on Form 10-K and to file same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

/s/ ANTHONY SOUZA Anthony Souza	Chief Executive Officer and Director (Principal Executive Officer)	June 28, 2002

/s/ CHARLES YEAGLEY Charles Yeagley	Chief Financial Officer (Principal Financial and Accounting Officer)	June 28, 2002
/s/ SELWYN JOFFE Selwyn Joffe	Director	June 28, 2002
/s/ MEL MARKS Mel Marks	Director	June 28, 2002
/s/ MURRAY ROSENZWEIG Murray Rosenzweig	Director	June 28, 2002

Consolidated Financial Statements and Report of Independent Certified Public Accountants

MOTORCAR PARTS & ACCESSORIES, INC AND SUBSIDIARIES

March 31, 2002, 2001 and 2000

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	F-1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	F-2
CONSOLIDATED STATEMENTS OF OPERATIONS	F-3
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY	F-4
CONSOLIDATED STATEMENTS OF CASH FLOWS	F-5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-6

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
Motorcar Parts & Accessories, Inc.

We have audited the accompanying consolidated balance sheets of Motorcar Parts & Accessories, Inc. and Subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the consolidated financial position of Motorcar Parts & Accessories, Inc. and Subsidiaries as of March 31, 2002 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II of Motorcar Parts and Accessories, Inc. and Subsidiaries for each of the three years in the period ended March 31, 2002. In our opinion, this schedule, when considered in relation to the basic consolidated financial statements taken as whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON, LLP

Los Angeles, California

June 7, 2002 [Except for Note G, as to which the date is June 25, 2002.]

PART IV—FINANCIAL INFORMATION

Item 1. Financial Statements.

MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
March 31

	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 92,000	$ 164,000
Short term investments	272,000	191,000
Accounts receivable, net of allowance for doubtful accounts of $326,000 and $149,000 in 2002 and 2001, respectively	17,922,000	7,324,000
Inventory—net	34,270,000	35,209,000
Restricted deposit	—	1,500,000
Prepaid expenses and other current assets	406,000	659,000
Total current assets	52,962,000	45,047,000
Plant and equipment—net	6,943,000	9,087,000
Deferred tax asset	6,250,000	3,250,000
Income tax refund receivable	3,409,000	2,445,000
Other assets	1,732,000	279,000
	$ 71,296,000	$ 60,108,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,150,000	$ 7,216,000
Accrued liabilities	2,794,000	4,151,000
Line of credit	28,029,000	28,950,000
Accrued litigation settlement	—	1,500,000
Deferred compensation	272,000	197,000
Other current liabilities	44,000	—
Current portion of capital lease obligations	1,269,000	1,197,000
Total current liabilities	43,558,000	43,211,000
Capitalized lease obligations less current portion	915,000	2,099,000
Deposit from shareholder	—	1,500,000
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued	—	—
Series A junior participating preferred stock; no par value, 20,000 shares authorized; None issued	—	—
Common stock; par value $.01 per share, 20,000,000 shares authorized; 7,960,455 and 6,460,455 shares issued and outstanding at March 31, 2002 and 2001, respectively	80,000	65,000
Additional paid-in capital	53,126,000	51,281,000
Accumulated other comprehensive loss	(112,000)	(88,000)
Accumulated deficit	(26,271,000)	(37,960,000)
Total shareholders' equity	26,823,000	13,298,000
	$ 71,296,000	$ 60,108,000

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

MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	Year Ended March 31,		
	2002	2001	2000
Net Sales	$ 172,040,000	$ 160,699,000	$ 194,293,000
Cost of Goods Sold	151,465,000	148,731,000	188,097,000
Gross Margin	20,575,000	11,968,000	6,196,000
Operating Expenses:			
General and administrative	7,203,000	8,291,000	11,832,000
Sales and marketing	1,167,000	1,216,000	1,864,000
Litigation settlement	—	1,500,000	—
Restructuring expenses	—	914,000	—
Research and development	552,000	472,000	714,000
Provision for doubtful accounts	412,000	(36,000)	321,000
Total Operating Expenses	9,334,000	12,357,000	14,731,000
Operating Income (Loss)	11,241,000	(389,000)	(8,535,000)
Other Expense (Income)			
Interest expense	3,582,000	3,771,000	3,227,000
Interest income	(26,000)	(71,000)	(47,000)
Income (loss) before income taxes and cumulative effect of accounting change	7,685,000	(4,089,000)	(11,715,000)
Income tax (expense) benefit	4,004,000	(13,000)	1,173,000
Income (loss) before cumulative effect of accounting change	11,689,000	(4,102,000)	(10,542,000)
Cumulative effect of accounting change	—	—	(17,702,000)
Net income (loss)	$ 11,689,000	$ (4,102,000)	$ (28,244,000)
Basic income (loss) per share before cumulative effect of accounting change	$ 1.61	$ (0.63)	$ (1.63)
Diluted income (loss) per share before cumulative effect of accounting change	$ 1.51	$ (0.63)	$ (1.63)
Cumulative effect of accounting change	—	—	$ (2.74)
Basic income (loss) per share	$ 1.61	$ (0.63)	$ (4.37)
Diluted income (loss) per share	$ 1.51	$ (0.63)	$ (4.37)
Weighted average shares outstanding:			
Basic	7,253,606	6,460,455	6,460,455
Diluted	7,765,958	6,460,455	6,460,455

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

MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES
Consolidated Statement of Shareholders' Equity
For the years ended March 31, 2002, 2001 and 2000

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total	Comprehensive Income (Loss)
	Shares	Amount					
Balance at April 1, 1999	6,460,455	$ 65,000	$ 51,281,000	$ (72,000)	$ (5,614,000)	$ 45,660,000	

Foreign currency translation	—	—	—	2,000	—	2,000	$ 2,000
Unrealized loss on Investments	—	—	—	(25,000)	—	(25,000)	(25,000)
Net loss	—	—	—	—	(28,244,000)	(28,244,000)	(28,244,000)
Comprehensive Loss							$ (28,267,000)
Balance at March 31, 2000	6,460,455	65,000	51,281,000	(95,000)	(33,858,000)	17,393,000	
Foreign currency translation	—	—	—	2,000	—	2,000	$ 2,000
Unrealized gain on Investments	—	—	—	5,000	—	5,000	5,000
Net loss	—	—	—	—	(4,102,000)	(4,102,000)	(4,102,000)
Comprehensive Loss							$ (4,095,000)
Balance at March 31, 2001	6,460,455	65,000	51,281,000	(88,000)	(37,960,000)	13,298,000	
Sale of Stock	1,500,000	15,000	1,485,000	—	—	1,500,000	
Stock Warrants Re-priced			360,000	—	—	360,000	
Foreign currency translation	—	—	—	(34,000)	—	(34,000)	$ (34,000)
Unrealized gain on Investments	—	—	—	10,000	—	10,000	10,000
Net Income	—	—	—	—	11,689,000	11,689,000	7,689,000
Comprehensive Income							$ 7,665,000
Balance at March 31, 2002	7,960,455	$ 80,000	$ 53,126,000	$ (112,000)	$ (26,271,000)	$ 26,823,000	

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

MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Year Ended March 31,		
	2002	**2001**	**2000**
Cash flows from operating activities:			
Net income (loss)	$ 11,689,000	$ (4,102,000)	$ (28,244,000)
Adjustments to reconcile net income (loss) to net cash			
Provided by (used in) operating activities:			
Depreciation and amortization	2,889,000	2,971,000	3,011,000
Provision for doubtful accounts	412,000	(36,000)	321,000
Cumulative effect of accounting change	—	—	17,702,000
Provision for litigation settlement	—	1,500,000	—
Loss on disposal of assets	11,000	176,000	—
Stock warrants re-priced	360,000	—	—
Changes in:			
Accounts receivable	(11,010,000)	7,975,000	(3,964,000)
Inventory	939,000	1,037,000	14,389,000
Income tax refund receivable	(964,000)	1,214,000	768,000
Deferred tax asset	(3,000,000)	—	—
Restricted deposit	—	(1,500,000)	—

Prepaid expenses and other current assets	253,000	(346,000)	137,000
Other assets	(1,453,000)	69,000	657,000
Accounts payable	3,934,000	(2,286,000)	(8,743,000)
Deferred compensation	75,000	(37,000)	(843,000)
Accrued liabilities	(1,357,000)	308,000	(851,000)
Other liabilities	44,000	—	—
Net cash provided by (used in) operating activities	2,822,000	6,943,000	(5,660,000)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(756,000)	(726,000)	(1,184,000)
Purchase of investments	(81,000)	—	—
Liquidation of investments	—	38,000	721,000
Net cash used in investing activities	(837,000)	(688,000)	(463,000)
Cash flows from financing activities:			
Borrowings under the line of credit	49,820,000	44,050,000	54,385,000
Payments under the line of credit	(50,741,000)	(51,761,000)	(46,947,000)
Advance from major shareholder	—	1,500,000	—
Payment on capital lease obligation	(1,112,000)	(1,005,000)	(1,139,000)
Net cash (used in) provided by financing activities	(2,033,000)	(7,216,000)	6,299,000
Effect of translation adjustment on cash	(24,000)	2,000	2,000
Net (decrease) increase in cash and cash equivalents	(72,000)	(959,000)	178,000
Cash and cash equivalents—beginning of year	164,000	1,123,000	945,000
Cash and cash equivalents—end of year	$ 92,000	$ 164,000	$ 1,123,000
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 2,678,749	$ 3,490,000	$ 3,081,000
Income taxes	$ 1,000	$ 500	$ 500
Non-cash investing and financing activities:			
Property acquired under capital lease	$ 103,000	$ 133,000	$ 767,000
Capital stock issued for cash received in FY 2001	$ 1,500,000	—	—

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

MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002, 2001 AND 2000

Note A—Company Background

Motorcar Parts & Accessories, Inc. and its subsidiaries (the "Company") remanufacture and distribute 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). These automotive parts are sold to automotive retail chain stores and warehouse distributors throughout the United States, Canada, and Mexico, as well as after-market alternators and starters to a major automotive manufacturer.

The Company obtains used alternators and starters, commonly known as cores, primarily from its customers (retailers) as trade-ins and by purchasing them from vendors (core brokers). The retailers grant credit to the consumer when the used part is returned to them, and the Company in turn provides a credit to the retailer upon return to the Company. These cores are an essential material needed for the remanufacturing operations. The Company has remanufacturing, warehousing and shipping/receiving operations for alternators and starters in, California, Singapore and Malaysia. Assembly operations for spark plug wire sets are performed in California and Malaysia, while purchasing operations are headquartered in Tennessee.

Note B—Summary of Significant Accounting Policies

1. *Principles of consolidation*

The accompanying consolidated financial statements include the accounts of Motorcar Parts & Accessories, Inc and its wholly owned subsidiaries, MVR Ltd. Pte. and Unijoh Ltd. Pte. All significant inter-company accounts and transactions have been eliminated.

2. *Cash Equivalents*

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

3. Accounts Receivable

The allowance for doubtful accounts is developed based upon several factors including clients' credit quality, historical write-off experience and any known specific issues or disputes which exist as of the balance sheet date.

4. Inventory

Inventory is stated at the lower of cost or market. Cost is determined by the average cost method, which approximates the first-in, first-out (FIFO) method. Market is determined by comparison to core broker prices. The Company provides an allowance for potentially excess and obsolete inventory based upon historical usage. Inventory costs include material and core components, labor and overhead.

5. Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" which requires the use of the liability method of accounting for income taxes. The liability method measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax base of assets and liabilities and their reported amounts in the financial statements. The resulting asset or liability is adjusted to reflect changes in the tax

laws as they occur. A valuation allowance is provided against deferred tax assets when their estimated realization is uncertain.

6. Depreciation and Amortization

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

7. Foreign Currency Translation

For financial reporting purposes, the functional currency of the foreign subsidiaries is the local currency. The assets and liabilities of foreign operations are translated at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average exchange rates during the year. The accumulated foreign currency translation adjustment is presented as a component of other comprehensive loss.

8. *Revenue Recognition*

The Company recognizes revenue when performance by the Company is complete. Revenue is recognized when all of the following criteria are met according to SAB 101, *Revenue Recognition*:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred or services have been rendered,
- The seller's price to the buyer is fixed or determinable,
- Collectibility is reasonably assured.

For products shipped free-on-board ("FOB") shipping point, revenue is recognized on the date of shipment. For products shipped FOB destination, revenues are recognized two days after date of shipment. Revenue is recognized for the "unit value", representing the remanufactured value-added portion, plus the "core value", representing the assigned value of the core.

