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**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-K**

| | |
|---|---|
| X | ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 2003. |
| [ ] | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO |

**Commission File No. 0-23538**

**MOTORCAR PARTS & ACCESSORIES, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes No X

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 September 30, 2002 was approximately $14,229,205.

There were 7,960,455 shares of Common Stock outstanding at June 25, 2003.

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**MOTORCAR PARTS & ACCESSORIES, INC.**

**PART I**

*Unless the context otherwise requires, all references in this Annual Report on Form 10-K to "the Company," "we," "us," and "our" refer to Motorcar Parts & Accessories, Inc. and its subsidiaries. This Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in any forward-looking statements. Discussions containing such forward-looking statements may be found in the material set forth under "Item 1. Business," and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as within this Form 10-K generally.*

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available free of charge to the public over the Internet at the SEC's website at *http://www.sec.gov*. We are in the process of making our SEC filings available on our website (www.mpaa-inc.com) which we hope to accomplish by September 2003. You may also read and copy any document we file with the SEC at its public reference rooms in Washington, D.C., New York, NY and Chicago, IL. Please call the SEC at (800) SEC-0330 for further information on the public reference rooms.

## Item 1. Business

### General

Motorcar Parts & Accessories, Inc. 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. Our company also assembles and distributes starter ignition wire sets for imported and domestic cars and light trucks.

Our products are sold throughout the United States to some of the nation's largest chains of retail automotive stores, including AutoZone, CSK Automotive, and O'Reilly 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. Our marketing and sales efforts have been principally geared toward automotive chain stores as well as General Motors' Service Parts Operation. We believe that chain stores represent the fastest growing segment of the automotive after-market industry, which is consistent with our existing targeted customers. During fiscal 2003, 2002 and 2001, approximately 99%, 97% and 97% respectively, of the Company's sales were to automotive chain stores, which is comprised of approximately 5,500 stores, and the General Motors distribution network. The balance of sales went primarily to warehouse distributors and smaller retail chains.

Presently, we believe that automotive retail chains control approximately 40% of the automotive after-market for alternators and starters. Of the remaining 60%, 52% is controlled by

traditional warehouse distributors and organized buying groups, mostly focused on the professional installer market. We believe we are well-positioned to penetrate this segment of the market through our affiliation with General Motors' Service Parts Operation which is currently supplying a portion of this market, and through other channels. In addition, we see potential growth through the efforts made by our existing retail chain store customers in the professional installer marketplace who are pursuing this market by providing products directly to these professionals.

**The Automotive After-market Industry**

The automotive after-market for alternators and starters has grown in recent years. Management 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 seven years and older. Based upon market information it has reviewed, management 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" [DIY] consumers; and (2) professional "do-it-for-me" [DIFM] 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 "DIFM" installers. We believe we are well-positioned for potential growth in both the DIY market through increased sales to our existing retail chain store customers and the DIFM market through the efforts of automotive parts retailers to expand their sales to professional installers.

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, we have increased the number of items we carry.

The technology used in our products, particularly alternators, has become more advanced in response to the installation in vehicles of an increasing number of electrical components such as cellular telephones, power windows and mirrors, heated rear windows and seats, air conditioning equipment, high-powered radio and stereo systems and audio/visual equipment. As a result of this increased electrical demand, alternators are more technologically advanced and per unit sales prices have increased accordingly.

Remanufacturing, which involves the reuse of parts which might otherwise be discarded, creates a supply of parts at a lower cost to the end user than newly manufactured parts, and makes available automotive parts which are no longer being manufactured. 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. Our remanufactured parts are sold at competitively lower prices than most new replacement parts.

**Company Products**

Our primary products consist of remanufactured replacement alternators and starters for both imported and domestic cars and light trucks. We also assemble and distribute 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 2003, 2002 and 2001, sales of replacement alternators and starters constituted 99% of our fiscal year total sales. 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 our products are sold for resale under customer private labels, with the remaining 1% being sold under our brand name, which includes the use of our trademark, “Quality Built to Last"®. Customers that sell our products under private label include AutoZone, CSK Automotive, O’Reilly Automotive, and General Motors.

Our alternators and starters are produced to meet or exceed automobile manufacturer specifications. We remanufacture a broad assortment of alternators and starters in order to accommodate the proliferation of applications and products in use. Currently, we provide a full line of approximately 1,500 different alternators and 1,000 different starters. Our alternators and starters are provided for virtually all foreign and domestic vehicle manufacturers.

**Customers and Customer Concentration**

Our products are marketed throughout the United States and Canada. Our customers consist of some of the largest retail automotive chain stores along with some small to medium-sized automotive warehouse distributors and General Motors who all sell our products in the United States. The Company also sells its products throughout Canada via General Motor’s distribution network channels. Currently, we service automotive retail chain store accounts totaling approximately 5,500 retail outlets.

A significant percentage of our sales are concentrated among a relatively small number of customers. Our three largest customers, Auto Zone, CSK Automotive and O’Reilly Automotive, accounted for approximately 91% of total net sales during fiscal 2003. Similarly, during fiscal 2002 and 2001, our three largest customers accounted for approximately 86% and 69% respectively, of total net sales. In fiscal 2003, we lost one automotive retail chain store customer and in fiscal 2002 we lost one retail chain store customer. There can be no assurance that this concentration trend among customers will change in the future. The loss of a significant customer or substantial decrease in sales to such a customer could have a material adverse effect on our sales and operating results. Because of the very competitive nature of the market for remanufactured starters and alternators and the limited number of customers for these products, our customers have increasingly sought and obtained price concessions and more favorable payment terms. AutoZone, our largest customer, has begun to move towards a system where it takes our inventory on consignment and does not accept responsibility to pay for this inventory until it has sold the relevant inventory item to one of its customers. The increased pressure we have experienced from our customers has adversely impacted our profit margins and may be expected to do so in the foreseeable future.

**Operations of the Company**

**Cores**

In our remanufacturing operations, we obtain 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 us in our remanufacturing process are sold as scrap.

The majority of the cores remanufactured by us are obtained from customers as trade-ins, which are credited against future purchases. Our customers offer consumers a credit to exchange their used units at the time of purchase. To a lesser extent, we also purchase cores in the open market from core brokers, who are dealers specializing in buying and selling cores. Although we believe that the open market does not and will continue to not 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 us is essential to our ability to meet demand.

The price of a finished product sold to our 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, we generally give 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. We record this difference in cost of sales. We generally limit 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 our remanufacturing process begins with the receipt of cores. 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 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.

We continue to explore opportunities for improving efficiencies in our manufacturing process. During fiscal 2003, we reorganized our manufacturing processes to combine product families with similar configurations into dedicated factory work cells. This change impacted approximately 80% of our production volume.

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

We also conduct 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 MPA at our remanufacturing facility in Torrance. These foreign operations are conducted with quality control standards similar to those currently implemented at the Company's remanufacturing facilities in Torrance. The facilities of MVR and Unijoh are located approximately two hours apart by car. We believe that the operations of our foreign subsidiaries are important because of the lower labor costs experienced by these entities for the same remanufacturing process. The foreign subsidiaries produced in fiscal 2003, 2002 and 2001 approximately 160,000, 195,000, and 197,000 units, or 7%, 9% and 9% respectively of our total production for each of the last three years. These units are distributed by the Company from our US facilities.

**Product Warranty**

We have a warranty policy that we believe is typical for the remanufactured automotive replacement parts industry. Like other re-manufacturers, we only accept product warranties from on-going customers. If a customer ceases doing business with us, we recognize no further obligations to that customer with respect to product warranties and hence, no additional warranty returns would be accepted by us. 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. We generally follow this industry practice and provide the same warranty and trade-in rights when we take over businesses that had previously been supported by another remanufacturer.

As a result of this product warranty policy, we account 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. We believe that our warranty rate has been consistent with rates generally experienced in our industry.

**Sales, Marketing and Distribution**

We market and distribute our products nationally. Our products are sold principally under our customers' private labels.

We focus our sales efforts on automotive retail chains, which we believe constitutes the dominant distribution channel in our market. We also sell our alternators and starters to General

Motors. Products are delivered directly 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. We also satisfy our retailers and General Motors needs for special and timely products by producing individual units and shipping those units for overnight delivery via our special order programs. We believe we have obtained significant marketing, distribution and manufacturing efficiencies by focusing our sales efforts on chains of automotive retail stores. In addition, we are attempting to expand our customer base by exploring options to solicit new outlets for our products.

We publish for print and electronic distribution a catalog with part numbers and applications of our alternators and starters, along with a detailed technical glossary and explanation database. We believe that we maintain one of the market's most extensive catalog and product identification systems, offering one of the widest varieties of alternators and starters available in the market.

**Accounting for Inventory**

We record core inventory at the lower of cost or market. Market value for cores is based upon comparisons to current core broker prices. Beginning with fiscal year 2001, we 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 us as trade-ins. Additionally, we review core inventory to identify excess quantities and maturing product lines. An allowance for obsolescence is provided to reduce core carrying value to its estimated market value. These adjustments to core inventory values result in a corresponding charge against cost of goods sold.

In addition to our policy of accounting for cores, in fiscal 2001 we modified our accounting for stock adjustments. Under the terms of certain agreements with our customers and consistent with industry practice, our customers from time to time are allowed stock adjustments when the inventory level of certain product lines in their stock exceed their anticipated levels of sales to their end-user customers. These adjustments are made by our acceptance into inventory of these customer's overstocks, and they do not come at any specific time during the year and can have a substantial effect on our financial statements.

Historically, we 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. Therefore, in the fourth quarter of fiscal 2001, we began to provide for a monthly $75,000 allowance to address the anticipated impact of stock adjustments. The stock adjustments and the allowance amounts we recognized in fiscal 2001 reduced our gross profit and net income by $1,123,000. The allowance amounts we recognized in fiscal 2002 and 2003 resulted in gross profit and net income decreasing by $898,000 and $962,000, respectively. Currently, we accrue $80,000 monthly, and the costs associated with stock adjustments, are charged against this allowance. As of March 31, 2003 and 2002, the balance in the stock adjustment reserve account was $794,000 and $609,000 respectively. This allowance is reviewed quarterly to determine if the monthly accrual should be adjusted. The stock adjustments accepted by the Company were $777,000 and $513,000 in 2003 and 2002, respectively.

**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 are more apt to fail and thus, an increase in demand for our products typically occurs. Similarly, during winter months, when there is typically a period of sustained cold weather, starters are more apt to fail and thus, an increase for our products occurs again. Since these are both non-elective replacement parts which are mandatory for the operation of the vehicle, they require replacing immediately. As such, summer months tend to show an increase in overall volume – particularly for alternators, with a few spikes in the winter – particularly for starters.

**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. Our direct competitors include two other large remanufacturers as well as half dozen medium-sized re-builders and a large number of small regional and specialty remanufacturers.

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. We believe that these factors favor MPA, which provides quality replacement automotive products, rapid and reliable delivery capabilities as well as promotional support. In this regard, there is increasing pressure from customers, particularly the large ones that we sell to, for suppliers to provide "just-in-time" delivery, which allows delivery on an as-needed basis to promptly meet customer orders. We believe that our ability to provide "just-in-time" delivery distinguishes us from many of our competitors and provides a significant competitive advantage and may also represent a barrier to entry to current or future competitors.

Price and payment terms are very important competitive factors. The concentration of our sales among a small group of customers has increasingly limited our ability to negotiate favorably for our products. As such, we are pursuing other outlets to market our products.

Our products have not been patented nor do we believe that our products are patentable. We will continue to attempt to protect our proprietary processes and other information by relying on trade secret laws and non-disclosure and confidentiality agreements with certain of our employees and other persons who have access to our proprietary processes and other information.

**Governmental Regulation**

Our 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. We believe that our 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**

We have approximately 700 full-time employees at our Torrance, California and Nashville, Tennessee facilities. Of our employees, 53 are administrative personnel and 7 are sales personnel. In addition, we employ approximately 125 people at our wholly owned subsidiary companies in Singapore and Malaysia. None of our employees is a party to any collective bargaining agreement. We have not experienced any work stoppages and consider our employee relations to be satisfactory.

**Evaluation of Strategic Options**

We are continuing to evaluate strategic options that we might pursue to enhance shareholder value. These could include an acquisition of another company or a sale of our company to a third party. We have hired an investment banking firm to assist us in these efforts, which are ongoing. There is no assurance, however, that we will enter into any transaction as a result of our efforts in this regard.

## Item 2. Properties

We presently lease facilities in Torrance, California, and Nashville, Tennessee. In fiscal 2002 we completed the consolidation of our two Torrance facilities into a single building containing an aggregate of approximately 227,000 square feet and 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 we had been paying during the prior lease term for the single facility we have continued to utilize. However, when compared to the total monthly rent we previously paid for our two buildings in Torrance prior to its consolidation, this new rent represents a decrease in total rent payments of $18,014 per month. Efficiencies realized from being located in a single facility is another benefit of this consolidation. We believe that our facilities are sufficient to satisfy our foreseeable production requirements.

We have approximately 1,200 square feet of leased office space in Nashville, Tennessee. This office is used for managing our purchasing activities.

In addition, our subsidiaries have facilities at leased locations in Singapore and Malaysia which occupy nearly 50,000 square feet of manufacturing, warehousing, and office space.

## Item 3. Legal Proceedings

On September 18, 2002, the Securities and Exchange Commission filed a civil suit against the Company and its former chief financial officer, Peter Bromberg, arising out of the SEC's investigation into the Company's financial statements and reporting practices for fiscal years 1997 and 1998. Simultaneously with the filing of the SEC Complaint, the Company agreed to settle the SEC's action without admitting or denying the allegations in the Complaint. Under the terms of the settlement agreement, the Company is subject to a permanent injunction barring the Company from future violations of the antifraud and financial reporting provisions of the federal securities laws. No monetary fine or penalty was imposed upon the Company in connection with this settlement with the SEC. The SEC's case against Bromberg has not been settled. In addition, the United States Attorney's Office for the Central District of California filed

criminal charges against Bromberg on September 18, 2002 relating to his alleged role in the actions that form the basis for the SEC's Complaint. Bromberg has pled guilty to these charges and is awaiting sentencing.

The United States Attorney's Office had previously informed the Company that it does not intend to pursue criminal charges against the Company arising from the events involved in the SEC Complaint. On February 13, 2003, the Company received a letter from the U.S. Attorney's Office confirming this information. The Company has been informed that the U.S. Attorney's Office has advised Richard Marks that he is a target of its investigation. During the 1997 and 1998 periods under investigation, Mr. Marks served as the Company's President and COO. Mr. Marks is currently an advisor to the Company's Chief Executive Officer and Board of Directors.

Based upon the terms of agreements we previously entered into with Richard Marks and Peter Bromberg, we have been paying the costs they have incurred in connection with the SEC and U.S. Attorney's Office's investigation. During fiscal 2003, we incurred costs of approximately $603,000 and $165,000, respectively, on behalf of Richard Marks and Peter Bromberg.

While we are now current with respect to our SEC filings, we did not file a number of periodic reports we were obligated to file in prior periods. The SEC is aware of this fact 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 non-compliance situation, 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

Our Common Stock, par value $0.01 per share (the "Common Stock"), is currently traded on the Internet Billboard. Since trading on the Billboard can be sporadic, it may not constitute an established trading market for our Common Stock. The following table sets forth the high and low bid prices for our Common Stock during each quarter of fiscal 2003 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 2003 | | Fiscal 2002 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 1st Quarter | $4.05 | $3.20 | $1.40 | $1.04 |
| 2nd Quarter | $4.00 | $2.65 | $2.95 | $1.10 |
| 3rd Quarter | $2.95 | $2.65 | $3.40 | $2.33 |
| 4th Quarter | $3.00 | $2.13 | $5.00 | $3.18 |

As of June 26 2003, according to Continental Stock Transfer & Trust Company, there were 7,960,455 shares of Common Stock outstanding held by 48 holders of record.

We have never declared or paid dividends on our Common Stock. The declaration of dividends in the future is 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, our agreement with our lender prohibits payment of dividends without the bank's prior consent, except dividends payable in Common Stock.

During fiscal year 2002, we sold 1,500,000 shares of Common Stock to Mr. Mel Marks, our founder and a board member. The total purchase price for the stock was $1,500,000 at a price per share of $1.00. The valuation firm that we engaged to render a fairness opinion of this transaction concluded that this price per share was fair to our 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 us 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, we did not have the resources to pay our portion of the settlement from operating cash flow and were required to raise these funds from an external source. The shares were sold to Mel Marks without registration under the Securities Act of 1933 in reliance upon an exemption from registration provided under Section 4(2) of the Securities Act of 1933 and Regulation D of the Securities Act of 1933, as amended.

**Equity Compensation Plan Information**

| | (a) | (b) | (c) |
|---|---|---|---|
| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options warranties and rights | Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column (a)] |
| Equity compensation plans approved by securities holders | 940,375 | $ 2.82 | 54,375(1) |
| Equity compensation plans not approved by security holders | — | N/A | N/A |
| Total | 940,375 | $ 2.82 | 54,375 |

(1) Consist of options issued pursuant to our 1994 Employee Stock Option Plan, as amended, our 1996 Employee Stock Option Plan and shares issued under the Director's Plan.

## Item 6. Selected Financial Data

The following selected historical consolidated financial information as of March 31, 2003 and March 31, 2002 and for each of the years ended March 31, 2003, March 31, 2002 and March 31, 2001, has been derived from and should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this report. Because of the significant costs that would have been incurred by the Company, we elected not to restate our financial statements for fiscal 1999 to reflect the new method for valuing inventory that we adopted at the beginning of fiscal 2000. As a result, we are only including four years of selected financial data.

| | Fiscal Year Ended March 31, | | | |
|---|---|---|---|---|
| **Income Statement Data:** | **2003** | **2002** | **2001** | **2000** |
| Net sales | $167,566,000 | $172,040,000 | $160,699,000 | $194,293,000 |
| Operating income (loss) | 6,944,000 | 11,241,000 | (389,000) | (8,535,000) |
| Income (loss) before cumulative effect of accounting change | 10,625,000 | 11,689,000 | (4,102,000) | (10,542,000) |
| Cumulative effect of accounting change (1) | — | — | — | (17,702,000) |
| Net income (loss) | 10,625,000 | 11,689,000 | (4,102,000) | (28,244,000) |
| Basic income (loss) per share | $ 1.33 | $ 1.61 | $ (.63) | $ (1.63) |
| Diluted income (loss) per share | $ 1.24 | $ 1.51 | $ (.63) | $ (4.37) |

| | Fiscal Year Ended March 31 | | | |
|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** |
| **Balance Sheet Data:** | | | | |
| Total assets | 59,282,000 | 71,296,000 | 60,108,000 | 71,801,000 |
| Working capital | 20,801,000 | 9,404,000 | 1,836,000 | 2,996,000 |
| Line of credit | 9,932,000 | 28,029,000 | 28,950,000 | 36,661,000 |
| Long-term debt and capitalized lease obligations – less current portions | 209,000 | 915,000 | 2,099,000 | 3,062,000 |
| Shareholders' equity | 37,453,000 | 26,823,000 | 13,298,000 | 17,393,000 |

(1) Effective April 1, 1999, the Company changed its 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.

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

Disclosure Regarding Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements with respect to 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, including the increasing customer pressure for lower prices and more favorable payment terms, 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 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 and other factors discussed herein and in the Company's other filings with the Securities and Exchange Commission.

**General**

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

**Critical Accounting Policies**

Under the terms of certain agreements with our customers and industry practice, our 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 we accept into inventory these customers' overstocks, which do not occur at any specific time during the year. During fiscal year 2003 we expensed $962,000 in cost of goods sold as an additional allowance for stock adjustments. The allowance reserve for stock adjustments was $794,000 and $609,000 as of March 31, 2003 and March 31, 2002, respectively. This allowance is reviewed quarterly to determine if the monthly accrual should be adjusted.

We have taken a systematic approach in establishing a reserve for excess and obsolete inventory. The reserve is based upon our knowledge of the industry, communication with core brokers and suppliers, scrap values and discussions with our customers and is computed based upon historical usage and a product's life cycle. This reserve account decreased in fiscal 2003 by $150,000 from $3,715,000 in fiscal year 2002 to $3,565,000 in fiscal year 2003. In fiscal 2002, this account decreased by $159,000 from $3,874,000 in fiscal year 2001 to $3,715,000 in fiscal year 2002. Both of these decreases were due to the increased quality of our inventory on hand and the continued focus on sales of obsolete inventory.

We adjust 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 based on a comparison to core broker prices. All cores that have a difference between the carrying value and the quoted core broker price of 35% or greater are adjusted to reflect the change in market value, and (3) a valuation reserve is maintained for those cores not adjusted by the above policies. This reserve is based upon the

inherent value of cores which we estimate have a life cycle of 20 years. This reserve account decreased in fiscal year 2003 by $227,000 from $264,000 in fiscal year 2002 to $37,000 in fiscal 2003. In fiscal year 2002, this reserve account decreased by $110,000 from $379,000 in fiscal year 2001 to $264,000 in fiscal year 2002. The decrease in both years was principally the result of the Company continuing to decrease our core inventory by selling and scrapping cores.

The valuation allowance for deferred tax assets is based upon management's estimate of current and future taxable income. Due to the seasonality of our business, the passage of the Job Creation and Work Assistance Act of 2002 and an examination of our tax returns for the fiscal years 1996 through 2000, we have been unable to compute with any certainty our deferred tax asset on a quarterly basis for fiscal 2002 and 2003. During the fourth quarter of fiscal 2003 and 2002, we recognized a tax benefit of $4,331,000 and $4,005,000, respectively.

**Recent Accounting Pronouncements**

In August 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of a Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 was effective January 1, 2002. The adoption of SFAS 144 did not have a material impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS no. 145 eliminates the requirement to classify gains and losses from the extinguishments of indebtedness as extraordinary, requires certain lease modifications to be treated the same as a sale-lease back transaction, and makes other non-substantive technical corrections to existing pronouncements. The Company has adopted SFAS No. 145 in 2002 and classified the net gain on settlement of debt as a component of reorganization expenses on the accompanying consolidated financial statements.

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The adoption of SFAS 146 effective January 1, 2003, did not have a material impact on the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148, An Amendment to SFAS No. 123, Accounting for Stock-Based Compensation, which gives companies electing to expense employee stock options three methods to do so. In addition, the statement amends the disclosure requirements to require more prominent disclosure about the method of accounting for stock-based employee compensation and the effect of the method used on reported results in both annual and interim financial statements. The Company has elected to continue to use the intrinsic value method of accounting for stock-based compensation. Therefore, the amendment to SFAS No. 123 will not have any effect on the Company's financial statements. SFAS No. 148 also requires companies to include prominent disclosure of the method of accounting used and potential effect of the method used on reported results in both annual and interim financial statements. These disclosures are included in Note 12 — "Stock-Based Compensation" on the financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which elaborates on the disclosures to be made in interim and annual financial statements of a guarantor about its obligations under certain guarantees that it has been issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing a guarantee. Initial recognition

and measurement provisions for the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. As of December 31, 2002, the Company did not have any outstanding guarantees.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, which addresses consolidation by business enterprises of variable interest entities. Consolidation by a primary beneficiary of the assets, liabilities and results of activities of variable interest entities will provide more complete information about the resources, obligations, risks and opportunities of the consolidated company. The interpretation also requires disclosures about variable interest entities that the company is not required consolidate but in which it has a significant variable interest. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003 and apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company is in the process of evaluating the disclosures and possible impact of adopting Interpretation No. 46 and does not believe such adoption will have a material impact on its financial statements.

**Results of Operations**

| | Fiscal Year Ended March 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net Sales | 100.0% | 100.0% | 100.0% |
| Cost of Goods Sold | 89.6% | 88.0% | 92.6% |
| Gross Margin | 10.4% | 12.0% | 7.4% |
| General and Administrative Expenses | 5.4% | 4.2% | 5.2% |
| Selling Expenses | 0.7% | 0.7% | 0.8% |
| Litigation Settlement | — | — | 0.9% |
| Restructuring Expenses | — | — | 0.5% |
| Research and Development | 0.3% | 0.3% | 0.3% |
| Provision for Doubtful Accounts | (0.1%) | 0.2% | (0.1%) |
| Operating Income (Loss) | 4.1% | 6.6% | (0.2%) |
| Interest Expense, net of Interest Income | 0.8% | 2.1% | 2.3% |
| Income (Loss) Before Income Taxes | 3.3% | 4.5% | (2.5%) |
| Income Tax Benefit | 3.0% | 2.3% | — |
| Net Income (Loss) | 6.3% | 6.8% | (2.5%) |

**Fiscal 2003 compared to Fiscal 2002**

Net sales for fiscal year ended March 31, 2003 were $167,566,000, a decrease of $4,474,000 or 2.6% from the prior years' sales of $172,040,000. This decrease in net sales is principally related to the loss of two customers which resulted in a reduction in net sales of approximately $3,500,000. The decrease in sales to these customers was partially offset by an increase in sales to our continuing customers of approximately $1,800,000. Our net sales for fiscal 2003 were also reduced by an increase in the marketing allowances we provide our

customers from approximately $1,500,000 in fiscal 2002 to approximately $4,300,000 in fiscal 2003. Approximately $1,626,000 of this increase is attributable to those allowances granted to a customer as part of a five-year contract that we executed with that customer in March 2003. We anticipate that this contract will increase our overall marketing allowances by approximately $2,982,000 over its five-year term. (In connection with this agreement, we also agreed to assume responsibility for up to $1,500,000 of the cost of testing equipment that this customer may install in its stores. Any such cost that is incurred by us would be recognized over a five-year period as an additional marketing allowance.) The balance of the increase in marketing allowances is attributable to the increasing pressure we are receiving from our customers for more favorable pricing terms. Warranty returns and allowances which are also netted against sales, remained relatively flat at 19.9% of sales for fiscal 2003 as compared to 19.8% in fiscal 2002.

As a percentage of net sales, cost of goods sold increased in fiscal 2003 to 89.6% which represents an increase of 1.6% when compared to fiscal 2002. This increase was largely attributable to reductions in the carrying values of our inventory that were made throughout the year to reflect our current estimate of the market value of our inventory and the lower production costs that we are realizing from our manufacturing efficiencies. Adjustments to inventory in fiscal 2003 totaled $3,658,000 compared to $2,417,000 in fiscal 2002. These expenses were partially off set by a reduction in freight costs of $477,000 when comparing fiscal 2003 to fiscal 2002.