9. *Income (loss) Per Share*

Basic income (loss) per share is computed by dividing the net income or (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted income (loss) per share includes the effect, if any, from the potential exercise or conversion of securities, such as stock options and warrants, which would result in the issuance of incremental shares of common stock including the re-pricing of warrants which occurred in fiscal 2002. Diluted loss per share for years ended March 31, 2001 and March 31, 2000, does not include the effect of 653,875 options outstanding at March 31, 2001, nor the effect of 684,750 options outstanding at March 31, 2000, as they were anti-dilutive.

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

	March 31		
	2002	2001	2000
Net income	$ 11,689,000	$ (4,102,000)	$ (28,244,000)
Basic shares	7,253,606	6,460,455	6,460,455
Effect of dilutive options and warrants	512,352	0	0
Diluted shares	7,765,958	6,460,455	6,460,455
Net income per common share:			
Basic	$ 1.61	$ (0.63)	$ (1.63)
Diluted	$ 1.51	$ (0.63)	$ (4.37)

The effect of dilutive options and warrants excludes approximately 457,875 antidilutive options with exercise prices ranging from $2.875 to $9.13 per share in 2002, 653,875 antidulitive options with exercise prices ranging from $0.93 to $19.13 per share in 2001, and 684,750 antidilutive options with exercise prices ranging from $2.50 to $19.13 per share in 2000.

10. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Under the terms of certain agreements with its customers and industry practice, the Company's customers from time to time are allowed stock adjustments when the inventory level of certain product lines exceed the anticipated level of sales to end-user customers. These adjustments are made when the Company accepts into inventory these customers' overstocks, which do not occur at any specific time during the year. Due to current and expected changes in customer return practices, in the fourth quarter of fiscal 2001, the Company began to provide for a monthly allowance to address the anticipated impact of stock adjustments. During the fiscal year 2002, the Company expensed $898,000 in cost of goods sold and reduced the stock adjustment reserve by $513,530 for stock adjustments. The allowance for stock adjustments was $609,000 and $225,000 as of March 31, 2002 and 2001 respectively. The allowance policy is reviewed quarterly looking back at a rolling 12 months to determine if the monthly accrual should be adjusted.

The Company provides for potential excess and obsolete inventory based upon historical usage and a products life cycle. This reserve account decreased in fiscal 2002 by $428,000 from $3,874,000 in fiscal year 2001 to $3,451,000 in fiscal year 2002. This decrease was due to the increased quality of the inventory on hand and the continued focus on sales of obsolete inventory.

The Company adjusts the value of cores in three ways, (1) when purchases constitute 25% or more of quantity on hand, then a weighted average cost is applied, (2) cores not changed by the above method are adjusted every six months by obtaining core broker prices. All cores that have a 35% or greater price difference are adjusted, and (3) a valuation reserve has been set up for those cores not adjusted by the above policies. This reserve is based upon on life cycle for cores of 25 years. This reserve account decreased in fiscal year 2002 by $110,000 from $379,000 in fiscal year 2001 to $264,000 in fiscal 2002. This decrease was principally the result of the Company continuing to decrease its core inventory by selling and scrapping cores.

11. Financial Instruments

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

12. Stock-Based Compensation

The Company accounts for its stock-based employee compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees". Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the stock. SFAS No. 123, "Accounting for Stock-Based Compensation", encourages, but does not require, companies to record compensation cost for stock-based employee compensation under a fair value based method. The Company discloses the pro-forma effect on net income (loss) and per share amounts had the fair value based method been used to measure compensation.

13. Credit Risk

Substantially all of the Company's sales are to leading automotive parts retailers. Credit risk with respect to trade accounts receivable is limited due to the Company's credit evaluation process and the nature of its customers.

14. Deferred Compensation Plan

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

15. Comprehensive Loss

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", established standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income is defined as the change in equity during a period resulting from transactions and other events and circumstances from non-owner sources. The Company has presented comprehensive income (loss) on the Consolidated Statement of Shareholders' Equity.

Note C—Realization of Assets

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has significant pending investigations (see Note O). Management is actively pursuing resolution of the pending investigations. Although there can be no assurance as to the future financial impact from these matters on the Company, management believes that it will be able to conclude these matters in a reasonable period.

Note D—Inventory

Core and raw materials inventory is stated at the lower of cost or market. The Company determines the market value of cores based on consideration of current core broker prices. Such values are normally less than the core value credited to customers' accounts when cores are returned to the Company as trade-ins**.** Finished goods costs include core, raw materials, labor, overhead and freight. An allowance for obsolescence is provided to reduce the carrying value of inventory to its estimated market value.

Inventory is comprised of the following at March 31:

	2002	2001
Raw materials and cores	$ 23,292,000	$ 23,619,000
Work-in-process	1,286,000	1,195,000
Finished goods	13,407,000	14,648,000
	37,985,000	39,462,000
Less allowance for excess and obsolete inventory	(3,715,000)	(4,253,000)
Total	$ 34,270,000	$ 35,209,000

Effective April 1, 1999, the Company changed their method of valuing inventory and recorded a cumulative effect of accounting change of $17,702,000, which is reflected in the March 31, 2000 Consolidated Statement of Operations.

Note E—Plant and Equipment

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

	2002	2001
Machinery and equipment	$ 11,949,000	$ 11,703,000
Office equipment and fixtures	5,031,000	4,697,000
Leasehold improvements	2,782,000	2,630,000
	19,762,000	19,030,000
Less accumulated depreciation and amortization	(12,819,000)	(9,943,000)

Total	$	6,943,000	$	9,087,000

Note F—Capital Lease Obligations

The Company leases various types of machinery and computer equipment under agreements accounted for as capital leases. The cost and accumulated amortization of capital lease assets included in plant and equipment was $5,979,000 and $3,506,000, respectively, at March 31, 2002 and $5,877,000 and $2,596,000, respectively at March 31, 2001.

Future minimum lease payments at March 31, 2002 for the capital leases are as follows:

Year Ending March 31		
2003	$	1,384,000
2004		823,000
2005		82,000
2006		40,000
2007		2,000
Total minimum lease payments		2,331,000
Less amount representing interest		(147,000)
Present value of future minimum lease payment		2,184,000
Less current portion		(1,269,000)
	$	915,000

Note G—Line of Credit and Term Loan

The Company has a credit agreement with a bank expiring on June 28, 2002. The credit agreement provides for a revolving line of credit facility of up to $24,750,000 and an $8,000,000 term loan. Currently, $1,384,300 of the loan is reserved due to the issuance of standby letters of credit for Worker's Compensation Insurance. The amounts available under the line of credit facility are also limited to 75% of Eligible Accounts Receivable and 80% of Appraised Net Recovery Value of inventory, as defined in the May 31, 2001 amended and restated credit agreement. The line of credit facility and the term note provide for interest rates of 1.75% and 2.00%, respectively, above the bank's prime rate (4.75% at April 30, 2002). Each quarter, the spreads above the bank's prime rate can be reduced to 1.75% and 2.00%, respectively, and increased to 2.75% and 3.00%, respectively, depending upon changes in the ratio of the Company's funded debt to cash flow. The spreads above the bank's prime rate have been reduced by .50% due to the settlement of the class action lawsuit. On March 31, 2002 the interest rates for the line of credit facility and the term loan was 6.50% and 6.75% respectively.

In connection with the execution of the April 20, 2000 amended and restated credit agreement, the Company issued the bank a warrant to purchase 400,000 shares of the Company's common stock at an exercise price of $2.045 per share. In connection with the execution of the May 31, 2001 second amended and restated credit agreement, the exercise price of the warrant was reduced to $.01 per share, and the Company recognized an expense of $360,000.

On June 25, 2002, the Company and the bank agreed to extend the credit agreement to April 30, 2003. The new agreement calls for a restructuring fee of 3% or $982,500 fully earned, but only $327,500 or a 1% fee is payable at closing. The balance of this restructuring fee of $655,000 is deferred until December 15, 2002. If both the term loan of $8,000,000 and the line of credit facility of $24,750,000 are fully repaid before December 15, 2002, then the unpaid restructuring fee of $655,000 will be waived. The term loan provides for principal reduction payments on the 15th of every month of $500,000 each for June 2002 through October 2002; $750,000 each for November and December of 2002; $1,000,000 in January 2003 and $1,500,000 each for February 2003 through April 2003. In addition, $1,000,000 of the April 2003 payment is to be applied to the line of credit facility and both loans provide a 1.5% per annum commitment for on the unused portion, which is payable monthly.

The bank loan agreement includes various financial conditions, including minimum levels of monthly and 12-month cash flow, monthly net operating income (and maximum levels of any net

operating loss), tangible net worth and gross sales, and a number of restrictive covenants, including prohibitions against additional indebtedness, payment of dividends, pledge of assets and capital expenditures in excess of $1,500,000 in any 12-month period. If the Company is in default with any of its financial reporting obligations, the bank has the option of increasing the applicable line of credit margin and the applicable term loan margin at 3.00% and 3.25%, respectively, and the option to apply the default interest rate margin of 4% above the then-prevailing rate until such default is cured.

Note H—Stock Adjustments

Stock adjustments are allowed under the terms of certain Company agreements or in accordance with industry practice. Customer's request stock adjustments when the inventory level of certain product lines exceeds their anticipated sales level to their end-user customers.

Due to current and expected changes in customer return patterns, the Company now provides an allowance for anticipated stock adjustments. The costs associated with stock adjustments are charged against this allowance. The allowance is reviewed quarterly looking back at a rolling 12 months, together with customer input, to determine if the allowance should be adjusted. The Company has recorded an allowance of $609,000 and $225,000 at March 31, 2002 and 2001, respectively.

Note I—Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of the following at March 31:

	2002	2001
Foreign currency translation	$ (81,000)	$ (68,000)
Unrealized losses on investments	(31,000)	(20,000)
	$ (112,000)	$ (88,000)

Note J—Employment Agreements and Bonus Plan

The Company has employment agreements with key employees, expiring at various dates through January 1, 2004. The employment agreements provide for annual base salaries aggregating $1,025,000. In addition, some of these employees were granted options pursuant to the Company's stock option plans for the purchase of 333,600 shares of common stock at exercise prices ranging from $0.93 to $3.15 per share.

One such employment agreement provides for the employee to receive an amount equal to three times the annual base salary of $300,000 if the employee voluntarily terminates the agreement for good reason. Good reason is defined by the occurrence of any one of a number of circumstances after a change in control of the Company.

The Company has a bonus plan for certain employees. The majority of bonuses are calculated as a percentage of net income before taxes, ranging from 1.0% to 6.67% of this amount. The bonus percentage varies according to the percentage increase in earnings before income taxes and other predetermined parameters. The bonus for the year ended March 31, 2002 and 2001 was $1,682,000 and $168,000 respectively.

Note K—Commitments

The Company leases office and warehouse facilities in California and Tennessee under operating leases expiring through 2007. Certain leases contain escalation clauses for real estate taxes and

operating expenses. At March 31, 2002, the remaining future minimum rental payments under the above operating leases are as follows:

Year ending March 31,	
2003	$ 1,143,000
2004	1,132,000
2005	1,132,000
2006	1,132,000
2007	1,132,000
	$ 5,671,000

During fiscal years 2002, 2001 and 2000, the Company incurred lease expenses of $1,497,000, $1,688,000 and $1,541,000, respectively.

Note L—Major Customers

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

	2002	2001	2000
Net Sales	86%	69%	59%
Accounts Receivable	75%	73%	76%

Note M—Income Taxes

The income tax benefit (expense), for the years ended March 31, 2002, 2001 and 2000 is as follows:

	2002	2001	2000
Current tax benefit (expense)			
Federal	$ 1,004,000	$ —	$ 1,173,000
State	—	(13,000)	—
Total current tax benefit (expense)	1,004,000	(13,000)	1,173,000
Deferred tax benefit			
Federal	2,610,000	—	—
State	390,000	—	—
Total deferred tax benefit	3,000,000	—	—
Total income tax benefit (expense)	$ 4,004,000	$ (13,000)	$ 1,173,000

Deferred income taxes consist of the following at March 31:

	2002	2001
Assets		
Net operating loss carry-forwards	$ 3,542,000	$ 4,389,000
Inventory valuation	5,619,000	5,827,000
Inventory accounting method change	5,066,000	6,777,000
Allowance for bad debts	475,000	495,000
Inventory capitalization	43,000	57,000
Vacation pay	180,000	205,000
Accrued professional fees	—	817,000
Deferred compensation	107,000	77,000
Accrued bonus	310,000	—
Other	5,000	74,000
	15,347,000	18,718,000
Liabilities		
Accelerated depreciation	(848,000)	(1,248,000)
Net deferred tax assets	$ 14,499,000	$ 17,470,000
Less: valuation allowance	(8,249,000)	(14,220,000)
	$ 6,250,000	$ 3,250,000

The Company has reduced the valuation allowance for deferred tax assets by $5,971,000 in 2002. At March 31, 2002, the Company had federal and state net operating loss carry forwards of $7,264,000 and $20,528,000, respectively, which expire in varying amounts through 2020. Realization of the deferred tax assets is dependent upon the Company's ability to generate sufficient future taxable income. Management believes that it is more likely than not that future taxable income will be sufficient to realize the recorded deferred tax assets, net of the valuation allowance at March 31, 2002. Future taxable income is based on management's forecast of the future operating results of the Company, and there can no

assurance that such results will be achieved. Management continually reviews such forecasts in comparison with actual results. In the event management determines that sufficient future taxable income may not be generated to fully realize the net deferred tax assets, the Company will adjust the valuation allowance.

The Job Creation and Work Assistance Act of 2002 (the "Act") was passed by Congress and then signed by the President on March 9, 2002. One of the provisions of the Act extends the carry-back period five years for losses arising in years ending during 2001 and 2002. Under the new tax law, the Company is entitled to a tax refund from the extended carry-back for approximately $1,000,000.

The difference between the income tax expense at the federal statutory rate and the Company's effective tax rate is as follows:

	2002	2001
Statutory federal income tax rate	34%	(34)%
State income tax rate	5%	(5)%
Change in tax law	(13)%	—
Valuation allowance	(78)%	39%
	(52)%	—%

Note N—Stock Options

In January 1994, the Company adopted the 1994 Stock Option Plan (the "1994 Plan"), under which it was authorized to issue non-qualified stock options and incentive stock options to key employees, directors and consultants to purchase up to an aggregate of 720,000 shares of the Company's common stock. The term and vesting period of options granted is determined by a committee of the Board of Directors with a term not to exceed ten years.

In June 1998, the 1994 Plan was amended to increase the authorized number of shares issued to 960,000. As of March 31, 2002, there were 748,875 options outstanding under the 1994 Plan and 5,875 options were available for grant.

In August 1995, the Company adopted the Non-employee Director Stock Option Plan (the "Directors Plan") which provides for the granting of options to directors to purchase a total of 15,000 shares of the Company's common stock. Options to purchase 15,000 shares have been granted under the Director's Plan as of March 31, 2002.

In September 1997, the Company adopted the 1996 Stock Option Plan (the "1996 Plan"), under which it is authorized to issue non-qualified stock options and incentive stock options to key employees, consultants and directors to purchase a total of 30,000 shares of the Company's common stock. The term and vesting period of options granted is determined by a committee of the Board of Directors with a term not to exceed ten years. Options to purchase 30,000 shares have been granted under the 1996 Plan as of March 31, 2002.

Summary of stock option transactions is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at 3/31/99	587,750	$ 12.16
Granted	185,000	$ 3.13
Exercised	0	$ 0
Forfeited	(88,500)	$ 12.18
Outstanding at 3/31/00	684,250	$ 9.71
Granted	31,000	$ 0.99
Exercised	0	$ 0
Forfeited	(61,875)	$ 11.41

Outstanding at 3/31/01	653,375	$	9.16
Granted	591,500	$	2.63
Exercised	0	$	0
Cancelled	(451,000)	$	11.29
Outstanding at 3/31/02	793,875	$	2.87

The following table summarizes, information about the options outstanding at March 31, 2002:

	Options Outstanding			Options Exercisable	
		Weighted Average			
Range of Exercise Prices	**Shares**	**Exercise Price**	**Remaining Life in Years**	**Shares**	**Weighted Average Exercise Price**
$ 0.93 to $ 1.21	186,000	$ 1.08	9.24	186,000	$ 1.08
$ 2.20 to $ 3.15	586,000	$ 3.02	9.17	586,000	$ 3.02
$ 8.13 to $11.88	10,500	$ 9.96	4.63	10,500	$ 9.96
$12.00 to $19.13	11,375	$ 17.47	5.20	11,375	$ 17.47
	793,875			793,875	

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income for the year ended March 31, 2002 and net

loss for the years ended March 31, 2001 and 2000 would have been adjusted to the pro forma amounts indicated below:

	2002	2001	2000
Net Income / (Loss):			
Pro forma	$ 10,663,000	$ (4,152,000)	$ (28,703,000)
As reported	11,689,000	(4,102,000)	(28,244,000)
Basic income / (loss) per share—pro forma	1.47	(0.64)	(4.44)
Basic income / (loss) per share—as reported	1.61	(0.63)	(4.37)
Dilutive income / (loss) per share—pro forma	1.37	(0.64)	(4.44)
Dilutive income / (loss) per share—as reported	1.51	(0.63)	(4.37)

Under SFAS No. 123, compensation cost for options granted is recognized over the vesting period. The compensation cost included in the pro forma amounts above represents the cost associated with options granted during 1996 through 2002.

Note O—Litigation

The Company has settled the class action lawsuit that had been filed against the Company in the United States District Court, Central District of California, Western Division. The class action lawsuit alleged that, over a four-year period during 1996 to 1999, the Company misstated earnings in violation of securities laws. Under the terms of the settlement agreement, the class action plaintiffs will receive $7,500,000. Of this amount, the Company's directors and officer's insurance carrier paid $6,000,000 and the Company has paid the balance. Final approval of this settlement was entered into Court Records on September 18, 2001 and all parties have exchanged releases in connection with this settlement.

To finance the Company's portion of the settlement, the Company and Mel Marks, the Company's founder and a board member, entered into a stock purchase agreement. Under the terms of this agreement, Mr. Marks purchased shares of the Company's common stock as of September 19, 2001. The total purchase price for the stock was $1,500,000. The price per share was $1.00. The valuation firm that the Company engaged to render a fairness opinion of this transaction concluded that this price per share was fair to the Company's shareholders, from a financial point of view. For purposes of this determination, the fairness of the transaction was evaluated as of November 30, 2000, the date that Mr. Marks agreed to provide $1,500,000 to the Company to finance a portion of the class action settlement. On that date, the Company did not have the resources to pay their portion of the settlement from cash flow from operations and was required to raise these funds from an external source.

On January 20, 2000, the Securities and Exchange Commission issued a formal order of investigation with respect to the Company. In this order, the SEC authorized an investigation into, among other things; the accuracy of the financial information previously filed with the Commission

and potential deficiencies in the Company's records and system of internal control. The SEC investigation is proceeding. There can be no assurance with respect to the outcome of the SEC's investigation. The United States Attorney's Office for the Central District of California is conducting a similar investigation.

In addition, the Company has not filed a number of periodic reports that it is obligated to file under the Securities Exchange Act of 1934. However, the Company is current with all of its reporting to the SEC for the past 12 months. The SEC is aware of this failure and has reminded the Company that it has the authority to revoke or suspend the Company's registration under the Securities Exchange Act of 1934 as a result of this failure, which SEC action would prevent sales of the Company's common stock through broker/dealers.

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

Note P—Related Party Transactions

The Company has entered into consulting agreements with two of the members of its Board of Directors, Mssrs. Selwyn Joffe and Mel Marks.

In August 2000, the Company's Board of Directors agreed to engage Mr. Mel Marks to provide consulting services to the Company. Mr. Marks is paid an annual consulting fee of $250,000 per year. The Company can terminate this arrangement at any time.

Effective December 1, 1999, the Company entered into a consulting agreement with Mr. Selwyn Joffe, the Chairman of the Board of the Company, pursuant to which he has been retained as a consultant to provide oversight, management, strategic and other advisory services to the Company. The consulting agreement was scheduled to expire on June 1, 2001 but has been extended by mutual agreement through June 1, 2003 and provides for annual compensation to Mr. Joffe in the amount of $160,000. As additional consideration for the consulting services, Mr. Joffe was granted an option to purchase 40,000 shares of the Company's Common Stock pursuant to the Company's 1994 Stock Option Plan. Of these options, 20,000 options were exercisable on the date of grant and the remaining 20,000 options were fully vested on the first anniversary of the date of grant. The options have an exercise price of $2.20 per share and expire ten (10) years after the grant date.

Mr. Joffe and the Company entered into an additional consulting services agreement dated as of May 9, 2002, providing for Mr. Joffe to assist the Company in considering and pursuing potential transactions and relationships intended to enhance stockholder value. In connection with this arrangement, the Company has agreed to pay Mr. Joffe $10,000 per month for one year and 1% of the value of any transactions, which close by the second anniversary of the agreement, less any monthly fees, paid.

Note Q—Unaudited Quarterly Financial Data

The following summarizes selected quarterly financial data for the fiscal year ended March 31, 2002:

FY 2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$ 42,251,000	$ 49,229,000	$ 38,837,000	$ 41,723,000
Cost of Goods Sold	37,670,000	42,851,000	35,084,000	35,860,000
Gross Margin	4,581,000	6,378,000	3,753,000	5,863,000
Operating Expenses				
General and administrative expenses	2,042,000	2,204,000	1,251,000	2,118,000
Sales and marketing	280,000	262,000	268,000	357,000
Research and development	113,000	158,000	128,000	153,000
Total Operating Expenses	2,435,000	2,624,000	1,647,000	2,628,000
Operating Income / (Loss)	2,146,000	3,754,000	2,106,000	3,235,000
Interest expense — net	1,237,000	954,000	806,000	559,000
Income / (Loss) Before Income Taxes and Cumulative	909,000	2,800,000	1,300,000	2,676,000
Income tax (expense) benefit	(1,000)	—	—	4,005,000
Net Income	$ 908,000	$ 2,800,000	$ 1,300,000	$ 6,681,000
Basic income per share	$ 0.14	$ 0.42	$ 0.16	$ 0.84
Diluted income per share	$ 0.13	$ 0.40	$ 0.15	$ 0.79

Significant 4th Quarter Adjustments: The Company's fiscal year 2002 operating results were impacted by the Company's recording of a $3,000,000 tax benefit in the fourth quarter of fiscal 2002 associated with its net operating losses in prior years and the passage of the Job Creation and Work Assistance Act of 2002.

The following summarizes selected quarterly financial data for the fiscal year ended March 31, 2001:

FY 2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$ 41,401,000	$ 43,964,000	$ 38,969,000	$ 36,365,000
Cost of Goods Sold	37,569,000	40,263,000	35,365,000	35,534,000
Gross Margin	3,832,000	3,701,000	3,604,000	831,000
Operating Expenses				
General and administrative expenses	2,086,000	1,724,000	2,304,000	2,177,000
Sales and marketing	318,000	276,000	270,000	352,000
Litigation settlement	—	—	1,500,000	—
Restructuring expenses	—	—	—	914,000
Research and development	148,000	118,000	97,000	109,000
Provision for doubtful accounts	—	—	—	(36,000)
Total Operating Expenses	2,552,000	2,118,000	4,171,000	3,516,000
Operating Income / (Loss)	1,280,000	1,583,000	(567,000)	(2,685,000)
Interest expense — net	1,002,000	1,017,000	957,000	724,000
Income / (Loss) Before Income Taxes and Cumulative	278,000	566,000	(1,524,000)	(3,409,000)
Income tax (expense) benefit	—	—	—	(13,000)
Net Income	$ 278,000	$ 566,000	$ (1,524,000)	$ (3,422,000)
Basic and diluted income (loss) per share	$ 0.04	$ 0.09	$ (0.24)	$ (0.53)

Schedule II—Valuation and Qualifying Accounts

Accounts Receivable—Bad Debt Allowance

For the Year Ended March 31	Description	Balance at Beginning of Period	Charged to (Recovery) Bad Debts Expense	Accounts Written Off	Balance at End of Period
2002	Accounts receivable allowance	149,000	412,000	235,000	326,000
2001	Accounts receivable allowance	319,000	(36,000)	134,000	149,000
2000	Accounts receivable allowance	231,000	321,000	233,000	319,000

Inventory

For the Year Ended March 31	Description	Balance at Beginning of Period	Reserve Charged to Income	Inventory Written Off	Balance at End of Period
2002	Allowance for obsolescence	4,253,000	1,440,000	1,978,000	3,715,000
2001	Allowance for obsolescence	5,256,000	316,000	1,319,000	4,253,000

2000	Allowance for obsolescence	8,428,000	1,556,000	4,728,000	5,256,000

QuickLinks

PART I

Item 1. Business.
Item 2. Properties.
Item 3. Legal Proceedings.
Item 4. Submission of Matters to a Vote of Security Holders.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.
Item 6. Selected Financial Data.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Item 8. Financial Statements and Supplementary Data.
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Item 11. Directors Compensation and Executive Officers

Item 12. Security Ownership of Certain Beneficial Owners and Management
Item 13. Certain Relationships and Related Transactions

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

SIGNATURES
POWER OF ATTORNEY
CONTENTS
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
PART IV—FINANCIAL INFORMATION

Item 1. Financial Statements.

Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statement of Shareholders' Equity
Consolidated Statements of Cash Flows
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A—Company Background
Note B—Summary of Significant Accounting Policies
Note C—Realization of Assets

Note D—Inventory
Note E—Plant and Equipment
Note F—Capital Lease Obligations
Note G—Line of Credit and Term Loan
Note H—Stock Adjustments
Note I—Accumulated Other Comprehensive Loss
Note J—Employment Agreements and Bonus Plan
Note K—Commitments
Note L—Major Customers
Note M—Income Taxes

Note N—Stock Options
Note O—Litigation
Note P—Related Party Transactions

Note Q—Unaudited Quarterly Financial Data

Schedule II—Valuation and Qualifying Accounts

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.35

THIRD AMENDED AND RESTATED
CREDIT AGREEMENT

THIS THIRD AMENDED AND RESTATED CREDIT AGREEMENT (as amended, modified, supplemented or restated from time to time, this "Agreement") is entered into as of June 28, 2002 by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

A. Borrower is currently indebted to Bank pursuant to the terms of that certain Second Amended and Restated Credit Agreement between Borrower and Bank dated as of May 31, 2001 (as amended, the "Prior Credit Agreement").

B. Borrower is indebted to Bank under the terms of the Prior Credit Agreement for (i) a line of credit (the "Prior Line of Credit"), which is evidenced by that certain Revolving Line of Credit Note dated April 30, 2002 in the maximum principal amount of Twenty-Four Million Seven Hundred Fifty Thousand Dollars ($24,750,000.00) (the "Prior Line of Credit Note"), and (ii) a term loan (the "Term Loan"), which is evidenced by that certain Term Note dated April 30, 2002 in the principal amount of Nine Million Dollars ($9,000,000.00) (the "Prior Term Note").

C. Borrower has requested that Bank extend the maturity date of its obligations under the Prior Credit Agreement and amend and restate certain other terms of the Prior Credit Agreement, and Bank has consented to such request on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows; provided, however, that nothing herein shall terminate any security interest or warrant granted in favor of Bank and all such security interests and warrants shall remain in full force and effect:

ARTICLE I
THE CREDITS

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 April 30, 2003, not to exceed at any time the aggregate principal amount of Twenty-Four Million Seven Hundred Fifty Thousand Dollars ($24,750,000.00) (the "Line of Credit"). The proceeds of the Line of Credit shall be used solely for Borrower's general corporate and working capital requirements and shall in no event be used to pay any fine levied by the Securities and Exchange Commission or any other governmental agency or authority. 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) *Limitation on Borrowings*. Outstanding borrowings under the Line of Credit, to a maximum of the principal amount set forth above, shall not at any time exceed an aggregate of (i) seventy-five percent (75.0%) of Borrower's Eligible Accounts Receivable (as defined below), *plus* (ii) the lesser of (A) $14,000,000, and (B) eighty percent (80.0%) of the Appraised Net Recovery Value (as defined below) of Borrower's inventory. The amount calculated pursuant to the preceding sentence is referred to herein as the "Borrowing Base". All of the foregoing shall be determined by Bank upon receipt and review of all collateral reports required hereunder and such other documents and collateral information as Bank may from time to time require. Borrower acknowledges that the Borrowing Base was

established by Bank with the understanding that if there at any time exists any other matters, events, conditions or contingencies which Bank reasonably believes may affect payment of any portion of Borrower's accounts, Bank, in its sole discretion, may reduce the foregoing advance rate against Eligible Accounts Receivable to a percentage appropriate to reflect additional dilution and/or establish additional reserves against Borrower's Eligible Accounts Receivable.

As used herein, "Eligible Accounts Receivable" shall consist solely of trade accounts created in the ordinary course of Borrower's business, net of all (x) returned goods authorizations, and (y) allowances for warranties, and upon which Borrower's right to receive payment is absolute and not contingent upon the fulfillment of any condition whatsoever, and in which Bank has a perfected security interest of first priority, and shall not include:

(i) any account which remains unpaid more than sixty (60) days past the due date thereof;

(ii) that portion of any account for which there exists any right of setoff (including deposits, loans and warranties), defense or discount (except regular discounts allowed in the ordinary course of business to promote prompt payment) or for which any defense or counterclaim has been asserted;

(iii) any account which represents an obligation of any state or municipal government or of the United States government or any political subdivision thereof (except accounts which represent obligations of the United States government and for which the assignment provisions of the Federal Assignment of Claims Act, as amended or recodified from time to time, have been complied with to Bank's satisfaction);

(iv) any account which represents an obligation of an account debtor located in a foreign country other than an account debtor located in the Canadian provinces of Alberta, British Columbia, Manitoba, Ontario, Saskatchewan or the Yukon Territory so long as, in Bank's determination, such Canadian jurisdictions recognize Bank's first priority security interest in and right to collect such account as a consequence of any security agreements and UCC filings in favor of Bank and except to the extent any such account, in Bank's determination, is supported by a letter of credit or insured under a policy of foreign credit insurance, in each case in form, substance and issued by a party acceptable to Bank;

(v) any account which arises from the sale or lease to or performance of services for, or represents an obligation of, an employee, director, affiliate, partner, member, parent or subsidiary of Borrower;

(vi) that portion of any account which represents interim or progress billings or retention rights on the part of the account debtor;

(vii) any account which represents an obligation of any account debtor when twenty percent (20%) or more of Borrower's accounts from such account debtor are not eligible pursuant to (i) above;

(viii)that portion of any account from an account debtor which represents the amount by which Borrower's total accounts from said account debtor exceeds twenty-five percent (25%) of Borrower's total accounts; *provided*, *however*, that this limitation shall not apply to any accounts owing by AutoZone so long as the senior unsecured debt rating of AutoZone, Inc. by Standard & Poor's (a division of the McGraw-Hills Companies) is BBB- or better *and* such rating by Moody's Investors Service is Baa3 or better; and

(ix) any account deemed ineligible by Bank when Bank, in its sole discretion, deems the creditworthiness or financial condition of the account debtor, or the industry in which the account debtor is engaged, to be unsatisfactory.

As used herein, "Appraised Net Recovery Value" of Borrower's inventory shall mean the amount reflected as the "net recovery value" of Borrower's inventory in the most recent quarterly appraisal of inventory (performed by the Great American Group or another appraiser acceptable to Bank) required pursuant to Section 4.11.

(c) *Letter of Credit Subfeature*. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause to be issued standby letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, "Letters of Credit") to provide credit support for Borrower's workmen's compensation obligations; *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 shall not at any time exceed One Million Six Hundred Thousand Dollars ($1,600,000.00). On March 31, 2003, any Letter of Credit with an expiry date subsequent to April 30, 2003 shall be fully cash collateralized. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings 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 advances under the Line of Credit are not available, for any reason, at the time any draft is paid by Bank, then Borrower shall immediately pay to Bank the full amount of such draft, 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, in its sole discretion, may debit any demand deposit account maintained by Borrower with Bank for the amount of any such draft.

(d) *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. The principal amount of the Line of Credit outstanding shall be repaid in accordance with the provisions of the Line of Credit Note.

SECTION 1.2 TERM LOAN.

(a) *Term Loan*. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make a loan to Borrower in the principal amount of Eight Million Dollars ($8,000,000.00) ("Term Loan"), the proceeds of which shall be used for general corporate and working capital purposes of Borrower; *provided* that no portion of the Term Loan shall be used to pay any fine levied by the Securities and Exchange Commission or any other governmental agency or authority. Borrower shall repay the outstanding principal balance of the Term Note at the times and in the amounts set forth in the Term Note. Borrower's obligation to repay the Term Loan shall be evidenced by a promissory note substantially in the form of *Exhibit B* attached hereto ("Term Note"), all terms of which are incorporated herein by this reference.

(b) *Repayment*. The principal amount of the Term Loan shall be repaid in accordance with the provisions of the Term Note.

(c) *Prepayment*. Borrower may prepay principal on the Term Loan at any time, in any amount and without penalty.

SECTION 1.3 INTEREST/FEES.

(a) *Interest*. Subject to Section 1.3(b), the outstanding principal balance of the Line of Credit Note shall bear interest at a per annum rate equal to the Prime Rate *plus* One and Three-Quarters Percent (1.75%). Subject to Section 1.3(b), the outstanding principal balance of the Term Note shall bear interest at a per annum rate equal to the Prime Rate *plus* Two Percent (2.00%). "Prime Rate" shall mean 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 in such internal publication or publications as Bank may designate. Each change in the rate of interest shall

become effective on the date each Prime Rate change is announced within Bank.

(b) *Default Interest*. From and after the maturity date of the Line of Credit Note and/or the Term Note, or such earlier date as all principal owing under such note becomes due and payable by acceleration or otherwise, the outstanding balance of the Line of Credit and the Term Loan shall bear interest until paid in full at a rate per annum equal to four percent (4%) above the rate of interest otherwise applicable to such obligations.

(c) *Computation and Payment*. Interest shall be computed on the basis of a 360 day year, actual days elapsed. Interest shall be payable on the Line of Credit and on the Term Loan on the first Business Day of each month, commencing July 1, 2002. As used herein, the term "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in California are authorized or required by law to close.

(d) *Restructuring Fee*. Borrower shall pay to Bank a restructuring fee equal to three percent (3.00%) of the sum of the Line of Credit and the Term Loan ($982,500.00) all of which shall be fully earned and non-refundable on the Closing Date. One-third of the restructuring fee ($327,500.00) shall be paid in cash on the Closing Date. The other two-thirds of the restructuring fee ($655,000.00) shall be fully earned on the Closing Date, but shall be payable on December 15, 2002; *provided* that if the Term Loan is repaid in full, the Line of Credit is repaid in full and terminated and all other fees and expenses reimburseable to Bank pursuant to this Agreement and any other Loan Document have been paid in full prior to such date, then the portion of the restructuring fee due on December 15, 2002 shall be waived by Bank.

(e) *Unused Commitment Fee*. Borrower shall pay to Bank a fee equal to one and one-half percent (1.50%) 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 (regardless of the amount of the Borrowing Base or any limitations on borrowing under the Line of Credit based on the amount of the Borrowing Base), which fee shall be calculated on a monthly basis by Bank and shall be due and payable by Borrower in arrears on the first business day of the following month.

(f) *Letter of Credit Fees*. Borrower shall pay to Bank (i) fees upon the issuance of each Letter of Credit equal to three percent (3.00%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, and (ii) fees upon the payment or negotiation of each draft under any Letter of Credit and fees upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

SECTION 1.4 MANDATORY PREPAYMENTS AND PERMANENT COMMITMENT REDUCTIONS. Borrower shall repay the Line of Credit on any date on which the outstanding balance of the Line of Credit plus the face amount of all Letters of Credit outstanding exceeds the Borrowing Base. Borrower shall prepay the Credits from time to time in an amount equal to one hundred percent (100%) of (i) the net proceeds of any sales by Borrower of assets outside the ordinary

course of business, (ii) the net proceeds of any debt or equity issuance by Borrower, (iii) the net proceeds of any insurance payment received by Borrower, and (iv) any and all local, state, or federal tax refunds received by Borrower from time to time. Each prepayment of the Credits required by the preceding sentence shall first be applied to payments due under the Term Loan in the inverse order of maturity, and thereafter shall be applied to the outstanding principal balance of the Line of Credit. Prepayments of the Credits shall not reduce the mandatory monthly payments required by the following sentence. Borrower shall prepay the Credits on each date set forth below (or if any such day is not a Business Day, then on the next Business Day thereafter) by the amount set forth opposite such date:

Date	Amount
July 15, 2002	500,000
August 15, 2002	500,000
September 15, 2002	500,000
October 15, 2002	500,000
November 15, 2002	750,000
December 15, 2002	750,000
January 15, 2003	1,000,000
February 15, 2003	1,500,000
March 15, 2003	1,500,000
April 15, 2003	1,500,000

Each prepayment required by the preceding sentence shall be applied to payments due under the Term Loan in the direct order of maturity, and thereafter shall be applied to the outstanding principal balance of the Line of Credit. On the date that any repayment under the Line of Credit is required pursuant to this Section 1.4, the Line of Credit shall be permanently reduced by a corresponding amount.