General and administrative expense for fiscal 2003 was $8,916,000, which represents an increase of $1,713,000 or 23.8%, from the prior year's expense of $7,203,000. This increase is principally attributable to several factors. Our total legal fees increased from $299,000 in fiscal 2002 to $1,347,000 in fiscal 2003. Of this amount, approximately $560,000 and $156,000 represent increased legal fees we incurred pursuant to our indemnification agreements with Richard Marks and Peter Bromberg, respectively, in connection with the SEC's and the U.S. Attorney's Office's investigation of these two former officers. In addition, we incurred $230,000 in additional legal fees for attorneys we hired to represent us, Mel Marks, one of our Board members, or other employees who were interviewed in connection with these investigations. In addition, we increased the compensation we paid to Selwyn Joffe by approximately $120,000 to reflect the expanded duties he assumed prior to his appointment as our CEO in February 2003 and increased the compensation we paid to Mel Marks by $115,000. We also recorded $267,500 of additional expenses associated with the departure of Anthony Souza, our former CEO, from the Company. General and administrative expenses also increased as a result of (1) increased directors' fees of $60,000 which is the result of adding new members to the Company's board; (2) investment banking fees of nearly $110,000 which were incurred in connection with an evaluation of the Company's strategic options; (3) insurance and benefit cost increases of nearly $275,000; and (4) bank fees and charges of approximately $130,000 paid to both the Company's current and former lenders in connection with the replacement of our lending facility. These increases were partially offset by a decrease of approximately $300,000 in salaries and bonuses paid to key executives, largely attributable to a decline in our pre-tax profits. As a percentage of net sales, general and administrative expense for fiscal 2003 was 5.3%, which is an increase of 1.1% from fiscal year 2002.

Selling expenses decreased $96,000 or 8.2% in fiscal 2003 to $1,071,000 from $1,167,000 in fiscal 2002. This decrease was largely the result of declines in net personnel costs (including commissions paid) of approximately $41,000, advertising costs of approximately $35,000 and supplies of approximately $20,000.

Research and development expenses increased by $12,000 or 2.2% in fiscal 2003 to $564,000 over the $552,000 spent in fiscal 2002. This increase is principally attributable to increases in our supply costs, workers' compensation payments and travel expenses, which were partially offset by declines in hourly and temporary wage costs and repair costs.

In fiscal 2003 we were able to recover $104,000 of bad debts, which had previously been expensed, due to aggressive collection actions with respect to a former customer and the favorable resolution of certain shipping and pricing discrepancy issues.

Interest expense for fiscal 2003 was $1,980,000. This was a decrease of $1,602,000 or 44.7% from fiscal 2002 interest expense of $3,582,000. Of this total decrease, $360,000 reflects the interest expense we recorded in fiscal 2002 as the result of our re-pricing of 400,000 warrants issued to Wells Fargo Bank in May 2001. The balance is principally the result of lower interest rates, a reduction in the principal balance outstanding and recognition of approximately $208,000 of unamortized bank fees that were waived because we were able to replace our bank lender by December 31, 2002.

Interest income for fiscal 2003 was $636,000. This is an increase of $610,000 or 234.6% when compared to interest income for fiscal 2002. This increase is due to the interest paid to us by both the Federal and State of California taxing authorities as a result of a favorable determination following an examination of the Company's 1996 through 2000 income tax returns.

**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 our 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 component parts.

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 our consolidation of our facilities.

Under the terms of certain agreements with its customers and industry practice, our customers from time to time are allowed stock adjustments when the inventory level of certain product lines exceed their anticipated level of sales to end-user customers. These adjustments are made when we accept 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, we began to provide for a monthly allowance of $75,000 per month to address the anticipated impact of stock adjustments. During fiscal 2002, we expensed $898,000 in cost of goods sold as an additional allowance for stock adjustments. Stock adjustments accepted from customers are then charged against this allowance account. The reserve for stock adjustments was $609,000 and $225,000 as of March 31, 2002 and 2001 respectively. The allowance policy is reviewed quarterly to determine if the monthly accrual should be adjusted.

We provide 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.

We adjust 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 our prior 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 our continuing efforts to decrease our 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 our 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 consolidation of our operations in California into a single facility in fiscal 2002 and we 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. The increase in bonus expenses was principally attributable to increases in our pre-tax profits and the agreements we have with certain of our officers and employees to pay them a percentage of our pre-tax profits.

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, we established a $1,500,000 reserve in connection with the settlement of the class action litigation against the Company. 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 an increase in supplies of nearly $60,000 and 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 our 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 we amended the loan agreement with our bank in May, 2001. As part of this amendment, we re-priced 400,000 warrants previously issued to the bank. This resulted in a one-time charge to interest expense of $360,000.

Liquidity and Capital Resources

We have financed our working capital needs through the use of our bank credit facility and the cash flow generated from operations. On December 20, 2002, we replaced our then existing $24,750,000 revolving line of credit and our $6,500,000 term loan with a new line of credit. Under the terms of the new loan agreement, we can borrow up to the lesser of (i) $25,000,000 or (ii) our borrowing base, which consists of 75% of our qualified accounts receivable plus up to $10,000,000 of qualifying inventory. A portion of the funds from this new loan was used to pay in full the previous revolving line of credit and term loan. We paid the new lender a loan origination fee of $125,000. Pursuant to an earlier understanding our previous lender waived restructuring fees in the amount of $655,000 which were incurred in connection with an earlier restructuring of our prior lending arrangement and which were to be paid if we did not secure a new lending source by December 31, 2002.

At March 31, 2003 our borrowing base was $19,080,000, and we had borrowed $9,932,000 of this amount and reserved an additional $1,971,000 in connection with the issuance of standby letters of credit for worker's compensation insurance. As such, we had available under our line of credit a total of $7,177,000. The interest rate on this credit facility fluctuates and is based upon the (i) higher of the federal funds rate plus 1/2 of 1% or the bank's prime rate, in each case adjusted by a margin of between –. 25% and .25% that fluctuates based upon our cash flow coverage ratio or (ii) LIBOR or IBOR, as adjusted to take into account any bank reserve requirements, plus a margin of between 2.00% and 2.50% that fluctuates based upon our cash flow coverage ratio. At March 31, 2003, $6,000,000 of our available credit facility was calculated based upon the six-month IBOR + 2.00% and $3,932,000 was calculated based upon the bank's prime rate + .25%. On March 31, 2003 IBOR was 1.32% while the bank's prime rate was 3.75%; therefore, our interest rates for the IBOR and the prime rate portions of the credit facility were 3.32% and 4.00%, respectively. As of June 24, 2003, the interest rate for the IBOR portion of the facility was 2.97% and the prime rate portion of the credit facility was at 3.75%.

The bank loan agreement includes various financial conditions, including minimum levels of tangible net worth, cash flow coverage and a number of restrictive covenants, including prohibitions against additional indebtedness, payment of dividends, pledge of assets and capital expenditures as well as loans to officers and/or affiliates. In addition, pursuant to the terms specified in this new loan agreement we agree to pay a fee of .25% per year on any difference between the Commitment and the outstanding amount of credit we actually use, determined by the average of the daily amount of credit outstanding during the specified period.

Our liquidity has been positively impacted by an agreement executed on June 26, 2002 with one of our customer's banks. Under this agreement, we have the option to sell this customer's receivables to the bank, at an agreed upon discount set at the time the receivables are sold. The discount has ranged from .53% to 1.51% during 2003, and has allowed us to accelerate collection of the customer's receivables aggregating $24,000,000 by an average of 51 days. This agreement is an important factor behind the $3,943,000 decrease in accounts receivable and $1,215,000 increase in cash at March 31, 2003. While this arrangement has reduced our working capital needs, there can be no assurance that it will continue in the future.

Our customers continue to aggressively seek extended payment terms, consignment inventory arrangements, price concessions and other terms that could adversely affect our liquidity. In this regard we are working with our bank and other financial institutions to increase our liquidity and financial capabilities and, where appropriate, modify the provisions of our bank agreement to accommodate the demands of our customers. There can no assurance that these initiatives will be successful.

Management believes that cash flow from operations together with availability under our credit agreement will be sufficient to meet our working capital needs during fiscal 2004.

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

*Quantitative Disclosures*. We are subject to interest rate risk on our existing debt and any future financing requirements. Our 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 our existing debt instruments.

**Principal (Notional) Amount by Expected Maturity Date**

(As of March 31, 2003)

| | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|---|---|
| Liabilities | | | | | |
| Bank Debt, Including Current Portion | | | | | |
| Line of Credit Facility* | $25,000,000 | $25,000,000 | — | — | — |
| Interest Rate* | 3.32%/4.00% | 3.32%/4.00% | — | — | — |
| Capital lease obligations | $ 855,000 | $ 112,000 | $ 74,000 | $ 33,000 | $ 6,000 |
| Interest Rate | 6.96-11.46% | 8.45-10.36% | 9.07-10.36% | 9.07-10.36% | 9.07-9.10% |

* The maximum amount we can borrow under this facility is the lesser of $25,000,000 or our borrowing base. At March 31, 2003, our borrowing base was $19,080,000, and the amount outstanding was $9,932,000. The interest rate on this credit facility fluctuates and is based upon the (i) higher of the federal funds rate plus 1/2 of 1% or the bank's prime rate, in each case adjusted by a margin of between –. 25% and .25% that fluctuates based upon our cash flow coverage ratio or (ii) LIBOR or IBOR, as adjusted to take into account any bank reserve requirements, plus a margin of between 2.00% and 2.50% that fluctuates based upon our cash flow coverage ratio.

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

We are exposed to foreign currency exchange risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. We transact business in two foreign currencies which affect our operations; the Malaysian Ringit, which has been fixed in relation to the U.S. dollar and the Singapore dollar. During the past three years, we have experienced a $5,000 gain, a $34,000 loss and a $2,000 gain, in fiscal years 2003, 2002 and 2001 respectively, relative to our transactions involving these two foreign currencies.

## 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 our Company, their ages and present positions with the Company are as follows:

| Name | Age | Position in Company | Directors Term |
|---|---|---|---|
| Selwyn Joffe [1] | 45 | Chairman of the Board of Directors, President and Chief Executive Officer | * |
| Mel Marks | 75 | Director | * |
| Murray Rosenzweig [2] | 79 | Director | * |
| Douglas Horn [3] | 75 | Director | * |
| Irv Siegel [4] | 57 | Director | * |
| Steven Kratz | 48 | Sr. Vice President – QA/Engineering | N/A |
| Chuck Yeagley | 55 | Chief Financial Officer / Secretary | N/A |

[1] Member of Compensation Committee

[2] Member of Audit and Compensation Committees

[3] Chairman of Audit, Compensation and Ethics Committees

[4] Member of Audit and Ethics Committees

* All directors are elected to serve until the next annual meeting of shareholders and until their successors have been elected and qualified. Commencement date is the date of the annual shareholders meeting.

**Information about Directors and Nominees**

All directors of our Company hold office until the next annual meeting of shareholders and until their successors have been elected and qualified. The officers of our Company are elected by the Board of Directors at the first meeting after each annual meeting of our 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 our Chairman of the Board, President and Chief Executive Officer since February 2003. He has been a director of our Company since 1994 and Chairman since November 1999. From 1995 until his election to his present positions, he also served as a consultant to us. Prior to February 2003, Mr. Joffe was 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 the 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 with degrees in both Business and Law and is a member of the Georgia State Bar as well as a Certified Public Accountant.

**Mel Marks** founded the Company in 1968. Mr. Marks has served as our 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 on our Board of Directors since February 1994. Mr. Rosenzweig serves on our 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.

**Doug Horn** joined our Board of Director's on October 8, 2002 and was recently selected to serve as the Chairman of our Audit, Compensation and Ethics Committees. Mr. Horn is a retired certified public accountant and attorney and was a revenue agent for the Internal Revenue Service. Mr. Horn worked as a staff accountant for Peat Marwick, was a senior partner of Douglas Horn & Company, a certified public accounting firm, and was a senior partner in the law firm of Horn & Spiro specializing in tax law until he retired in 1991. Mr. Horn also served as the treasurer of the American Diabetes Association for the New York Chapter.

**Irv Siegel** joined our Board of Director's on October 8, 2002 and serves on our Audit and Ethics Committees. Mr. Siegel is a retired attorney admitted to the bar of the state of New Jersey with a background in corporate finance. Since 1993, Mr. Siegel has been the principal owner of Siegel Company, a full service commercial real estate firm, and Mr. Siegel has also served as the director of real estate for Wolfgang Puck Food Company since 1992.

Both Messrs. Horn and Rosenzweig are financial experts, independent from our management, and serve on our Audit Committee.

Our Board of Directors formally approved the creation of our Ethics Committee and on May 8, 2003 adopted a Code of Business Conduct and Ethics, which applies to all our employees. This committee is currently comprised of Mr. Doug Horn, who was appointed to serve as Chairman, and Mr. Irv Siegel.

**Information About Non-Director Executive Officers**

**Steven Kratz**, our Sr. Vice President- QA/Engineering, has been employed by our Company since 1988. Before joining us, 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 our quality assurance, research and development and engineering departments.

**Chuck Yeagley** has been our Chief Financial Officer since June 2000, responsible for all Finance issues, including Investor Relations, 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, 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.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Act of 1934, as amended, requires our directors and executive officers, and persons who own more than ten percent of our 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 our Company. Based solely on our review of copies of such forms received by us, or written representations from reporting persons that no Form 4s were required for those persons, we believe that our insiders complied with all applicable Section 16(a) filing requirements during 2003 fiscal year, except that timely filings were not made of (i) a Statement of Changes in Beneficial Ownership on Form 4 for Mr. Joffe upon the grant of stock options in connection with his appointment as President and Chief Executive Officer of the Company and (ii) Statements of Changes in Beneficial Ownership on Form 4 reporting annual stock option grants to each of Messrs. Joffe, Marks, Rosenzweig, Horn and Siegel for 2003 fiscal year and the 2002 fiscal year. All such Section 16(a) filings have now been made.

**Item 11. Directors Compensation and Executive Officers**

The following table sets forth information concerning the annual compensation of our Chief Executive Officer and the other four most highly compensated executive officers, whose salary and bonus exceeded $100,000 for the 2003 fiscal year and for services in all capacities to the Company during our 2003, 2002 and 2001 fiscal years.

| Name & Principal Position | Year | Salary | Bonus | Other Annual Compensation | Shares Underlying Options | All Other Compensation |
|---|---|---|---|---|---|---|
| Selwyn Joffe | 2003 | —(1) | — | $379,998(1) | 101,500(2) | 4,164(4) |
| Chairman of the Board | 2002 | — | — | $159,996 | 1,500 | — |
| President & CEO | 2001 | — | — | $160,220 | 1,500 | — |
| Anthony Souza(3) | 2003 | $300,000 | $420,587 | — | — | $25,037(4)(6) |
| Former President & CEO | 2002 | $293,108 | $593,189 | — | 60,000 | $25,037(4) |
| | 2001 | $301,985 | $ 25,000 | — | 60,000 | $ 8,332(4) |
| Mel Marks | 2003 | — | — | $312,500 | 1,500 | $ |
| Director | 2002 | — | — | $197,500 | 1,500 | — |
| | 2001 | $ 57,692 | — | $105,000 | 1,500 | $11,481(5) |
| Steven Kratz | 2003 | $225,000 | $ 20,000 | — | — | — |
| Sr. VP – Engineering | 2002 | $219,345 | $ 25,000 | — | — | $ 3,604(5) |
| | 2001 | $250,000 | $ 10,000 | — | — | $ 5,604(5) |
| Charles Yeagley | 2003 | $178,846 | $ 63,089 | — | — | $25,037(4) |
| Chief Financial Officer | 2002 | $175,257 | $ 88,974 | — | — | $25,037(4) |
| | 2001 | $109,644 | $ 10,000 | — | 25,000 | $18,747(4) |
| Richard Marks | 2003 | $300,000 | $315,418 | — | — | $12,000(5) |
| Advisor to the Board | 2002 | $318,000 | $483,118 | — | — | — |
| and the CEO | 2001 | $298,783 | $ 25,000 | — | — | — |

(1) Mr. Joffe became the Company's President and Chief Executive Officer in February 2003. The salary amount shown is based upon an annualized salary rate of $500,000. The other compensation amounts include the amounts paid to Protea Group Inc., a consulting company wholly-owned by Mr. Joffe. Our contract with Protea was terminated when Mr. Joffe became the Company's President and Chief Executive Officer.

(2) Includes 100,000 options granted on March 3, 2003 of which 50,000 are exercisable immediately and 50,000 are exercisable on March 3, 2004.

(3) Mr. Souza resigned from the positions of President and Chief Executive Officer in February 2003.

(4) Represents reimbursement for health insurance premiums paid by employee.

(5) Represents value of car allowance.

(6) Does not include $230,000 of expenses that we recorded in connection with Anthony Souza's departure and consulting services which may be provided by Mr. Souza after his departure.

**Compensation of Directors**

Three of our Board members have supplemental compensatory arrangements with the Company. In August 2000, our 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, increased to $300,000 per year in December 2002 and subsequently increased to $350,000 per year at the April 25, 2003 Board of Director's meeting. The Board also authorized $50,000 of supplemental compensation to Mr. Marks in fiscal 2003. The Company can terminate its consulting arrangement with Mr. Marks at any time.

Effective December 1, 1999, we entered into a consulting agreement with Protea Group, Inc., a consulting company wholly-owned by Mr. Selwyn Joffe, the Chairman of the Board of the Company, pursuant to which he was retained as a consultant to provide oversight, management, strategic and other advisory services to us. The consulting agreement was scheduled to expire on June 1, 2001 but was 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 our Common Stock pursuant to our 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.

Protea Group, Inc. and the Company entered into an additional consulting services agreement dated as of May 9, 2002. Under the terms of this agreement, Mr. Joffe agreed to assist us in considering and pursuing potential transactions and relationships intended to enhance stockholder value. In connection with this arrangement, we agreed to pay Mr. Joffe an additional $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. This agreement remained in effect until February 14, 2003 at which time Mr. Joffe accepted his current position as Chairman of the Board of Directors, President and Chief Executive Officer and the agreements with Protea Group were terminated. Mr. Joffe's current agreement was entered into as of February 14, 2003 and negotiated on our behalf by Mel Marks and Douglas Horn, provides for an annual salary of $500,000 and continuation for the term of the employment agreement of the 1% transaction fee along with a car allowance and other compensation generally provided to our other executive staff members. This Employment Agreement terminates on March 31, 2006. In addition, Mr. Joffe was awarded 100,000 Stock Options effective March 3, 2003 at a strike price of $2.16, 50,000 of which vested on the date of grant and 50,000 of which are exercisable on the first anniversary of the date of grant.

We agreed to pay Mr. Horn $120,000 per year for serving on our Board of Directors as well as assuming the responsibility for being the Chairman of our Audit, Compensation and Ethics Committees, respectively.

In addition, each of our non-employee directors other than Mr. Horn receives annual compensation of $10,000, and is paid a fee of $2,000 for each meeting of the Board of Directors attended. Furthermore, each non-employee director other than Mr. Horn receives $2,000 for each meeting of the Audit Committee attended; $500 for each meeting of any other 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 a non-employee director of the Company during all 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**

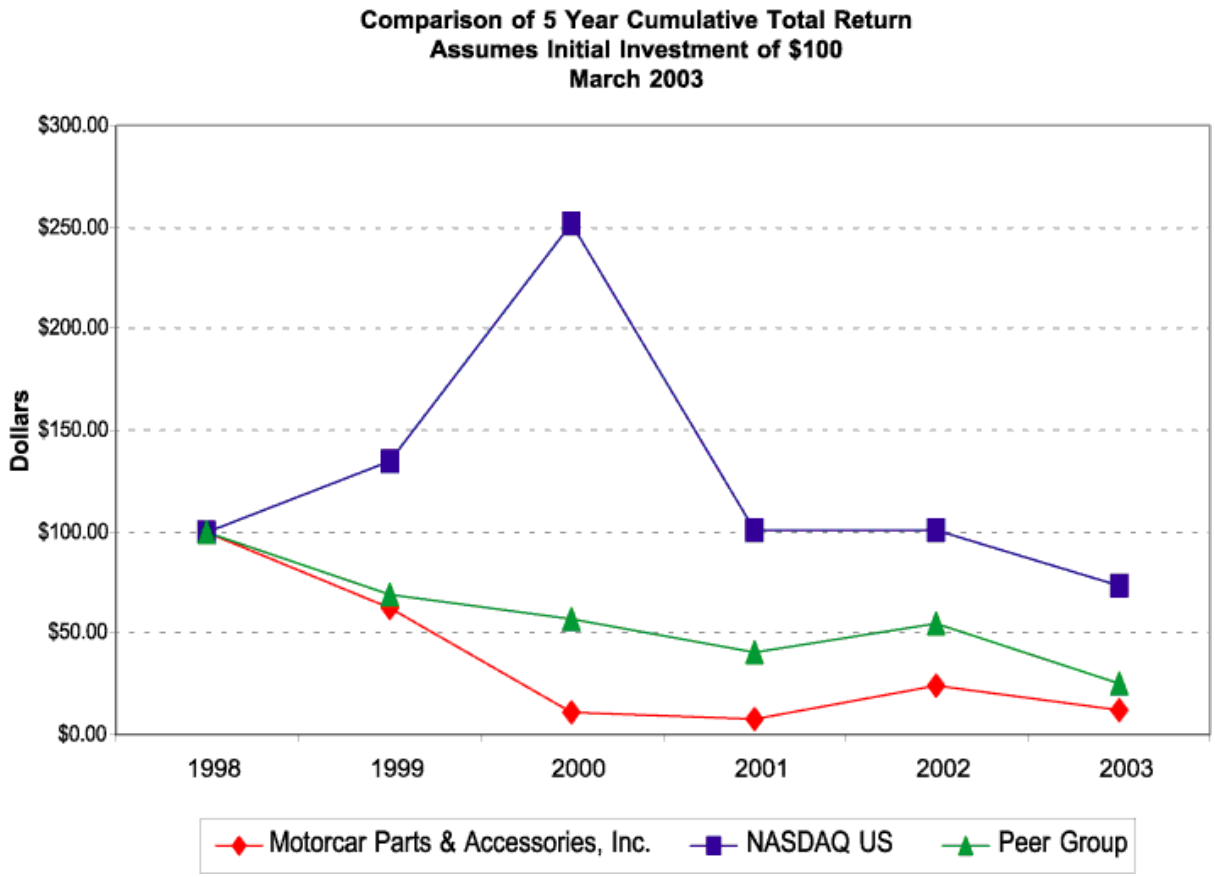
The members of the Compensation Committee during Fiscal 2003 were Messrs. Joffe and Rosenzweig until October, 2002 at which time Mr. Horn was appointed to the committee and elected to serve as the Chairman. The Compensation Committee is responsible for developing and making recommendations to the Board with respect to our executive compensation policies. The Compensation Committee is also responsible for evaluating the performance of our chief executive officer and our other senior officers and to make recommendations concerning the salary, bonuses and stock options to be awarded to these individuals. For a discussion of the contractual rights that certain of our officers have relative to bonuses and option grants, see "Employment Agreements" below.

The terms of the employment agreement with Mr. Joffe entered into as of February 14, 2003 were determined by negotiations between representatives of ours and Mr. Joffe. In this connection we reviewed statistical and other material available to us. The negotiated terms reflect the results of our review and understanding of what a chief executive officer earns at comparable positions, the unique background Mr. Joffe has with our company, and in marketing and management generally, and what we understand an executive of Mr. Joffe's stature could otherwise earn in the employment market. The Board and the Compensation Committee recognize that we operate in a challenging business environment and are confident with Mr. Joffe as our Chief Executive Officer.

No member of the Compensation Committee has a relationship that would constitute an 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, 1999, 2000, 2001, 2002 and 2003 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, 1998 in the Common Stock and in each of the comparison groups, and assumes reinvestment of dividends.




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

**Total Shareholder Returns—Dividends Reinvested**

**Annual Return Percentage**

| | Year Ended March 31, 2003 | | | | |
|---|---|---|---|---|---|
| Company/Index | 1999 | 2000 | 2001 | 2002 | 2003 |
| Motorcar Parts & Accessories, Inc. | -37.19% | -83.02% | -28.95% | 225.00% | -50.55% |
| Peer Group | -30.76% | -17.73% | -27.97% | 32.84% | -53.87% |
| NASDAQ | 35.10% | 86.03% | -60.01% | 0.62% | -27.17% |

**Indexed Returns –** Based upon historical performance, the following table displays the results of $100 invested at the close of business on March 31, 1998 in the Common Stock of each of the comparison groups and assumes reinvestment of dividends:

**Indexed Returns**

| Company/Index | Base Period 31-Mar-98 | Year Ended March 31, 2003 | | | | |
|---|---|---|---|---|---|---|
| | | 1999 | 2000 | 2001 | 2002 | 2003 |
| Motorcar Parts & Accessories, Inc. | 100.0 | 62.81 | 10.66 | 7.58 | 24.63 | 12.18 |
| Peer Group | 100.0 | 69.24 | 56.97 | 41.03 | 54.51 | 25.31 |
| NASDAQ Index Composite | 100.0 | 135.10 | 251.32 | 100.51 | 101.13 | 73.65 |

| | | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| Motorcar Parts & Accessories, Inc. | Return % | | -37.19 | -83.02 | -28.95 | 225.00 | -50.55 |
| | Cum $ | $100.00 | $ 62.81 | $ 10.66 | $ 7.58 | $ 24.63 | $12.18 |
| NASDAQ US | Return % | | 35.10 | 86.03 | -60.01 | 0.62 | -27.17 |
| | Cum $ | $100.00 | $135.10 | $251.32 | $100.51 | $101.13 | $73.65 |
| Peer Group Only | Return % | | -30.76 | -17.73 | -27.97 | 32.84 | -53.57 |
| | Cum $ | $100.00 | $ 69.24 | $ 56.97 | $ 41.03 | $ 54.51 | $25.31 |
| Peer Group + MPAA | Return % | | -30.86 | -18.37 | -27.97 | 32.84 | -53.55 |
| | Cum $ | $100.00 | $ 69.14 | $ 56.44 | $ 40.65 | $ 54.00 | $25.09 |

NOTE: Data complete through last fiscal year.