SECTION 1.5 COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under any Loan Document (as defined below) by charging Borrower's demand deposit account number 4608-043691 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. Borrower authorizes Bank to

(a) apply all amounts on deposit in such account at the close of each business day to the outstanding balance of the Line of Credit, and (b) make advances under the Line of Credit after the close of business each business day in an amount equal to any overdraft reflected with respect to such demand deposit account; *provided*, that Borrower acknowledges and agrees that any advance described in this clause (b) shall be subject to all of the terms and conditions applicable to advances under the Line of Credit set forth in this Agreement and the other Loan Documents.

SECTION 1.6 COLLATERAL. As security for all indebtedness of Borrower to Bank or Trade Bank subject hereto, Borrower hereby re-affirms its prior grant to Bank and Trade Bank of security interests of first priority in all Borrower's accounts, 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 or Trade Bank shall reasonably require, all in form and substance satisfactory to Bank (and, as appropriate, Trade Bank). Borrower shall reimburse Bank and Trade Bank immediately upon demand for all costs and

expenses incurred by Bank or Trade Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of appraisals and audits.

SECTION 1.7 CONSENT TO VENDOR PAYMENT PROGRAM. Bank hereby consents to the sale of accounts receivable owed by AutoZone, Inc. to Borrower on the terms and subject to the conditions set forth in that certain Consent Agreement among Borrower, Bank and SunTrust Bank ("SunTrust") attached hereto as *Exhibit F* (the "Vendor Payment Program"); *provided* that all proceeds of the Vendor Payment Program shall be paid directly to Bank by SunTrust to Borrower's account number 4169611266 with Bank for application to the Line of Credit; and *provided*, *further*, that Bank's consent to sales of accounts receivable by Borrower to SunTrust shall terminate on the earliest of (a) any payment default under this Agreement, (b) any default under Section 5.9 of this Agreement, and (c) fourteen (14) calendar days after the occurrence of any other Event of Default under this Agreement that has not been cured by Borrower or waived by Bank. Payments made to Bank pursuant to this Section 1.7 shall not result in a reduction of the Line of Credit.

SECTION 1.8 CERTAIN LOAN DOCUMENTS SUPERSEDED. As of the Closing Date, the Prior Credit Agreement shall be deemed to have been amended and restated in its entirety by this Agreement, the Prior Line of Credit Note and the Prior Term Note shall be amended and restated in their entirety by the Line of Credit Note and the Term Note, respectively, and the indebtedness evidenced by the Prior Revolving Note and the Prior Term Note shall be evidenced first by the Term Note, and then, to the extent of the remaining principal amount outstanding thereunder, by the Line of Credit Note. To the extent that the Prior Credit Agreement provides for costs, expenses, fees and indemnities in favor of Bank, Borrower promises to pay all such costs, expenses, fees and indemnities.

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 Term Note, 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. The Certificate of Incumbency delivered to Bank in connection with the First Amendment to the Prior Credit Agreement remains true and correct as of the date of this Agreement, and the officers of Borrower identified in such Certificate of Incumbency are duly authorized by all necessary corporate action to execute this Agreement and each other Loan Document to be executed and delivered in connection herewith.

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 statements of Borrower dated March 31, 2002, 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 disclosed on Schedule 5.2.

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 which would result in any obligation to pay additional taxes.

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, consents, approvals, franchises 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, and the Federal Toxic Substances Control Act, 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

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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.

ARTICLE III
CONDITIONS

SECTION 3.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. This Agreement shall become effective as of the date first written above provided that all of the following conditions are fulfilled to Bank's satisfaction on or before June 28, 2002:

(a) *Approval of Bank Counsel*. All legal matters incidental to the granting of each of the credits described in Article I 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, the Line of Credit Note, and the Term Note.

(ii) A Corporate Borrowing Resolution and resolutions of the Board of Directors of Borrower approving the execution and delivery of this Agreement and the execution and delivery of the Letter of Understanding (as defined below) and all related documentation with respect to the Vendor Payment Program.

(iii) Such other documents as Bank or Trade 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.

(e) *Restructuring Fee; Reimbursement of Expenses*. Borrower shall have paid Bank the portion of the restructuring fee required to be paid on the Closing Date as described in Section 1.3(d). Borrower shall reimburse Bank for all fees, costs and expenses (including without limitation the allocated cost of in-house counsel and all audit and appraisal fees) incurred by Bank in connection with the negotiation of documentation of the transaction described herein and in the other Loan Documents not later than July 31, 2002.

The date on which all such conditions have been satisfied (or waived by Bank in its sole discretion) and the initial extension of credit is made by Bank hereunder is referred to herein as the "Closing Date".

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:

(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 AND INFORMATION. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than June 30, 2002, Borrower's Form 10-K for the fiscal year ended March 31, 2002 as filed with the Securities and Exchange Commission (the "SEC"), and financial statements of Borrower, audited by independent certified public accountants acceptable to Bank, to include a balance sheet, income statement and statement of cash flows and all footnotes;

(b) not later than 45 days after and as of the end of each fiscal quarter, Borrower's Form 10-Q as filed with the SEC;

(c) not later than 30 days after the end of each month, monthly financial statements of Borrower, including a balance sheet as of the end of such month and an income statement and statement of cash flows for such month and for the fiscal year-to-date (to include a narrative explaining the reasons for any variances from the Projections (as defined below)), together with a duly completed Compliance Certificate substantially in the form of *Exhibit C* executed by the Chief Financial Officer or President of Borrower (and accompanying calculations in form and substance satisfactory to Bank);

(d) not later than Wednesday of each calendar week, a cash forecast for Borrower by week for the thirteen week period beginning of the first day of the next calendar week together with the actual cash flows for the preceding week, a comparison of such cash flows to the most recent cash forecast and an explanation of any material variances;

(e) not later than 20 days after and as of the end of each month beginning with the month ending June 30, 2002, a Borrowing Base Certificate substantially in the form of *Exhibit D*, together with an inventory collateral report, an aged listing of accounts receivable and accounts payable, and a reconciliation of accounts, and immediately upon each request from Bank, a list of the names and addresses of all Borrower's account debtors;

(f) not later than 9:00 a.m. on each business day, a Collateral Activity Report substantially in the form of *Exhibit E*, in each case to Collateral Administration as provided in *Section 7.2*;

(g) on the same business day on which information is received by Borrower from SunTrust pursuant to Section 3(b) of the Letter of Understanding and Agreement to be entered into between SunTrust and Borrower (the "Letter of Understanding") substantially in the form attached hereto as *Exhibit G*, any such information received by e-mail shall be forwarded to Bank by e-mail and any such

information provided by a means other than e-mail shall be provided to Bank by a facsimile transmission, in each case to Collateral Administration as provided in *Section 7.2*;

(h) contemporaneously with each annual and monthly financial statement of Borrower required hereby, a certificate of the President or Chief Financial Officer of Borrower that said financial statements 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;

(i) not later than July 31, 2002, a Certificate of Incumbency executed by Borrower;

(j) within five business days of receipt by Borrower and in any event not later than September 30, 2002, the management letter prepared by Borrower's independent certified public accountants in connection with their audit for the fiscal year ended March 31, 2002;

(k) promptly, and in any event within five business days after Borrower has knowledge thereof, a report describing any material development in connection with the pending investigation by the SEC and Department of Justice (including both favorable and unfavorable developments); and

(l) 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 (a) any litigation pending or threatened against Borrower with a claim in excess of $100,000.00, and (b) the terms of any modifications to the settlement of any pending or threatened litigation and the proposed source of funding for any such settlement.

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):

(a) Quarterly EBITDA, calculated as of the last day of each fiscal quarter beginning with the fiscal quarter ending June 30, 2002, shall not be less than the amount specified for such fiscal quarter below:

Fiscal Quarter	Minimum EBITDA
April 1, 2002 to June 30, 2002	$ 2,500,000
July 1, 2002 to September 30, 2002	$ 3,000,000
October 1, 2002 to December 31, 2002	$ 2,500,000
January 1, 2003 to March 31, 2003	$ 2,000,000

"EBITDA" shall refer to Borrower's net income, *plus* in each case to the extent deducted to arrive at net income, interest expense, taxes, depreciation expense and amortization expense.

(b) Net Operating Income/(Loss), calculated on a monthly basis beginning with the month ending June 30, 2002, shall never be more than 10% less than (in the case of income) or 10% greater than (in the case of loss) the amount of income/loss reflected in the Projections for such month; *provided*, *however*, that if in any given month Borrower's Net Operating Income/(Loss) does vary more than such permitted 10% variance from the Projections for such month, Borrower shall not be in default under this provision so long as the sum of Borrower's Net Operating Income/(Loss) for such month when combined with that of the immediately preceding month is within such permitted 10% variance from the Projections for such two-month period. "Net Operating Income/(Loss)" as used herein shall mean all income (not including any interest income) before deducting interest expense and taxes. "Projections" as used herein shall mean those certain financial projections for the fiscal year ending March 31, 2003 prepared by Borrower and delivered to Bank, a copy of which are attached hereto as *Exhibit H*.

(c) Gross sales, calculated on a monthly basis beginning with the month ending June 30, 2002, shall never be less than 90% of the amount of gross sales reflected in the Projections for such month; *provided*, *however*, that if in any given month Borrower's gross sales are less than 90% of gross sales as reflected in the Projections for such month, Borrower shall not be in default under this provision so long as the sum of Borrower's gross sales for such month when combined with that of the immediately two preceding months is at least 90% of the gross sales reflected in the Projections for such three-month period.

(d) Minimum Tangible Net Worth not at any time less than the sum of (i) $22,500,000, *plus* (ii) as of each month end from and after March 31, 2002, an amount equal to 50% of Borrower's net income after taxes for such month. "Tangible Net Worth" is defined as the aggregate of total stockholders' equity *plus* subordinated debt *minus* any intangible assets *minus* any non-cash deferred tax benefit, up to a maximum amount of $3,000,000.

(e) Stock adjustments for the fiscal year ending March 31, 2003 shall not exceed $900,000 or 30,000 units.

(f) Maximum Funded Debt to Adjusted EBITDA Ratio, calculated as of the last day of each fiscal quarter beginning with the quarter ending June 30, 2002, less than or equal to the ratio set forth opposite such date below:

June 30, 2002	less than or equal to 3.75
September 30, 2002	less than or equal to 3.50
December 31, 2002	less than or equal to 3.25
March 31, 2003	less than or equal to 3.00

"Funded Debt" shall mean all indebtedness of Borrower outstanding on any date of determination, including capitalized leases, standby letters of credit and the maximum outstanding obligations of Borrower with respect to any guaranties and contingent obligations; *provided*, that for fiscal

quarters beginning September 30, 2002 and thereafter, if Borrower has not received its federal tax refund with respect to the fiscal year ended March 31, 2002, then Funded Debt shall be deemed to be reduced by an amount equal to such tax refund receivable in the amount reflected on Borrower's balance sheet as of the last day of the respective fiscal quarter. "Adjusted EBITDA" shall mean EBITDA *less* interest expense. "Funded Debt to Adjusted EBITDA Ratio" shall mean, as of any date of determination, the ratio of Funded Debt as of the last day of the testing period to the total of Borrower's Adjusted EBITDA for the twelve month period ending on the last day of such testing period.

SECTION 4.10 NOTICE TO BANK. Promptly (but in no event more than five (5) Business Days after the occurrence 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.

SECTION 4.11 QUARTERLY FIELD EXAMINATIONS AND APPRAISALS. Borrower shall permit Bank and its agents, representatives, auditors and appraisers access to its facilities, books and records, and provide such other assistance as requested by Bank or any such person (a) to enable Bank's appraisers to complete quarterly inventory appraisals, with the first inventory appraisal after the Closing Date to be completed by August 30, 2002 with respect to inventory as of June 30, 2002, and to establish the "Appraised Net Recovery Value" of inventory on a quarterly basis for purposes of Section 1.1(b), (b) to enable Bank's auditors to complete quarterly field audit examinations. The results of each field audit examination must be in form and substance satisfactory to Bank. Such examinations and appraisals shall be in addition to and shall in no way limit any other rights to audit and appraise Bank's collateral provided to Bank in this Agreement and in the other Loan Documents. Borrower shall reimburse Bank immediately upon demand for all costs and expenses incurred by Bank in connection with such examinations and appraisals.