NOTE: Corporate Performance Graph with peer group uses peer group only performance (excludes only company).

NOTE: Peer group indices use beginning of period market capitalization weighting.

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, 2003 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**

| Name | Number of Securities Underlying Options Granted | % of Total Options Granted to Employees in Fiscal 2003 | Exercise or Base Price | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock price Appreciate for Option Terms | |
|---|---|---|---|---|---|---|
| | | | | | 5% ($) | 10% ($) |
| Selwyn Joffe | 1,500(1) | 1.00% | $3.60/share | 4/30/2012 | $ 3,396 | $ 8,606 |
| Mel Marks | 1,500(1) | 1.00% | $3.60/share | 4/30/2012 | $ 3,396 | $ 8,606 |
| Murray Rosenzweig | 1,500(1) | 1.00% | $3.60/share | 4/30/2012 | $ 3,396 | $ 8,606 |
| Doug Horn | 25,000(1) | 16.15% | $2.70/share | 12/5/2012 | $ 56,601 | $143,601 |
| Irv Siegel | 25,000(1) | 16.15% | $2.70/share | 12/5/2012 | $ 56,601 | $143,601 |
| Selwyn Joffe | 100,000(2) | 64.70% | $2.16/share | 3/3/2013 | $135,841 | $344,248 |
| Totals | 154,500 | 100.00% | | | | |

(1) The options are exercisable immediately.

(2) One-half of these options are exercisable immediately with the remaining exercisable on the first anniversary of the date the options were granted.

**Employment Agreements**

We have entered into an employment agreement with Mr. Selwyn Joffe pursuant to which he is employed full-time as our President and Chief Executive Officer in addition to serving as our Chairman of the Board of Directors. This agreement, entered into on February 14, 2003 is scheduled to expire on March 31, 2006. All prior consulting agreements between the Company and Protea Group terminated as of February 14, 2003 except that Mr. Joffe is still entitled to receive the agreed upon transaction fee of 1.0% of the "total consideration" of any equity his efforts bring to the our Company. This agreement provides for an annual base salary of $500,000 and Mr. Joffe shall participate in our Executive Bonus Program as adopted and amended from time to time by our Board of Directors. Our Executive Bonus Program shall be adopted and effective no later than with respect to fiscal periods beginning April 1, 2003. As additional consideration for services to be rendered, we granted Mr. Joffe a ten-year option to purchase 100,000 shares of our Common Stock, pursuant to our 1994 Stock Option Plan, at an exercise price of $2.16 per share, 50,000 of which vested on the date of grant and 50,000 of which are exercisable on the first anniversary of the date of grant. In addition to his cash consideration, Mr. Joffe receives an

automobile allowance and other benefits including those generally provided to other employees of our Company.

We entered into an employment agreement with Mr. Richard Marks in January 2000 pursuant to which he is employed full-time and reports directly to the Board of Directors and Chief Executive Officer of our 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 is 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 our 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. Our 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 our 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, our Company's founder and member of our Board of Directors.

We have entered into an employment agreement with Mr. Chuck Yeagley pursuant to which he is employed full-time as our Company's Chief Financial Officer. The agreement, entered into on June 26, 2000 which was scheduled to expire on June 1, 2001, was 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 our Common Stock, at $0.93 per share, pursuant to the terms of our 1994 Stock Option Plan. Furthermore, Our 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 our Company. Mr. Yeagley and the Company entered into a new contract on April 1, 2003 calling for a base salary of $215,000 per year and expiring on March 31, 2006.

In conformity with our policy, all of our directors and officers execute confidentiality and nondisclosure agreements upon the commencement of employment. The agreements generally provide that all inventions or discoveries by the employee related to our 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 the Company. Our employment agreements with Messrs. 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. Public policy limitations and the difficulty of obtaining injunctive relief may impair our 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 June 25, 2003, certain information as to the Common Stock ownership of each of our Company's directors and nominees for director, 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<br>c/o Motorcar Parts & Accessories, Inc.<br>2929 California Street<br>Torrance, CA 90503 | 2,153,931 | (2) | 24.2% |
| Richard Marks<br>c/o Motorcar Parts & Accessories, Inc<br>2929 California Street<br>Torrance, CA 90503 | 513,566 | (3) | 5.8% |
| Steven Kratz<br>c/o Motorcar Parts & Accessories, Inc<br>2929 California Street<br>Torrance, CA 90503 | 63,600 | (4) | (12) |
| Selwyn Joffe<br>c/o Motorcar Parts & Accessories, Inc<br>2929 California Street<br>Torrance, CA 90503 | 188,250 | (5) | 2.1% |
| Murray Rosenzweig<br>c/o Linden Maintenance Corp.<br>134-02 33rd Avenue<br>Flushing, NY 11354 | 51,500 | (6) | (12) |
| Douglas Horn<br>c/o Motorcar Parts & Accessories, Inc<br>2929 California Street<br>Torrance, CA 90503 | 204,700 | (7) | 2.3% |
| Irv Siegel<br>c/o Motorcar Parts & Accessories<br>2929 California Street<br>Torrance, CA 90503 | 25,000 | (8) | (12) |
| Charles Yeagley<br>c/o Motorcar Parts & Accessories, Inc<br>2929 California Street<br>Torrance, CA 90503 | 25,000 | (9) | (12) |
| Dimensional Fund Advisors, Inc<br>1299 Ocean Avenue<br>Santa Monica, CA 90401 | 329,000 | (10) | 4.1% |
| Directors and executive officers<br>as a group – 7 persons | 2,711,981 | (11) | 30.5% |

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 4,500 shares issuable upon exercise of currently exercisable options under the 1994 Stock Option Plan.

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

5. Represents 30,000 shares issuable upon exercise of options exercisable under the 1996 Stock Option Plan (the "1996 Stock Option Plan"); 103,750 shares issuable upon exercise of currently exercisable options under the 1994 Stock Option Plan**;** and 4,500 shares issuable upon exercise of currently exercisable options granted under the Non-Employee Director Plan.

6. Includes 4,500 shares issuable upon exercise of currently exercisable options granted under the Non-Employee Director Plan; 34,000 shares issuable upon exercise of currently exercisable options under the 1994 Stock Option Plan and 13,000 shares of common stock which were purchased subsequent to the Company's initial public offering.

7. Includes 25,000 shares issuable upon exercise of currently exercisable options granted under the 1994 Stock Option Plan and 179,700 shares of common stock which were purchased prior to joining the Company's Board of Director's in October of 2002.

8. Includes 25,000 shares issuable upon exercise of currently exercisable options granted under the 1994 Stock Option.

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

10. 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.

11. Includes 592,850 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**

We have entered into a consulting agreement with Mel Marks, our founder, Board member and largest stockholder. We currently pay Mr. Mel Marks a consulting fee of $350,000 per year under this arrangement. We have also agreed to pay Douglas Horn, a member of our Board of Directors, $120,000 per year for his service as a member of the Board and Chairman of our Audit, Compensation and Ethics Committees. For additional information, see the discussion under the caption “Item 11 – Compensation of Directors”.

As described under the caption “Item 11 — Employment Agreements”, we have an employment agreement with Richard Marks, Mel Mark’s son and holder of approximately 5.8% or our outstanding stock. In accordance with the terms of this agreement, we have been advancing to Mr. Richard Marks the costs he has incurred in connection with the SEC’s and the U.S. Attorney’s investigation into his activities during his tenure as our President and COO. For more information, see the discussion under the caption “Item 3 – Legal Proceedings”. During fiscal 2003, we incurred costs of approximately $603,000 on his behalf.

**Item 14. Controls and Procedures**

Within the past ninety days prior to the date of this report, the Company has completed an evaluation under the supervision and with the participation of the Company’s chief executive officer and chief financial officer of the effectiveness of the Company’s disclosure controls and procedures. Based on this evaluation, the Company’s chief executive officer and chief financial officer concluded that, the Company’s disclosure controls and procedures were effective with respect to timely communicating to them all material information required to be disclosed in this report as it related to the Company and its subsidiaries.

There have been no significant changes in the Company’s internal controls or other factors that could significantly affect the internal controls subsequent to the date the Company completed this evaluation.

## PART IV

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.**

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

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



**(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") |

| Number | Description of Exhibit | Method of Filing |
|---|---|---|
| 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. |

| Number | Description of Exhibit | Method of Filing |
|---|---|---|
| 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. |

| Number | Description of Exhibit | Method of Filing |
|---|---|---|
| 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. |

| Number | Description of Exhibit | Method of Filing |
|---|---|---|
| 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. |

| Number | Description of Exhibit | Method of Filing |
|---|---|---|
| 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 | Incorporated by reference to Exhibit 10.35 to the 2002 10-K. |
| 10.36 | Form of Term Note, dated June 28, 2002 by the Company in favor of Wells Fargo, National Association | Incorporated by reference to Exhibit 10.36 to the 2002 10-K. |
| 10.37 | Form of Reducing Revolving Line of Credit Note dated June 28, 2002 by the Company in favor of Wells Fargo, National Association | Incorporated by reference to Exhibit 10.37 to the 2002 10-K |
| 10.38 | Form of Agreement, dated June 5, 2002, by and between the Company and SunTrust Bank | Incorporated by reference to Exhibit 10.38 to the 2002 10-K |
| 10.39 | Form of Consulting Agreement, dated May 9, 2002 by and between the Company and Selwyn Joffe | Incorporated by reference to Exhibit 10.39 to the 2002 10-K |
| 10.40 | Business Loan Agreement (Receivable and Inventory) dated December 20, 2002, by and between the Company and Bank of America, N.A | Incorporated by reference to Exhibit 10.40 to the December 31, 2002 10-Q. |
| 10.41 | Security Agreement dated December 20, 2002 by and between the Company and Bank of America, N.A | Incorporated by reference to Exhibit 10.41 to the December 31, 2002 10-Q. |
| 10.42 | Form of Employment Agreement dated February 14, 2003 by and between the Company and Selwyn Joffe. | Filed herewith. |
| 10.43 | Letter Agreement dated July 17, 2002 by and between the Company and Houlihan Lokey Howard & Zukin Capital. | Filed herewith. |
| 10.44 | Second Amendment to Lease dated March 15, 2002 between Golkar Enterprises, Ltd. and the Company relating to property in Torrance, California | Filed herewith. |

| Number | Description of Exhibit | Method of Filing |
|---|---|---|
| 10.45 | Separation Agreement and Release, dated February 14, 2003, between the Company and Anthony Souza | Filed herewith. |
| 10.46 | Employment Agreement, dated April 1, 2003 between the Company and Charles Yeagley. | Filed herewith. |
| 10.47 | Form of Warrant Cancellation Agreement and Release, dated April 30, 2003, between the Company and Wells Fargo Bank, N.A. | Filed herewith. |
| 10.48 | Code of Business Conduct and Ethics | 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. |
| 99.1 | Certification of Chief Executive Officer | Filed herewith. |
| 99.2 | Certification of Chief Financial Officer | Filed herewith. |

**b. Reports on Form 8-K:**

On May 1, 2003, the Company filed a current report on Form 8-K announcing the repurchase by the Company of a warrant to acquire 400,000 shares of the Company's common stock for $700,000 from Wells Fargo Bank.

**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 27, 2003

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 Selwyn Joffe 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/ Selwyn Joffe<br>Selwyn Joffe | Chief Executive Officer and Director (Principal Executive Officer) | June 27, 2003 |
| /s/ Charles Yeagley<br>Charles Yeagley | Chief Financial Officer (Principal Financial and Accounting Officer) | June 27, 2003 |
| /s/ Mel Marks<br>Mel Marks | Director | June 27, 2003 |
| /s/ Murray Rosenzweig<br>Murray Rosenzweig | Director | June 27, 2003 |
| /s/ Douglas Horn<br>Douglas Horn | Director | June 27, 2003 |
| /s/ Irv Siegel<br>Irv Siegel | Director | June 27, 2003 |

**CERTIFICATIONS**

I, Selwyn Joffe, certify that:

1. I have reviewed this annual report on Form 10-K of Motorcar Parts & Accessories, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 27, 2003

/s/ Selwyn Joffe

Selwyn Joffe
Chief Executive Officer

**CERTIFICATIONS**

I, Charles Yeagley, certify that:

1. I have reviewed this annual report on Form 10-K of Motorcar Parts & Accessories, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 27, 2003

/s/ Charles Yeagley

Charles Yeagley
Chief Financial Officer

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

MOTORCAR PARTS & ACCESSORIES, INC
AND SUBSIDIARIES

March 31, 2003, 2002 and 2001

CONTENTS

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, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003. 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, 2003 and 2002, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended March 31, 2003, 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, 2003. 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 23, 2003

## PART IV — FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 1,307,000 | $ 92,000 |
| Short term investments | 162,000 | 272,000 |
| Accounts receivable, net of allowance for doubtful accounts of $87,000 and $326,000 in 2003 and 2002, respectively | 12,764,000 | 17,922,000 |
| Inventory – net | 27,583,000 | 34,270,000 |
| Income tax refund receivable | 28,000 | — |
| Prepaid expenses and other current assets | 577,000 | 406,000 |
| Total current assets | 42,421,000 | 52,962,000 |
| Plant and equipment – net | 5,228,000 | 6,943,000 |
| Deferred tax asset | 10,521,000 | 6,250,000 |
| Income tax refund receivable | — | 3,409,000 |
| Other assets | 1,112,000 | 1,732,000 |
| | $ 59,282,000 | $ 71,296,000 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 8,082,000 | $ 11,150,000 |
| Accrued liabilities | 2,559,000 | 2,794,000 |
| Line of credit | 9,932,000 | 28,029,000 |
| Deferred compensation | 214,000 | 272,000 |
| Other current liabilities | 18,000 | 44,000 |
| Current portion of capital lease obligations | 815,000 | 1,269,000 |
| Total current liabilities | 21,620,000 | 43,558,000 |
| Capitalized lease obligations less current portion | 209,000 | 915,000 |
| 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 7,960,455 shares issued and outstanding at March 31, 2003 and 2002, respectively | 80,000 | 80,000 |
| Additional paid-in capital | 53,126,000 | 53,126,000 |
| Accumulated other comprehensive loss | (107,000) | (112,000) |
| Accumulated deficit | (15,646,000) | (26,271,000) |
| Total shareholders' equity | 37,453,000 | 26,823,000 |
| | $ 59,282,000 | $ 71,296,000 |

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,

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net Sales | $167,566,000 | $172,040,000 | $160,699,000 |
| Cost of Goods Sold | 150,175,000 | 151,465,000 | 148,731,000 |
| Gross Margin | 17,391,000 | 20,575,000 | 11,968,000 |
| Operating Expenses: | | | |
| General and administrative | 8,916,000 | 7,203,000 | 8,291,000 |
| Sales and marketing | 1,071,000 | 1,167,000 | 1,216,000 |
| Litigation settlement | — | — | 1,500,000 |
| Restructuring expenses | — | — | 914,000 |
| Research and development | 564,000 | 552,000 | 472,000 |
| Provision for doubtful accounts | (104,000) | 412,000 | (36,000) |
| Total Operating Expenses | 10,447,000 | 9,334,000 | 12,357,000 |
| Operating Income (Loss) | 6,944,000 | 11,241,000 | (389,000) |
| Other Expense (Income) | | | |
| Interest expense | 1,980,000 | 3,582,000 | 3,771,000 |
| Interest income | (636,000) | (26,000) | (71,000) |
| Income (loss) before income tax (expense) benefit | 5,600,000 | 7,685,000 | (4,089,000) |
| Income tax (expense) benefit | 5,025,000 | 4,004,000 | (13,000) |
| Net income (loss) | $ 10,625,000 | $ 11,689,000 | $ (4,102,000) |
| Basic income (loss) per share | $ 1.33 | $ 1.61 | $ (0.63) |
| Diluted income (loss) per share | $ 1.24 | $ 1.51 | $ (0.63) |
| Weighted average shares outstanding: | | | |
| Basic | 7,960,455 | 7,253,606 | 6,460,455 |
| Diluted | 8,540,560 | 7,765,958 | 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, 2003, 2002 and 2001

| | Common Stock | | Additional | Accumulated Other | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Comprehensive Loss | Accumulated Deficit | Total | Comprehensive Income (Loss) |
| 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 | 11,689,000 |
| Comprehensive Income | | | | | | | $11,665,000 |
| Balance at March 31, 2002 | 7,960,455 | 80,000 | 53,126,000 | (112,000) | (26,271,000) | 26,823,000 | |
| Foreign currency translation | — | — | — | 5,000 | — | 5,000 | $ 5,000 |
| Net Income | — | — | — | — | 10,625,000 | 10,625,000 | 10,625,000 |
| Comprehensive Income | | | | | | | $10,630,000 |
| Balance at March 31, 2003 | 7,960,455 | $80,000 | $53,126,000 | $ (107,000) | $(15,646,000) | $37,453,000 | |

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,

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | $ 10,625,000 | $ 11,689,000 | ($4,102,000) |
| Adjustments to reconcile net income (loss) to net cash Provided by (used in) operating activities: | | | |
| Depreciation and amortization | 2,384,000 | 2,889,000 | 2,971,000 |
| Provision for doubtful accounts | (104,000) | 412,000 | (36,000) |
| Provision for litigation settlement | — | — | 1,500,000 |
| Benefit for deferred income tax | (4,271,000) | (3,000,000) | — |
| Loss on disposal of assets | — | 11,000 | 176,000 |
| Stock warrants re-priced | — | 360,000 | — |
| Changes in: | | | |
| Accounts receivable | 5,262,000 | (11,010,000) | 7,975,000 |
| Inventory | 6,686,000 | 939,000 | 1,037,000 |
| Income tax refund receivable | 3,381,000 | (964,000) | 1,214,000 |
| Restricted deposit | — | — | (1,500,000) |
| Prepaid expenses and other current assets | (171,000) | 253,000 | (346,000) |
| Other assets | 620,000 | (1,453,000) | 69,000 |
| Accounts payable | (2,909,000) | 3,934,000 | (2,286,000) |
| Deferred compensation | (58,000) | 75,000 | (37,000) |
| Accrued liabilities | (254,000) | (1,357,000) | 308,000 |
| Other liabilities | (165,000) | 44,000 | — |
| Net cash provided by operating activities | 21,026,000 | 2,822,000 | 6,943,000 |
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment | (669,000) | (756,000) | (726,000) |
| Purchase of investments | — | (81,000) | — |
| Liquidation of investments | 110,000 | — | 38,000 |
| Net cash used in investing activities | (559,000) | (837,000) | (688,000) |
| Cash flows from financing activities: | | | |
| Borrowings under the line of credit | 60,281,000 | 49,820,000 | 44,050,000 |
| Payments under the line of credit | (78,378,000) | (50,741,000) | (51,761,000) |
| Advance from major shareholder | — | — | 1,500,000 |
| Payment on capital lease obligation | (1,160,000) | (1,112,000) | (1,005,000) |
| Net cash used in financing activities | (19,257,000) | (2,033,000) | (7,216,000) |
| Effect of translation adjustment on cash | 5,000 | (24,000) | 2,000 |
| Net (decrease) increase in cash and cash equivalents | 1,215,000 | (72,000) | (959,000) |
| Cash and cash equivalents – beginning of year | 92,000 | 164,000 | 1,123,000 |
| Cash and cash equivalents – end of year | $ 1,307,000 | $ 92,000 | $ 164,000 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 2,131,698 | $ 2,678,749 | $ 3,490,000 |
| Income taxes | $ 32,000 | $ 1,000 | $ 500 |
| Non-cash investing and financing activities: | | | |
| Property acquired under capital lease | — | $ 103,000 | $ 133,000 |
| 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, 2003 AND 2002

**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 and Canada. The Company also sells after-market replacement alternators and starters to a major automotive manufacturer.

The Company obtains used alternators and starters, commonly known as cores, primarily from its customers (retailers) as trade-ins and by purchasing them from vendors (core brokers). The retailers grant credit to the consumer when the used part is returned to them, and the Company in turn provides a credit to the retailer upon return to the Company. These cores are an essential material needed for the remanufacturing operations. The Company has remanufacturing, warehousing and shipping/receiving operations for alternators and starters in, California, Singapore 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 Products Pte. Ltd. and Unijoh Sdn. Bhd. All significant inter-company accounts and transactions have been eliminated.

2. *Cash Equivalents*

   The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash balances at several financial institutions location in Southern California, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents. Total amounts uninsured at March 31, 2003 and 2002 were approximately $1,047,000 and $0, respectively.

3. *Accounts Receivable*

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

*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. Plant and Equipment*

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

*7. Foreign Currency Translation*

For financial reporting purposes, the functional currency of the foreign subsidiaries is the local currency. The assets and liabilities of foreign operations are translated 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 income (loss) per share for the years ended March 31, 2003, 2002 and 2001 does not include the effect of 57,475, 457,825 and 653,875 options respectively, as they were anti-dilutive.

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

| | Year end March 31 | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net income (loss) | $10,625,000 | $11,689,000 | $(4,102,000) |
| Basic shares | 7,960,455 | 7,253,606 | 6,460,455 |
| Effect of dilutive options and warrants | 580,105 | 512,352 | 0 |
| Diluted shares | 8,540,560 | 7,765,958 | 6,460,455 |
| Net income (loss) per common share: | | | |
| Basic | $ 1.33 | $ 1.61 | $ (0.63) |
| Diluted | $ 1.24 | $ 1.51 | $ (0.63) |

The effect of dilutive options and warrants excludes approximately 57,475 options with exercise prices ranging from $3.60 to $19.13 per share in 2003; 457,875 options with exercise prices ranging from $2.875 to $19.13 per share in 2002; and 653,875 options with exercise prices ranging from $0.93 to $19.13 per share in 2001 – all of which were anti-dilutive.

*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. The following are significant estimates affecting inventory.

Under the terms of certain agreements with its customers and industry practice, the Company's customers from time to time may be allowed stock adjustments when their 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 2003 and 2002, the Company expensed $962,000 and $898,000, respectively, in cost of goods sold and reduced the stock adjustment reserve by $777,000 and $513,000 for fiscal years 2003 and 2002, respectively, for stock adjustments. The reserve for stock adjustments was $794,000, $609,000 and $225,000 as of March 31, 2003, 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 2003 by $150,000 from $3,715,000 in fiscal year 2002 to $3,565,000 in fiscal year 2003. This decrease was due to the increased quality of the inventory on hand and the continued focus on sales of obsolete inventory. In fiscal 2002, this account decreased by $159,000 from $3,874,000 in fiscal year 2001 to $3,715,000 in fiscal year 2002.

The Company adjusts the carrying value of cores in three ways, (1) when purchases constitute 25% or more of quantity on hand, then a weighted average cost of recent purchases is applied, (2) core values not updated by the above method are adjusted every six months based on a comparison to core broker prices. All cores that have a difference between the carrying value and the quoted core broker price of 35% or greater are adjusted to reflect the change in market value, and (3) a valuation reserve has been set up for those cores not adjusted by the above policies. This reserve account is based upon the inherent value of cores, which the Company estimates has a life cycle of 20 years. This reserve account decreased in fiscal year 2003 by $227,000 from $264,000 in fiscal year 2002 to $37,000 in fiscal 2003. This decrease was principally the result of the Company continuing to decrease its core inventory by selling and scrapping cores. In fiscal year 2002, this reserve account decreased by $115,000 from $379,000 in fiscal year 2001 to $264,000 in fiscal year 2002.

The Company eliminated the valuation allowance for deferred tax assets of $8,429,000 in fiscal year 2003. Management believes that it is more likely than not, based on projected taxable income, that the deferred tax assets will be fully realized before their expiration.

*11. Financial Instruments*

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

*12. Stock-Based Compensation*

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

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net Income/(Loss): | | | |
| Pro forma | $10,456,000 | $10,663,000 | $(4,152,000) |
| As reported | 10,625,000 | 11,689,000 | (4,102,000) |
| Basic income/(loss) per share – pro forma | 1.31 | 1.47 | (0.64) |
| Basic income/(loss) per share – as reported | 1.33 | 1.61 | (0.63) |
| Dilutive income/(loss) per share – pro forma | 1.22 | 1.37 | (0.64) |
| Dilutive income/(loss) per share – as reported | 1.24 | 1.51 | (0.63) |

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 2003. The following assumptions were used in the Black-Scholes pricing model; expected dividend yield 0%, risk-free interest rate 2.23%, expected volatility factor of 53%, and an expected life of 5 years.

*13. Credit Risk*

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

*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.

*16. Marketing Allowances*

The Company records the cost of marketing allowances in accordance with the Emerging Issues Task Force (EITF) 01-9 "Accounting for Consideration Given by a Vendor to a Customer". Under the EITF, voluntary marketing allowances related to a single exchange of product are recorded as a reduction of sales in the period the related revenues are recognized. Other marketing allowances are recorded as a reduction of revenues over the life of the contract.

*17. Recent Pronouncements.*

In August 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of a Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 was effective January 1, 2002. The adoption of SFAS 144 did not have a material impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" ("SFAS 145"). SFAS 145 updates and clarifies existing accounting pronouncements related to gains and losses from extinguishment of debt and requires that certain lease modifications be accounted for in the same manner as sale-leaseback transactions. The adoption of SFAS 145 effective January 1, 2003, did not have a material impact on the Company's financial statements.

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The adoption of SFAS 146 effective January 1, 2003, did not have a material impact on the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("SFAS 148"), an amendment of SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 148 amends SFAS 123 to provide alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS 123 to require prominent disclosures for both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the methods used on reported results. The interim transition and annual disclosure requirements of SFAS 148 are effective for the Company's fiscal year 2003. The Company does not expect SFAS 148 to have a material impact on its consolidated results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which elaborates on the disclosures to be made in interim and annual financial statements of a guarantor about its obligations under certain guarantees that it has been issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing a guarantee. Initial recognition and measurement provisions for the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. As of December 31, 2002, the Company did not have any outstanding guarantees.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, which addresses consolidation by business enterprises of variable interest entities. Consolidation by a primary beneficiary of the assets, liabilities and results of activities of variable interest entities will provide more complete information about the resources, obligations, risks and opportunities of the consolidated company. The interpretation also requires disclosures about variable interest entities that the company is not required consolidate but in which it has a significant variable interest. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003 and apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company is in the process of evaluating the disclosures and possible impact of adopting Interpretation No. 46 and does not believe such adoption will have a material impact on its financial statements.