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:

SECTION 5.1 USE OF FUNDS. Use any of the proceeds of any of the Credits 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, and (b) any other liabilities of Borrower existing as of the date hereof and identified on *Schedule 5.2*.

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 any of the foregoing in favor of Bank and except for guaranties of the obligations of Borrower's foreign affiliates identified on Schedule 5.4 not to exceed an aggregate of $100,000.00 outstanding 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 existing as of, and disclosed to Bank prior to, the date hereof, (b) any of the foregoing made in the ordinary course of Borrower's business not to exceed an aggregate of $100,000.00 outstanding at any time, and (c) 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 DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding.

SECTION 5.7 PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except (a) any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof, (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.

SECTION 5.8 CAPITAL EXPENDITURES. Make or incur Capital Expenditures in excess of $1,500,000.00 during the fiscal year ending March 31, 2003. "Capital Expenditures" shall refer to the aggregate cost of all assets which have been (or shall be) classified and accounted for as a capital asset on the Borrower's balance sheet. The limitation on Capital Expenditures set forth in this Section 5.8 shall be tested on the last calendar day of each month, and shall include the portion of the fiscal year ending on such date.

SECTION 5.9 SUNTRUST DISCOUNT RATE. Agree to sell AutoZone accounts receivable under the Vendor Payment Program for an amount which will result in net cash proceeds to Borrower of less than ninety-seven percent (97%) of the face amount of the receivables to be sold

(net of all costs and expenses of such program, including interest, fees, charges and discounts).

ARTICLE VI
EVENTS OF DEFAULT

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

(a) Borrower shall fail to pay when 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 ten (10) 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 hereby, 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 seek 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.

(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 series or related transactions.

(k) The Securities and Exchange Commission (or any other governmental agency) shall have imposed a fine or penalty in excess of $100,000 (individually or in the aggregate) against Borrower or any current or former officer, director or employee of Borrower if Borrower is required to indemnify or otherwise pay the fine or penalty imposed against such individual.

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 each 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 of the Credits 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:

BORROWER:	MOTORCAR PARTS & ACCESSORIES, INC. 2929 California Street Torrance, California 90503 Attention: Anthony Souza, President Telephone: (310) 972-4001 Telecopy: (310) 212-7581
BANK: (except Borrowing Base and Collateral Activity Reports)	WELLS FARGO BANK, NATIONAL ASSOCIATION Loan Adjustment Group 333 South Grand Avenue, Suite 940 Los Angeles, California 90071 Attention: Edith Lim Telephone: (213) 253-6859 Telecopy: (213) 253-5913
BORROWING BASE AND COLLATERAL ACTIVITY REPORTS:	WELLS FARGO BANK, NATIONAL ASSOCIATION Loan Adjustment Group Collateral Administration 201 Third Street, 8th Floor San Francisco, California 94103 Attention: Sylvia Zaheri Telephone: (415) 977-5234 Telecopy: (888) 411-0950

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), expended or 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, 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 Borrower or any other person or entity.

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; *provided*, that Bank shall obtain a written confidentiality agreement including standard terms and conditions in connection with any such disclosure of material, non-public information relating to Borrower.

SECTION 7.5 ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to the Credits and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

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 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.11 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 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. §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

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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 to 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 (i) 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, (ii) 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 (iii) 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 (A) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (B) 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.

(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 qualifications 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

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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.

SECTION 7.12 GENERAL RELEASE. In consideration of the benefits provided to Borrower under the terms and provisions hereof, Borrower hereby agrees as follows ("General Release"):

(a) Borrower, for itself and on behalf of its successors and assigns, does hereby release, acquit and forever discharge Bank, all of Bank's predecessors in interest, and all of Bank's past and present officers, directors, attorneys, affiliates, employees and agents, of and from any and all claims, demands, obligations, liabilities, indebtedness, breaches of contract, breaches of duty or of any relationship, acts, omissions, misfeasance, malfeasance, causes of action, defenses, offsets, debts, sums of money, accounts, compensation, contracts, controversies, promises, damages, costs, losses and expenses, of every type, kind, nature, description or character, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length (each, a "Released Claim" and collectively, the "Released Claims"), that Borrower has as of the Effective Date of this Amendment (hereafter, the "Release Date"), including without limitation, those Released Claims in any way arising out of, connected with or related to any and all prior credit accommodations, if any, provided by Bank, or any of Bank's predecessors in interest, to Borrower, and any agreements, notes or documents of any kind related thereto or the transactions contemplated thereby or hereby, or any other agreement or document referred to herein or therein.

(b) Borrower hereby acknowledges, represents and warrants to Bank as follows:

(i) Borrower understands the meaning and effect of Section 1542 of the California Civil Code which provides:

"Section 1542. *GENERAL RELEASE; EXTENT*. A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

(ii) With regard to Section 1542 of the California Civil Code, Borrower agrees to assume the risk of any and all unknown, unanticipated or misunderstood defenses and Released Claims which are released by the provisions of this General Release in favor of Bank, and Borrower hereby waives and releases all rights and benefits which it might otherwise have under Section 1542 of the California Civil Code with regard to the release of such unknown, unanticipated or misunderstood defenses and Released Claims.

(c) Each person signing below on behalf of Borrower acknowledges that he or she has read each of the provisions of this General Release. Each such person fully understands that this General Release has important legal consequences and each such person realizes that they are releasing any and all Released Claims that Borrower may have as of the Release Date. Borrower hereby acknowledges that it has had an opportunity to obtain a lawyer's advice concerning the legal consequences of each of the provisions of this General Release.

(d) Borrower hereby specifically acknowledges and agrees that: (i) none of the provisions of this General Release shall be construed as or constitute an admission of any liability on the part of Bank; (ii) the provisions of this General Release shall constitute an absolute bar to any Released Claim of any kind, whether any such Released Claim is based on contract, tort, warranty, mistake or any other theory, whether legal, statutory or equitable; and (iii) any attempt to assert a Released Claim barred by the provisions of this General Release shall subject Borrower to the provisions of applicable law setting forth the remedies for the bringing of groundless, frivolous or baseless claims or causes of action.

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

GUARANTOR:		**BORROWER:**	
MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation		WELLS FARGO BANK, NATIONAL ASSOCIATION	
By:	Anthony P. Souza *Chief Executive Officer and President*	By:	Edith R. Lim *Vice President*
By:	Charles W. Yeagley *Chief Financial Officer*		

QuickLinks

Exhibit 10.35

THIRD AMENDED AND RESTATED CREDIT AGREEMENT
RECITALS
ARTICLE I THE CREDITS
ARTICLE II REPRESENTATIONS AND WARRANTIES
ARTICLE III CONDITIONS
ARTICLE IV AFFIRMATIVE COVENANTS
ARTICLE V NEGATIVE COVENANTS
ARTICLE VI EVENTS OF DEFAULT
ARTICLE VII MISCELLANEOUS

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.36

TERM NOTE

$8,000,000.00

Los Angeles, California
June 28, 2002

FOR VALUE RECEIVED, the undersigned MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation ("Borrower"), promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at 333 South Grand Avenue, Suite 940, Los Angeles, California, 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 Eight Million Dollars and No/100 ($8,000,000.00), with interest thereon as set forth herein.

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) at the rate set forth in that certain Third Amended and Restated Credit Agreement dated as of June 28, 2002 (as amended from time to time, the "Credit Agreement') between Borrower and Bank.

(b) *Payment of Interest.* Interest accrued on this Note shall be payable on the first business day of each month, commencing July 1, 2002.

(c) *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 four percent (4%) above the rate of interest from time to time applicable to this Note.

REPAYMENT AND PREPAYMENT:

(a) *Repayment.* On each date set forth below (or, if any such day is not a business day, then on the next business day thereafter), Borrower shall make a principal payment hereunder in the amount set forth opposite such date:

Date	Amount
July 15, 2002	$ 500,000
August 15, 2002	$ 500,000
September 15, 2002	$ 500,000
October 15, 2002	$ 500,000
November 15, 2002	$ 750,000
December 15, 2002	$ 750,000
January 15, 2003	$ 1,000,000
February 15, 2003	$ 1,500,000
March 15, 2003	$ 1,500,000

On April 15, 2003, Borrower shall pay all remaining unpaid principal and all accrued and unpaid interest.

(b) *Mandatory Prepayments.* Under certain circumstances, Borrower is required to make a mandatory prepayment under this Note. Reference is made to the Credit Agreement (as defined below) for a complete statement of Borrower's obligations to make prepayments hereunder.

(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.

(d) *Prepayment.* Borrower may prepay principal on this Note at any time, in any amount and without penalty.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of 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, 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 Borrower. 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 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.

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

(d) *Superseded Note.* This Note replaces and supersedes in its entirety that certain Term Note executed by Borrower in favor of Bank dated April 30, 2002 in the original principal amount of $9,000,000.00.

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

MOTORCAR PARTS & ACCESSORIES, INC.

By: ____________________

Name: Anthony P. Souza
Title: President and Chief Executive Officer

By: ____________________

Name: Charles W. Yeagley
Title: Chief Financial Officer

QuickLinks

Exhibit 10.36

TERM NOTE

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Exhibit 10.37

REDUCING REVOLVING LINE OF CREDIT NOTE

$24,750,000.00 Los Angeles, California
June 28, 2002

FOR VALUE RECEIVED, the undersigned MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation ("Borrower"), promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at 333 South Grand Avenue, Suite 940, Los Angeles, California, 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 Twenty-Four Million Seven Hundred Fifty Thousand Dollars ($24,750,000.00), 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.

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) at the rate set forth in that certain Third Amended and Restated Credit Agreement dated as of June 28, 2002 (as amended from time to time, the "Credit Agreement") between Borrower and Bank.

(b) *Payment of Interest.* Interest accrued on this Note shall be payable on the first business day of each month, commencing July 1, 2002.

(c) *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 four percent (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 any document executed in connection with or governing this Note; *provided, however*, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above or the Borrowing Base (as defined in the Credit Agreement). 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 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 April 30, 2003.

(b) *Reductions in Availability.* Notwithstanding the principal amount set forth above, the maximum principal amount available under this Note shall be reduced automatically and without further notice on the date each mandatory prepayment is due under the terms of Section 1.4 the Credit Agreement by the amount of such mandatory prepayment. The maximum principal amount available under this Note shall not be reduced solely by reason of prepayments required under the terms of Section 1.7 of the Credit Agreement. If the outstanding principal balance of this Note on any such date is greater than the new maximum principal amount then available hereunder, Borrower shall make a principal reduction on this Note on such date in an amount sufficient to reduce the then outstanding principal balance hereof to an amount not greater than said new maximum principal amount.

(c) *Advances.* Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) Anthony Souza or Charles Yeagley, 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 person, with respect to advances deposited to the credit of any account of Borrower with the holder, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of 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 Borrower.

(d) *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.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of 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, 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 Borrower, and the obligation, if any, of the holder to extend any further

credit hereunder shall immediately cease and terminate. 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 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.

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

(d) *Superseded Note.* This Note replaces and supersedes in its entirety that certain Revolving Line of Credit Note executed by Borrower in favor of Bank dated April 30, 2002 in the original principal amount of $24,750,000.00.

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

MOTORCAR PARTS & ACCESSORIES, INC.

By: ______________________________

Anthony P. Souza
President and Chief Executive Officer

By: ______________________________

Charles W. Yeagley
Chief Financial Officer

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Exhibit 10.37

REDUCING REVOLVING LINE OF CREDIT NOTE

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Exhibit 10.38

SunTrust Bank
55 Park Place
Atlanta, Georgia 30303
Receivables Capital Management Division

June 5, 2002

Motorcar Parts and Accessories, Inc.
2929 California Street
Torrance, CA 90503

This Letter of Understanding and Agreement (herein sometimes, the "***Agreement***") is intended to set forth the agreement as to how Motorcar Parts and Accessories, Inc., a New York corporation ("***Supplier***"), may utilize the SunTrust Draft Program (the "***Program***") of SunTrust Bank, a Georgia banking corporation, as agent for itself and various other purchasers (in such capacity, "***Agent***"). The terms and conditions set forth herein shall govern all transactions between Agent and Supplier. Each purchase of a SunTrust Draft (as hereinafter defined) constitutes a new transaction and a reaffirmation of the representations, warranties and all other terms hereof.