**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 Q). 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 are 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, and overhead. 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:

| | 2003 | 2002 |
|---|---|---|
| Raw materials and cores | $20,197,000 | $23,292,000 |
| Work-in-process | 719,000 | 1,286,000 |
| Finished goods | 10,232,000 | 13,407,000 |
| | 31,148,000 | 37,985,000 |
| Less allowance for excess and obsolete inventory | (3,565,000) | (3,715,000) |
| Total | $27,583,000 | $34,270,000 |

**Note E – Plant and Equipment**

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

| | 2003 | 2002 |
|---|---|---|
| Machinery and equipment | $ 12,412,000 | $ 11,949,000 |
| Office equipment and fixtures | 4,539,000 | 5,031,000 |
| Leasehold improvements | 2,619,000 | 2,782,000 |
| | 19,570,000 | 19,762,000 |
| Less accumulated depreciation and amortization | (14,342,000) | (12,819,000) |
| Total | $ 5,228,000 | $ 6,943,000 |

**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 $6,104,000 and $4,414,000, respectively, at March 31, 2003 and $5,979,000 and $3,506,000, respectively at March 31, 2002.

Future minimum lease payments at March 31, 2003 for the capital leases are as follows:

| Year Ending March 31 | |
|---|---|
| 2004 | $ 855,000 |
| 2005 | 112,000 |
| 2006 | 74,000 |
| 2007 | 33,000 |
| 2008 | 6,000 |
| Total minimum lease payments | 1,080,000 |
| Less amount representing interest | 56,000 |
| Present value of future minimum lease payment | 1,024,000 |
| Less current portion | (209,000) |
| | $ 815,000 |

**Note G – Line of Credit**

On December 20, 2002, the Company obtained a new line of credit which provides for borrowings up to the lesser of (i) $25,000,000 or (ii) its borrowing base, which consists of 75% of the Company's qualified accounts receivable plus up to $10,000,000 of qualifying inventory. The Company paid the new lender a loan origination fee of $125,000 which has been deferred and is being amortized over 36 months. As a result of this refinancing, the Company's previous lender waived restructuring fees in the amount of $655,000 which were incurred in connection with an earlier restructuring of the Company's prior lending arrangement and which were to be paid if the Company did not secure a new lending source by December 31, 2002. The unamortized portion of the refinancing fee of $447,000 and the related liability of $655,000 were recorded in the income statement, resulting in a net credit of $208,000 recorded to interest expense.

At March 31, 2003 the Company's borrowing base was $19,080,000, and the Company had borrowed $9,932,000 of this amount and reserved an additional $1,971,000 in connection with the issuance of standby letters of credit for worker's compensation insurance. As such, the Company had availability under its line of credit of $7,177,000. The interest rate on this credit facility fluctuates and is based upon the (i) higher of the federal funds rate plus 1/2 of 1% or the bank's prime rate, in each case adjusted by a margin of between –. 25% and .25% that fluctuates based upon the Company's cash flow coverage ratio or (ii) LIBOR or IBOR, as adjusted to take into account any bank reserve requirements, plus a margin of between 2.00% and 2.50% that fluctuates based upon the Company's cash flow coverage ratio. At March 31, 2003, $6,000,000 of the Company's available credit facility was calculated based upon the six-month IBOR + 2.00% and $3,932,000 was calculated based upon the bank's prime rate + .25%. On March 31, 2003 IBOR was 1.32% while the bank's prime rate was 3.75%; therefore, the Company's interest rates for the IBOR and the prime rate portions of the credit facility were 3.32% and 4.00%, respectively.

The bank loan agreement includes various financial conditions, including minimum levels of tangible net worth, cash flow coverage and a number of restrictive covenants, including prohibitions against additional indebtedness, payment of dividends, pledge of assets and capital expenditures as well as loans to officers and/or affiliates. In addition, pursuant to the terms specified in this new loan agreement the Company agrees to pay a fee of .25% per year on any difference between the Commitment and the outstanding amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period.

The Company has an agreement executed on June 26, 2002 with one of its customer's banks, whereby the Company has the option to sell this customer's receivables to the bank, at an agreed upon discount set at the time the receivables are sold. The discount has ranged from .53% to 1.51% during 2003, and has allowed the Company to accelerate collection of the customer's receivables aggregating $24,000,000 by an average of 51 days. The Company has benefited from this agreement by reducing its line-of-credit by more than $3,000,000.

**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, together with customer input, to determine if the allowance should be adjusted. The Company has recorded an allowance of $794,000 and $609,000 at March 31, 2003 and 2002, respectively.

**Note I – Accumulated Other Comprehensive Loss**

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Foreign currency translation | $ (76,000) | $ (81,000) | $(68,000) |
| Unrealized losses on investments | (31,000) | (31,000) | (20,000) |
| | $(107,000) | $(112,000) | $(88,000) |

**Note J – Employment Agreements and Bonus Plan**

The Company has employment agreements with key employees, expiring at various dates through March 31, 2006. The employment agreements provide for annual base salaries aggregating $1,033,000. In addition, some of these employees were granted options pursuant to the Company's stock option plans for the purchase of 338,250 shares of common stock at exercise prices ranging from $0.93 to $3.60 per share.

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 years ended March 31, 2003, 2002 and 2001 was $1,494,000, $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, 2003, the remaining future minimum rental payments under the above operating leases are as follows:

| Year ending March 31, | |
|---|---|
| 2004 | 1,152,000 |
| 2005 | 1,153,000 |
| 2006 | 1,146,000 |
| 2007 | 1,132,000 |
| Thereafter | — |
| | $4,583,000 |

During fiscal years 2003, 2002 and 2001, the Company incurred total lease expenses of $1,150,000, $1,497,000 and $1,688,000, respectively.

The Company entered into a five-year agreement with one of its major customers in March, 2003 whereby the Company was designated as the primary supplier for all remanufactured Import alternators and starters purchased by this customer. In consideration for this contract, the Company agreed to issue credits to this customer of approximately $5,014,000 at various times over the life of this five-year period. With the execution of this agreement, the Company recognized a charge against gross revenues of $1,626,000 in fiscal 2003, received inventory valued at $406,000 and an update order from this customer and agreed to assist this customer with their efforts to reduce their warranties by participating in a warranty reduction program. The balance of the marketing allowance of $2,982,000 will be recognized as a charge against gross revenues over a five-year period.

**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:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net Sales | 91% | 86% | 69% |
| Accounts Receivable | 93% | 75% | 73% |

**Note M – Income Taxes**

The income tax benefit (expense), for the years ended March 31, 2003, 2002 and 2001 is as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Current tax benefit (expense) | | | |
| Federal | $ 821,000 | $1,004,000 | $ — |
| State | (67,000) | — | (13,000) |
| Total current tax benefit (expense) | 754,000 | 1,004,000 | (13,000) |
| Deferred tax benefit | | | |
| Federal | 3,703,000 | 2,610,000 | — |
| State | 568,000 | 390,000 | — |
| Total deferred tax benefit | 4,271,000 | 3,000,000 | — |
| Total income tax benefit (expense) | $5,025,000 | $4,004,000 | $(13,000) |

Deferred income taxes consist of the following at March 31:

| | 2003 | 2002 |
|---|---|---|
| Assets | | |
| Net operating loss carry-forwards | $ 6,356,000 | $ 3,542,000 |
| Inventory valuation | 4,183,000 | 5,619,000 |
| Inventory accounting method change | — | 5,066,000 |
| Allowance for customer discounts and bad debts | 690,000 | 475,000 |
| Inventory capitalization | 54,000 | 43,000 |
| Vacation pay | 194,000 | 180,000 |
| Deferred compensation | 90,000 | 107,000 |
| Accrued bonus | 132,000 | 310,000 |
| Other | 5,000 | 5,000 |
| | 11,704,000 | 15,347,000 |
| Liabilities | | |
| Deferred state tax | (457,000) | — |
| Accelerated depreciation | (726,000) | (848,000) |
| Net deferred tax assets | 10,521,000 | $14,499,000 |
| Less: valuation allowance | — | (8,249,000) |
| | $10,521,000 | $ 6,250,000 |

The Company eliminated the valuation allowance for deferred tax assets of $8,249,000 in 2003 and reduced the allowance by $5,971,000 in 2002. In 2001, the valuation allowance increased by $691,000. 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. 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. At March 31, 2003, the Company had federal and state net operating loss carry forwards of $17,110,000 and $6,795,000, respectively, which expire in varying amounts through 2023.

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 received $821,000 in tax refunds that were recorded in fiscal 2003 related to the five-year carry-back provision of the act.

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Statutory federal income tax rate | 34% | 34% | (34)% |
| State income tax rate | 5% | 5% | (5)% |
| Change in tax law | (15)% | (13)% | (13)% |
| Valuation allowance | (114)% | (78)% | 39% |
| | (90)% | (52)% | (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. After a number of shareholder-approved increases to this plan, at March 31, 2002 the aggregate number of stock options approved was 960,000 shares of the Company's common stock. The term and vesting period of options granted is determined by a committee of the Board of Directors with a term not to exceed ten years.

At the Company's Annual Meeting of Shareholders held on November 8, 2002 the 1994 Plan was amended to increase the authorized number of shares issued to 1,155,000. As of March 31, 2003, there were 895,375 options outstanding under the 1994 Plan and 54,375 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, 2003.

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, 2003.

Summary of stock option transactions is as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| 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 |
| Granted | 154,500 | $ 2.38 |
| Exercised | 0 | $ 0 |
| Cancelled | (8,000) | $ 1.87 |
| Outstanding at 3/31/03 | 940,375 | $ 2.82 |

The following table summarizes information about the options outstanding at March 31, 2003:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| | | Weighted Average | | | Weighted Average |
| Range of Exercise Prices | Shares | Exercise Price | Remaining Life in Years | Shares | Exercise Price |
| $0.93 to $1.21 | 178,500 | $ 1.08 | 8.24 | 178,500 | $ 1.08 |
| $2.20 to $3.15 | 734,000 | $ 2.88 | 8.51 | 734,000 | $ 2.88 |
| $8.13 to $11.88 | 15,000 | $ 8.05 | 3.75 | 15,000 | $ 8.05 |
| $12.00 to $19.13 | 12,875 | $ 17.56 | 4.24 | 12,875 | $17.56 |
| | 940,375 | | | 940,375 | |

**Note O — Litigation**

On September 18, 2002, the Securities and Exchange Commission filed a civil suit against the Company and its former chief financial officer, Peter Bromberg, arising out of the SEC's investigation into the Company's financial statements and reporting practices for fiscal years 1997 and 1998. Simultaneously with the filing of the SEC Complaint, the Company agreed to settle the SEC's action without admitting or denying the allegations in the Complaint. Under the terms of the settlement agreement, the Company is subject to a permanent injunction barring the Company from future violations of the antifraud and financial reporting provisions of the federal securities laws. No monetary fine or penalty was imposed upon the Company in connection with this settlement with the SEC. The SEC's case against Bromberg has not been settled. In addition, the United States Attorney's Office for the Central District of California filed criminal charges against Bromberg on September 18, 2002 relating to his alleged role in the actions that form the basis for the SEC's Complaint. Bromberg has pled guilty to these criminal charges and is awaiting sentencing.

The United States Attorney's Office has informed the Company that it does not intend to pursue criminal charges against the Company arising from the events involved in the SEC Complaint. The U.S. Attorney's Office is, however, continuing its investigation into the events involved in the SEC's Complaint. The Company has been informed that the U.S. Attorney's Office has named Richard Marks as a target of its investigation. During the 1997 and 1998 periods under investigation, Mr. Marks served as the Company's President and COO. Mr. Marks is currently an advisor to the Company's Chief Executive Officer and Board of Directors.

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 have received $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.

We are current with respect to filing all of our required reports to the SEC on time for the past 24 months. However, only four years of financial data is available due to a required restatement of our financials for fiscal year ended 2000. At that time, due to cost and time constraints, only the balance sheet was restated for fiscal year 1999 and therefore, only four years of financial information is available. The SEC is aware of this fact 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 non-compliance situation, 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 agreements with three members of its Board of Directors, Messrs. Selwyn Joffe, Mel Marks and Doug Horn.

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 $350,000 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 us in considering and pursuing potential transactions and relationships intended to enhance stockholder value. In connection with this arrangement, we agreed to pay Mr. Joffe an additional $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. This agreement remained in effect until February 14, 2003 at which time Mr. Joffe accepted his current position as President and Chief Executive Officer in addition to serving as the Chairman of the Board of Directors. Mr. Joffe's current agreement calls for an annual salary of $500,000, the continuation of his prior agreement relative to payment of 1% of the value of any transactions which close by March 31, 2006 along with a car allowance and other compensation generally provided to our other executive staff members. In addition, Mr. Joffe was awarded 100,000 Stock Options effective March 3, 2003 at a strike price of $2.16. Unless otherwise extended, this contract expires on March 31, 2006.