1. ***Issuance of SunTrust Drafts.*** Pursuant to an Amended and Restated Acknowledgement and Agreement dated May 28, 2002, between Agent and AutoZone, Inc., a Nevada corporation ("***AutoZone***"), Agent has agreed that AutoZone may issue, from time to time, drafts drawn on AutoZone's demand deposit account at Agent (each, a "***SunTrust Draft***") payable to the order of Supplier in payment on a certain date in the future as indicated on such SunTrust Draft of specified invoices originating from the sale of goods by Supplier to AutoZone (the "***Invoices***").

2. ***Conditions Precedent to Purchase of SunTrust Drafts.*** Prior to Supplier making the initial request to Agent to purchase any SunTrust Draft, Supplier will deliver, or caused to be delivered, to Agent, each in form and substance to Agent, the following: (a) a duly completed Information Certificate in the form of *Exhibit A* attached hereto, (b) a duly completed Secretary's Certificate in the form of *Exhibit B* attached hereto and (c) a Consent Agreement from each secured creditor of Supplier with a lien on its accounts receivable and/or inventory in the form of *Exhibit C* attached hereto AND Agent shall have received and approved all UCC lien searches.

3. ***Purchase of SunTrust Drafts under the Program.*** (a) At the request of Supplier, Agent may purchase at a discount prior to its due date any SunTrust Draft from Supplier; *provided*, that (i) Agent has no obligation to purchase any SunTrust Draft, and this Agreement does not constitute a commitment on the part of Agent to make any such purchase, and (ii) Supplier is not obligated to sell any SunTrust Draft. If Supplier wishes Agent to purchase a SunTrust Draft, Supplier will courier the applicable SunTrust Draft to Agent properly endorsed to "SunTrust Bank, as Agent", together with a schedule of the Invoices that are being paid off with the proceeds of such SunTrust Draft, to the address for notices set forth in Section 13 hereof.

   (b) Upon receipt of a SunTrust Draft, Agent will notify (by electronic transmission or by telecopier) Supplier of the all-in discount rate at which it will negotiate and buy such SunTrust Draft from Supplier, the amount of the net proceeds to be received and the proposed settlement date. Supplier may either accept the terms offered, or reject them for any reason at all; *provided* that if the Agent has not received an answer from Supplier by 12 Noon of the day following such notification, such offer shall be deemed rejected and Agent will return the SunTrust Draft to Supplier. If Supplier accepts such terms, Supplier shall promptly confirm such acceptance in writing (by telecopy or otherwise) to Agent, which acceptance shall be executed by an authorized signatory of Supplier.

   (c) Upon receipt of a certification letter from AutoZone and if applicable, the funds from any third party for which Agent is acting as agent, Agent will wire transfer in immediately available funds the agreed purchase price to Supplier at such account of Supplier that Supplier identifies in writing to Agent. Agent shall deliver such funds to Supplier's designated account on the settlement date set forth in the Agent notice provided to Supplier pursuant to paragraph 3(b) above or such revised settlement date as set forth in paragraph 3(d) below.

   Supplier agrees that upon receipt of such funds in the amounts specified in the relevant Agent notice, the liability of AutoZone under the Invoices and the related accounts receivable will be fully satisfied and that it will mark its books and records accordingly.

   (d) Supplier agrees that, if for any reason Agent has not received its written acceptance or the written acceptance of the third-party purchaser (if any) by 3 p. m. on the day before the proposed settlement date, Agent may revoke its offer and shall make a revised offer to Supplier with a new discount rate and a new settlement date. Supplier shall have the right to accept or reject such revised offer in the manner contemplated by paragraph 3(b) above. Supplier also agrees that in the case Agent does not receive the purchase price of any SunTrust Draft from a third-party purchaser by 1:00 p. m. on the proposed settlement date, Agent may recalculate the amount of the net proceeds owed to Supplier to take into account such delay and remit such revised amount upon receipt thereof which revised amount shall reflect an additional interest cost associated with the delay in payment to Supplier.

4. ***Nature of SunTrust Drafts Offered.*** Any SunTrust Draft offered for sale to the Agent must have been delivered to Supplier by AutoZone in payment at a date certain indicated on such SunTrust Draft for the actual sale of goods evidenced by the Invoices in a bona fide contemporaneous commercial transaction entered into in the ordinary course of business for both Supplier and AutoZone. Supplier

represents and warrants to Agent that any SunTrust Drafts offered for sale to Agent are in the proper and legal form approved by Agent and have not been altered in any way (other than endorsed by Supplier pursuant to Paragraph 8 below) by Supplier. Supplier agrees that a SunTrust Draft does not constitute a post-dated check and that, if Supplier does not sell any SunTrust Draft to Agent, Supplier will not deposit such SunTrust Draft into its checking account but will present such SunTrust Draft for payment to Agent at its address in Section 13, Supplier further agrees that if it does deposit such SunTrust Draft into its checking account in violation of this Agreement, Supplier hereby waives any rights that it may have against Agent as a collecting bank or payor bank under the Uniform Commercial Code or Regulation CC.

5. ***All rights sold with SunTrust Drafts.*** Supplier's negotiation and sale of any SunTrust Draft to Agent is made together with all right to receive the proceeds thereof, as well as any security or guarantees therefor, all of Supplier's rights to the goods or property which were paid for with such SunTrust Draft and all Supplier's rights to payment for the goods represented by the Invoices, so that Agent or any other holder of such SunTrust Draft will have all of the rights, including but not limited to stoppage in transit and reclamation of goods, of an unpaid supplier of the goods if such SunTrust Draft is dishonored by AutoZone. Supplier represents and warrants to Agent that there are no claims of a third party to any SunTrust Draft or any Invoices or to any accounts receivable that were the basis for the issuance of such SunTrust Drafts and that the purchase by Agent of any such SunTrust Draft, pursuant to this Agreement and the terms of the Consent Agreement, does not violate the rights of any secured creditor of Supplier.

6. ***Non-Recourse Purchase of SunTrust Drafts; Conditions Which Result in Recourse to Supplier.*** The negotiation and purchase by Agent of any SunTrust Draft from Supplier is without recourse in the event of non-payment UNLESS (i) such SunTrust Draft is not paid when due because of an act of fraud by Supplier in connection with the generation or sale of the defaulted SunTrust Draft; OR (ii) a court of competent jurisdiction determines that Agent is not a holder in due course and may not collect a SunTrust Draft; OR (iii) Supplier violates the provisions of paragraph 4 or 5 hereof.

7. ***Charges Where SunTrust Has Recourse Pursuant to Paragraph 6 Above.*** In those circumstances where Agent has recourse against Supplier for a defaulted SunTrust Draft, Supplier shall be obligated to repay to Agent (i) the face amount of the defaulted SunTrust Draft, plus (ii) interest on that amount at the prime lending rate as established by Agent from the original due date of the defaulted SunTrust Draft to the date Agent receives payment of the face amount of such defaulted SunTrust Draft, plus (iii) where applicable, all out of pocket costs for collection of the SunTrust Draft including, but not limited to, bank charges, reasonable attorney's fees, and the like. Upon making such payment, the defaulted SunTrust Draft will be returned to Supplier as if it had never been negotiated by Agent (together with all necessary endorsements of Agent).

8. ***Authority to Add Endorsement.*** With respect to any SunTrust Draft sold by Supplier to Agent, Supplier hereby (i) agrees to endorse by an authorized signatory such SunTrust Draft(s) to the

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order of Agent and (ii) authorizes Agent to add Supplier's endorsement or any other necessary endorsement to such purchased SunTrust Drafts (if Supplier fails to do so) whenever required in order to effect the sale, pledge, assignment, transfer, presentment and/or collection thereof.

9. ***Representations and Warranties; Covenants.*** By executing this Agreement or endorsing any SunTrust Draft, Supplier represents, warrants and covenants to Agent that (i) the terms, conditions and provisions set forth herein have been duly approved by all necessary action on the part of the Supplier, (ii) this Agreement is the valid, legal and binding agreement and obligation of the Supplier, (iii) all required and necessary company action has been duly taken as required by Supplier's organizational documents and all applicable provisions of the laws of the jurisdiction of Supplier's incorporation in connection with this Agreement and the transactions contemplated hereunder, (iv) there are no existing liens or encumbrances, and will not in the future be any liens or encumbrances, on any SunTrust Draft or on any accounts receivable evidencing the Invoices, or on any inventory of Supplier or any proceeds thereof, other than liens of any secured creditor that has executed and delivered to Agent a Consent Agreement, (v) there are no claims of a third party to any SunTrust Draft or any Invoices or accounts receivable that were the basis for the issuance of such SunTrust Drafts, (vi) Supplier is organized under the laws of the State of New York and Supplier will notify Agent of any change in such jurisdiction of incorporation within 5 days thereof, (vii) Supplier will notify Agent within 5 days of any merger or consolidation into or with any other entity, or any sale of substantially all of Supplier's assets, (viii) Agent may share information related to this Agreement and/or related to Supplier with AutoZone and any purchaser of a SunTrust Draft for which Agent is acting as agent, (ix) all information set forth on the Information Certificate delivered in connection herewith is true and correct and (x) in the event Supplier's inventory or accounts receivable relating to the Invoices become at any time subject to any security interest, Supplier will cause such secured creditor to execute and deliver a Consent Agreement or other form of release of any such security interest, and upon the request of Agent, execute such UCC financing statements reflecting such release.

10. ***Savings Clause.*** If any provision of this Agreement in any way contravenes the laws of any state or jurisdiction, such provision shall be deemed not to be a part hereof in that jurisdiction, and Supplier agrees to remain bound by all remaining provisions. If any portion of this Agreement shall be deemed to be illegal or violative of public policy, it is agreed that it shall be interpreted to be legally binding and enforceable to the maximum reasonable extent allowed by law.

11. ***Assignment.*** Supplier agrees that it shall not assign this Agreement. Supplier agrees that Agent is acting in a representative capacity for itself and other purchasers and further agrees that Agent may assign (including by endorsement if applicable) all of its rights, remedies, powers and privileges under this Agreement or any SunTrust Draft.

12. ***Third Party Beneficiary.*** Supplier agrees that any purchaser for which SunTrust acts, as agent shall be a third-party beneficiary of this Agreement.

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13. ***Notices.***

Unless otherwise provided herein, all notices, requests and other communications provided for hereunder shall be in writing (including telecopy or electronic mail (where indicated)) and shall be given at the following addresses:

(1)	If to the Agent:	SUNTRUST BANK 55 Park Place Atlanta, Georgia 30303 Attention: Dev Maguire Center Code 006 Telephone: (404) 230-1808 Telecopy: (404) 332-3940
(2)	If to Supplier:	MOTORCAR PARTS & ACCESSORIES, INC. 2929 California Street Torrance, CA 90503 Attention: Anthony P. Souza / Charles W. Yeagley Telephone: (310) 972-4003 / (310) 972-4001 Telecopy: (310) 224-5128 / (310) 212-7581

Any such notice, request or other communication shall be effective (i) if given by telecopy, on the business day that such telecopy is transmitted to the telecopy number specified above and the appropriate answer back is received, (ii) if given by mail, upon the earlier of receipt or the third business day after such communication is deposited in the United States mails, registered or certified, with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means (including, without limitation, by air courier), when delivered at the address specified herein. The Agent or Supplier may change its address for notice purposes by notice to the other party in the manner provided herein.

14. ***Applicable Law, Venue, Jurisdiction and Service of Process.*** Supplier agrees that the laws of the State of New York shall apply to this Agreement and any dispute between Agent and Supplier concerning this Agreement or any SunTrust Draft. Further, Supplier confirms its understanding that the Program and the use of SunTrust Drafts is specifically subject to the provisions of the Uniform Commercial Code and in particular (but not exclusively) the definitional provision of Section 3-104 thereof. Supplier agrees that any legal action or proceeding relating to this Agreement shall be instituted solely in the courts of the State of Georgia or of the United States of America for the Northern District of Georgia. Supplier submits to the jurisdiction of each such court in any such action or proceeding. Furthermore, Supplier also consents to the service of process upon Supplier in any such legal action or proceeding by means of certified mail, return receipt requested, addressed to Supplier at the address first above written, or such other address as Supplier may from time to time designate in writing. SUPPLIER ALSO WAIVES ITS RIGHT TO A TRIAL BY JURY TO THE EXTENT PERMITTED BY APPLICABLE LAW. Notwithstanding the foregoing, Supplier agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by applicable law or shall limit the right to sue in any other jurisdiction.

This Agreement contains the entire agreement of the parties, supersedes all prior agreements between the parties hereto, and may only be changed by a written agreement signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought. Please note that this Agreement is not binding upon Agent unless and until executed by an officer of Agent where indicated below. Further, Supplier confirms its understanding that the headings used in this

Agreement are solely for reference and our convenience and do not change the meaning of any provision hereof.

Very truly yours,

SUNTRUST BANK, as Agent

By: ______________________________

Name:
Title:

Acknowledged and Agreed to by:
Motorcar Parts and Accessories, Inc.

By: ______________________________

Name: Anthony P. Souza
Title: President and CEO
FEDERAL ID NUMBER: 11-2153962

QuickLinks

Exhibit 10.38

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.39

Motorcar Parts & Accessories, Inc.
2929 California Street
Torrance, CA 90503

As of May 9, 2002

Protea Group Inc.
2687 Cordelia Road
Los Angeles, CA 90049

Attention: Selwyn Joffe

Re: *Agreement for Consulting Services*

Dear Mr. Joffe:

When executed and delivered by the parties hereto, this will confirm the agreement between Motorcar Parts & Accessories, Inc. ("we," "us," "our" or "Company") and Protea Group Inc. f/s/o Selwyn Joffe (collectively, "you," "your" or "Consultant") with respect to Consultant's equity enhancing efforts on behalf of the Company as described herein. The Company and you acknowledge that (i) Company and you are parties to a separate understanding pursuant to which you act as Chairman of the Board of the Company and (ii) this agreement is separate from and in addition to the Chairman of the Board understanding.

1. *Consulting Services.* During the period commencing on the date hereof through and including May 9, 2003 unless sooner terminated as provided herein (the "term of this agreement"), you agree to perform the following consulting services for the benefit of the Company:

(a) *Business Consulting.* Consultant will provide such assistance and consultation as may be reasonably requested by the Board of Directors of the Company (the "Board") on matters specifically designed to maximize stockholder value and equity, including, but not limited to, financing and strategic relations, communicating and meeting with analysts at investment banking firms who can provide coverage and reports about the Company, and general corporate advisory matters.

(b) *Transaction Consulting.* To further enhance stockholder value and equity, the Company desires to be kept aware of available corporate transaction opportunities, including potential acquisitions and dispositions of businesses and lines of business. Accordingly, you will use your reasonable efforts to assist Company in identifying prospective buyers and sellers who may be interested in acquiring or selling businesses or lines of businesses upon terms and conditions and in a form satisfactory to us in our sole and absolute discretion (including any transaction resulting in a change of control, and without regard to form, sometimes described herein as a "Proposed Transaction"). In connection with the foregoing, you shall, unless directed otherwise by the Board, coordinate any Proposed Transaction, consult with Board and the Company's other advisors regarding the best way to accomplish any Proposed Transaction (including with respect to the selection of any third-party investment bankers and brokers), coordinate all meetings and assist in the preparation of all informational materials with respect to the foregoing, be the Company's contact person for negotiations with investment bankers, other professionals and prospective buyers and otherwise lead and direct all efforts toward completing any Proposed Transaction.

(c) *Non-exclusive Services.* Notwithstanding anything to the contrary contained herein, it is agreed that you may engage in other business activities so long as such other business activities do not materially interfere with your duties hereunder and are not in conflict with your obligations and duties described herein.

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2. *Fees.*

(a) In exchange for your services pursuant to Paragraph 1 above, at the commencement of this Agreement and on the 9th day of each calendar month during the term hereof, Company shall pay you a "Consulting Fee" of $10,000 per month.

(b) In the event of a closing of any Proposed Transaction(s) as described in Paragraph 1(b) at any time on or prior to May 9, 2003, you shall be entitled to a fee as provided in this Paragraph. In any such event, the Company shall pay you a transaction fee upon the closing of a Proposed Transaction in an amount (the "Transaction Fee") equal to 1% of the "total consideration." The "total consideration" shall equal (a) the sum of all cash consideration paid by the acquirer plus all Non-Cash Consideration (as defined below) received as consideration for the transaction, including any contingent payments of cash or securities and the aggregate amount of any dividends (other than normal quarterly or annual cash dividends) or other distributions declared by the acquired entity in connection with a Proposed Transaction, reduced by (b) any cash payments or any Non-Cash Consideration subsequently returned to the acquirer pursuant to the agreement (the "Purchase Agreement") out of an escrow account, through an offset against an earn-out amount or through another holdback arrangement, regardless of the reason for such return. "Non-Cash Consideration" shall have the following meaning: (i) publicly traded securities shall be valued at the average of their closing prices (as reported in The Wall Street Journal), for the five trading days immediately prior to closing of the transaction between Company and the other party and (ii) any other non-cash consideration shall be valued at the fair market value thereof as determined in good faith by the Board of Directors of Company. Debt assumed by the acquirer shall not constitute consideration or Non-Cash Consideration for purposes of calculating the Transaction Fee. All amounts paid to Consultant as a Consulting Fee hereunder shall be treated as an advance against any Transaction Fee, which amount shall be deducted from the Transaction Fee, if any, but which amount shall not be refundable by Consultant if a Transaction Fee is not payable to Consultant hereunder.

(c) Subject to the terms and conditions of this Paragraph 2(c), the Transaction Fee shall be deemed earned and payable upon receipt of the total consideration at the closing with respect to a Proposed Transaction and, with respect to contingent or deferred payments, whether pursuant to promissory notes or other securities, if any, from time to time, only upon the receipt thereof by us. If for any reason whatsoever, including, without limitation, the act, omission, negligence or willful default of any party, including Company, a Proposed Transaction is not consummated, then you shall not be entitled to any Transaction Fee. The Transaction Fee shall, at our sole option, be payable in kind, depending upon the form of consideration paid by the acquirer, in the same proportions of cash and securities as paid by the acquirer. In the event that the Purchase Agreement provides that all or any part of the total consideration paid shall be deposited into an escrow account at closing (the "Escrowed Portion"), then the amount of your Transaction Fee proportional to the Escrowed Portion shall not be payable until the Escrowed Portion is released. If the Escrowed Portion is released in installments, then a portion of your Transaction Fee will be payable in proportion to each installment released and you shall not be entitled to receive any amount with respect to any Escrowed Portion which is returned to the acquirer. However, in any instance where any cash or securities which have previously been distributed to the seller or holders of its equity interests are required to be returned to the acquirer for any reason, you shall not be required to return any portion of your Transaction Fee to us. You hereby agree that any securities received by you as part of the Transaction Fee hereunder shall be acquired and held by you subject to the same restrictions, if any, applicable to the securities issued by the acquirer or any affiliate thereof and that securities delivered to you may bear an appropriate legend with respect to any such restrictions.

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3. Company will reimburse to you your reasonable out-of-pocket expenses incurred in connection with your services hereunder in accordance with the Company's policies applicable to its executive officers.

4. It is understood that you are an independent contractor and shall not be considered our agent for any purposes whatsoever, and you are not granted any right or authority to assume or create any obligation or liability, express or implied, on our behalf, or to bind us in any manner or thing whatsoever. You acknowledge that you are solely responsible for any and all taxes payable by you with respect to all amounts paid to you in connection with this agreement.

5. This letter constitutes the entire agreement between us with respect to the subject matter hereof and shall be governed by the internal laws of the State of California without regard to its conflict of law principles. This agreement may only be amended by a writing executed by all parties hereto.

6. The term of your duties under this agreement shall end on May 9, 2003, unless (a) expressly extended by a writing signed by the parties or (b) earlier terminated at Company's election due to your material breach of or material default hereunder (it being understood that any material default by you in your duties as the Chairman of the Board shall be deemed to be a material default by you hereunder); provided, however, that such termination shall only become effective if the Company (acting upon duly adopted resolutions of the Board) shall first give you written notice of the material breach or default, which notice shall (i) identify in reasonable detail the manner in which the Company believes that you have breached or defaulted under this agreement or in the performance of your duties as the Chairman and (ii) indicate the steps required to cure such breach or default, and you shall fail within 20 business days after receipt of such notice to substantially remedy or correct the same. In the event of your material breach hereof or material default hereunder, Company's rights and remedies shall be cumulative and not exclusive. Notwithstanding the termination or expiration of this agreement, so long as you have not been terminated in accordance with this Paragraph 6 for material breach of or default under this agreement, including any termination for being in material breach of your duties as the Chairman of the Board, you shall be entitled to a Transaction Fee if a Proposed Transaction with any party closes on or before May 9, 2004.

7. Nothing contained in this agreement shall be construed so as to require the commission of any act contrary to law and whenever there is any conflict between the provisions of this agreement and any statute, law, ordinance, order or regulation, contrary to which the parties hereto have no legal right to contract, the latter shall prevail but, in such event, any provision of this agreement so affected shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

8. It is hereby irrevocably agreed that all disputes or controversies between Company and Consultant arising out of, or in connection with, or relating to this agreement and the transactions contemplated hereby, shall be exclusively heard, settled, and determined by binding arbitration to be held in the City of Los Angeles, County of Los Angeles, before a single arbitrator, in accordance with the then effective rules of JAMS. The parties also agree that judgment may be entered on the arbitration award by any court having jurisdiction thereof and the parties consent to the jurisdiction of any court located in the City of Los Angeles, County of Los Angeles for this purpose.

9. The Company agrees to indemnify you and hold you harmless against any and all losses, claims, damages, expenses and liabilities, whether joint or several (collectively, "Liabilities") to which you may become liable, directly or indirectly, arising out of or relating to this agreement or your services hereunder, unless the Liabilities result from your gross negligence or willful misconduct. The Company further agrees to reimburse you immediately upon request for all reasonable expenses (including reasonable attorneys' fees and expenses) as they are incurred in connection with the investigation of, preparation for, defense of, or providing evidence in, any action, claim, suit, proceeding or investigation (collectively, "Action") which directly or indirectly arises out of or relates to

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this agreement or your services hereunder; provided that in each such instance you shall provide prompt notice to the Company of any such Action and you shall have the right to select such counsel.

10. This agreement may be executed in any number of counterparts and transmitted by facsimile copy, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement.

11. Each party hereto represents and warrants to the other party hereto that it has the requisite corporate power and authority to enter into this agreement, it has taken all actions and obtained all consents necessary to enter into this agreement, and that by entering into this agreement each such party shall not now nor with the passage of time be in breach of or default under any other agreement or obligation binding on such

party.

12. Each of Protea Group Inc. and Selwyn Joffe acknowledge and agree that their obligations hereunder are joint and several.

13. Consultant shall not have the right to assign this agreement or Consultant's rights or obligations arising hereunder or in connection herewith, except that Protea shall have the right to assign this agreement together with its rights and obligations hereunder to Consultant. Company shall have the right to assign this agreement together with its rights and obligations hereunder, in whole or in part.

14. The parties covenant and agree to take such actions and execute such documents as are necessary or convenient to consummate the transactions contemplated by this agreement.

15. This letter agreement supercedes in its entirety that certain Letter Agreement re Consulting and Advisory Services between Company and Consultant dated as of May 9, 2002.

16. Consultant covenants and agrees to maintain the strict confidentiality of this agreement together with any transactions contemplated hereby. Consultant further acknowledges and agrees that Company shall have the sole right to issue any publicity, press releases, announcements, or the like with respect to this agreement and the transactions contemplated hereby and Consultant shall not, nor shall Consultant authorize any other person to, issue any such publicity, press releases, announcements or the like absent the prior written consent of Company.

17. Should a dispute arise between the parties hereto with respect to this agreement or the subject matter hereof, the prevailing party in any such dispute shall be entitled to recover its reasonable costs and attorneys' fees incurred in connection with such dispute. In the event of any arbitration as provided in Paragraph 8 hereof, the arbitrator shall determine the prevailing party in such dispute and award appropriate costs and attorneys' fees as provided in this paragraph.

Please indicate your agreement to the foregoing by signing and returning to us the enclosed copy of this letter.

MOTORCAR PARTS & ACCESSORIES, INC.

By: ______________________________

Anthony Souza
President, CEO and Director

____

Mel Marks
Director

____

Murray Rosenzweig
Director

ACCEPTED AND AGREED TO:

PROTEA GROUP INC.

____

By: ______________________________

Its: ______________________________

____

SELWYN JOFFE, an individual

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Exhibit 10.39