The Company has agreed to pay Mr. Horn $120,000 per year for serving as the Chairman of the Company's Audit, Compensation and Ethics Committees respectively.

**Note Q – Unaudited Quarterly Financial Data**

The following summarizes selected quarterly financial data for the fiscal year ended March 31, 2003:

| FY 2003 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Net Sales | $48,405,000 | $44,456,000 | $40,115,000 | $34,550,000 |
| Gross Margin | 5,181,000 | 4,858,000 | 5,194,000 | 2,158,000 |
| Total Operating Expenses | 2,593,000 | 2,442,000 | 2,937,000 | 2,475,000 |
| Operating Income / (Loss) | 2,588,000 | 2,416,000 | 2,257,000 | (317,000) |
| Interest expense — net | 616,000 | 872,000 | (270,000) | 126,000 |
| Income tax (expense) benefit | (1,000) | — | 695,000 | 4,331,000 |
| Net Income | $ 1,971,000 | $ 1,544,000 | $ 3,222,000 | $ 3,888,000 |
| Basic income per share | $ 0.25 | $ 0.19 | $ 0.40 | $ 0.49 |
| Diluted income per share | $ 0.23 | $ 0.18 | $ 0.38 | $ 0.45 |

Significant 4th Quarter Adjustments: The Company's fiscal year 2003 operating results were impacted by the Company's recording of a $4,331,000 tax benefit in the fourth quarter of fiscal 2003 associated with a reduction in the valuation allowance for net deferred tax assets.

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 |
| Gross Margin | 4,581,000 | 6,378,000 | 3,753,000 | 5,863,000 |
| Total Operating Expenses | 2,435,000 | 2,624,000 | 1,647,000 | 2,628,000 |
| Operating Income | 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 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 a reduction in the valuation allowance for net deferred tax assets.

## 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 |
|---|---|---|---|---|---|
| 2003 | Accounts receivable allowance | $326,000 | $(104,000) | $135,000 | $ 87,000 |
| 2002 | Accounts receivable allowance | 149,000 | 412,000 | 235,000 | 326,000 |
| 2001 | Accounts receivable allowance | 319,000 | (36,000) | 134,000 | 149,000 |

### 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 |
|---|---|---|---|---|---|
| 2003 | Allowance for obsolescence | $3,715,000 | $ 1,550,000 | $1,700,000 | $3,565,000 |
| 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 |

EXHIBIT 10.42

# EMPLOYMENT AGREEMENT

This employment agreement (this "AGREEMENT") dated as of February 14, 2003, is entered into by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation currently having an address at 2929 California Street, Torrance, California 90503 (together with its subsidiaries and affiliates, the "COMPANY"), and Selwyn Joffe, an individual residing at 2687 Cordelia Road, Los Angeles, California 90049 (the "EXECUTIVE").

WITNESSETH:

WHEREAS, the COMPANY desires to employ EXECUTIVE as its Chairman of the Board, President and Chief Executive Officer and EXECUTIVE desires to be so employed by the COMPANY, all upon the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. EMPLOYMENT; PRIOR AGREEMENTS. Subject to and upon the terms and conditions contained in this AGREEMENT, the COMPANY hereby agrees to employ EXECUTIVE and EXECUTIVE agrees to be employed by the COMPANY, for the period set forth in Paragraph 2 hereof, to render the services to the COMPANY, its affiliates and/or subsidiaries as described in Paragraph 3 hereof. Each of the Consulting Agreement dated as of December 1, 1999 and the Agreement for Consulting Services dated as of May 9, 2002, both between the COMPANY and the EXECUTIVE (the "PRIOR AGREEMENTS") shall terminate as of the date hereof (the "COMMENCEMENT DATE"); provided, however, that any payments due and payable to the EXECUTIVE under the PRIOR AGREEMENTS as of the COMMENCEMENT DATE shall be paid as provided therein.

2. TERM. EXECUTIVE'S term of employment under this AGREEMENT shall commence on the COMMENCEMENT DATE and shall continue for a period through and including March 31, 2006 (the "EMPLOYMENT TERM"), unless extended in writing by both parties or earlier terminated pursuant to the terms and conditions set forth herein.

3. DUTIES.

   (a) EXECUTIVE shall be employed as the COMPANY'S Chairman of the Board, President and Chief Executive Officer and shall report to the COMPANY'S Board of Directors. It is agreed that EXECUTIVE shall perform his service in the COMPANY'S Torrance, California, facilities, or any other facilities mutually agreeable to the parties.

   (b) EXECUTIVE agrees to abide by all By-Laws and applicable policies of the Company promulgated from time to time by the Board of Directors of the COMPANY and its constituent committees (together with its appropriate committees, the "BOARD OF DIRECTORS").



4. EXCLUSIVE SERVICES AND BEST EFFORTS. EXECUTIVE shall devote all of his working time, attention, best efforts and ability to the service of the COMPANY, its affiliates and subsidiaries during the term of this AGREEMENT.

5. COMPENSATION. As compensation for his services and covenants hereunder, the COMPANY shall pay EXECUTIVE the following:

   (a) Base Salary; Benefits. The COMPANY shall pay EXECUTIVE a base salary ("SALARY") of Five Hundred Thousand Dollars ($500,000) per year. The EXECUTIVE shall receive such additional benefits as are usually provided from time-to-time to senior executives of the COMPANY.

(b) Bonus. EXECUTIVE shall participate in the COMPANY'S Executive Bonus Program as adopted and amended from time to time by the COMPANY'S Board of Directors. The COMPANY'S Executive Bonus Program shall be adopted and effective no later than with respect to fiscal periods beginning April 1, 2003.

(c) Stock Option. As additional consideration for the services to be performed by EXECUTIVE, the COMPANY granted EXECUTIVE, on March 3, 2003, an option to purchase 100,000 shares of the COMPANY'S common stock, pursuant to the COMPANY'S 1994 Stock Option Plan, at an exercise price of $2.16 per share. Such option shall be immediately exercisable with respect to one-half of such shares and on the first anniversary thereof with respect to the remaining such shares. Upon the termination of this AGREEMENT for any reason, or the expiration of the options for any reason, EXECUTIVE shall have, for a period of 90 days from such termination or expiration, the option, but not the obligation, to sell for cash all or any part of the option, and all or any of the underlying shares if any or all of the options have been exercised, to the COMPANY for (i) with respect to each share remaining subject to the option, the closing price of the COMPANY'S common stock on the trading day immediately preceding termination or expiration (or, if the COMPANY'S stock is not then publicly traded, the fair market value thereof as determined by negotiation between the COMPANY and the EXECUTIVE) minus the exercise price and (ii) with respect to each share purchased pursuant to the option and held by the EXECUTIVE, the closing price of the COMPANY'S common stock on the trading day immediately preceding termination or expiration(or, if the COMPANY'S stock is not then publicly traded, the fair market value thereof as determined by negotiation between the COMPANY and the EXECUTIVE).

(d) Certain Transaction Fees. In the event of one or more "PROPOSED TRANSACTIONS" (as defined in Exhibit A hereto) occurring during the term of this AGREEMENT, EXECUTIVE shall receive, as additional compensation with respect to each PROPOSED TRANSACTION, a fee as set forth in Exhibit A hereto (the "TRANSACTION FEES").

6. BUSINESS EXPENSES. EXECUTIVE shall be reimbursed for, and entitled to advances (subject to repayment to the COMPANY if not actually incurred by EXECUTIVE) with respect to, only those business expenses incurred by him which are reasonable and necessary



for EXECUTIVE to perform his duties under this AGREEMENT in accordance with policies established from time to time by the COMPANY.

7. EXECUTIVE BENEFITS.

(a) EXECUTIVE shall be entitled to four (4) weeks paid vacation each year during the EMPLOYMENT TERM.

(b) The COMPANY may withhold from any benefits payable to EXECUTIVE all federal, state, local and other taxes and amounts as shall be required pursuant to law, rule or regulation. All of the benefits to which EXECUTIVE may be entitled which are not specifically described herein may be changed from time to time or withdrawn at any time in the sole discretion of the COMPANY, so long as any such change or withdrawal are applicable to all of the relevant COMPANY executives and to the relevant executives of any company which may control the COMPANY.

(c) During the EMPLOYMENT TERM the COMPANY shall provide to executive an automobile allowance in the amount of Fifteen Hundred Dollars ($1500.00) per month, payable monthly. In lieu of such allowance, the Company may, at its option, elect to provide EXECUTIVE an automobile of a make, model and year

mutually agreeable to the COMPANY and EXECUTIVE, all costs of which, including fuel, oil, insurance, repairs, maintenance and other expenses, shall be the responsibility of the COMPANY.

(d) During the EMPLOYMENT TERM, if EXECUTIVE does not elect medical insurance coverage for himself and his eligible family through the COMPANY, he shall receive as an allowance for such medical insurance an amount equal to the then cost which would be incurred by the COMPANY in supplying such coverage for EXECUTIVE and his eligible family.

8. DEATH AND DISABILITY.

(a) The EMPLOYMENT TERM shall terminate on the date of EXECUTIVE'S death, in which event EXECUTIVE'S accrued SALARY, BONUS and TRANSACTION FEES, if any, reimbursable expenses and benefits, including accrued but unused vacation time, owing to EXECUTIVE through the date of EXECUTIVE'S death, shall be paid to the EXECUTIVE'S estate, and EXECUTIVE'S estate shall assume EXECUTIVE'S rights under the 1994 Stock Option Plan and the related rights under this AGREEMENT. EXECUTIVE'S estate will not be entitled to any other compensation upon termination of this AGREEMENT pursuant to this Paragraph 8 (a)

(b) If, during the EMPLOYMENT TERM, in the opinion of a duly licensed physician selected by COMPANY and reasonably acceptable to the EXECUTIVE, EXECUTIVE, because of physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this AGREEMENT for a period of 180 ) consecutive days , the COMPANY may, upon at least ten (10) days' prior written notice given at any time after the expiration of



such 180 ) day period to EXECUTIVE of its intention to do so, terminate this AGREEMENT as of such date as may be set forth in the notice. In case of such termination, EXECUTIVE shall be entitled to receive his accrued SALARY, BONUS and TRANSACTION FEES, if any, reimbursable expenses and benefits owing to EXECUTIVE through the date of termination. In addition, EXECUTIVE shall be entitled to receive the benefits payable pursuant to the POLICY described in Paragraph 8(c) below. EXECUTIVE will not be entitled to any other compensation upon termination of this AGREEMENT pursuant to this Paragraph 8 (b).

(c) During the period ending no later than June 30, 2003, the COMPANY and the EXECUTIVE agree to negotiate in good faith to provide EXECUTIVE, at the COMPANY'S expense, with the benefit of an appropriate amount and term and terms of disability insurance. The EXECUTIVE understands and agrees that this Section 8(c) shall not require the COMPANY to agree to any particular disability terms or policy, but to, in the COMPANY'S judgment, negotiate with EXECUTIVE with respect to disability insurance. Any agreement reached by the parties with respect to providing such insurance to EXECUTIVE shall be evidenced by a written amendment to this AGREEMENT signed by the COMPANY and the EXECUTIVE.

9. TERMINATION.

(a) The COMPANY may terminate the employment of EXECUTIVE for Cause (as hereinafter defined); provided, however, that such termination shall only become effective if the COMPANY (acting upon duly adopted resolutions of the Board) shall first give EXECUTIVE written notice of the material breach or default, which notice shall (i) identify in reasonable detail the manner in which the COMPANY believes that EXECUTIVE has breached or defaulted under this AGREEMENT or in the performance of his duties and (ii) indicate the steps required to cure such breach or default, and EXECUTIVE shall fail

within 20 business days after receipt of such notice to substantially remedy or correct the same. Upon any such termination, the COMPANY shall be released from any and all further obligations under this AGREEMENT, except that the COMPANY shall be obligated to pay EXECUTIVE his accrued SALARY, BONUS and TRANSACTION FEES, if any, reimbursable expenses and benefits owing to EXECUTIVE through the day on which EXECUTIVE is terminated. EXECUTIVE will not be entitled to any other compensation upon termination of this AGREEMENT pursuant to this Paragraph 9 (a).

(b) As used in this AGREEMENT, the term "Cause" shall mean: (i) the willful failure of EXECUTIVE to perform his duties pursuant to Paragraph 3 hereof, which failure is not cured by EXECUTIVE as described in subparagraph (a) above, or (ii) the commission by EXECUTIVE of an act involving moral turpitude, dishonesty, theft or fraudulent business conduct.

(c) EXECUTIVE may voluntarily terminate this AGREEMENT for Good Reason. For purposes of this AGREEMENT, "Good Reason" shall mean the occurrence of a Change in Control, as defined below, of the COMPANY. In the event of a



Change in Control, EXECUTIVE may voluntarily terminate this AGREEMENT for Good Reason within 90 days of such event by giving written notice thereof to COMPANY.

(d) For purposes of this AGREEMENT, a "Change in Control" shall have occurred if:

(i) any "person", as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the COMPANY, any trustee or other fiduciary holding securities under an employee benefit plan of the COMPANY, any corporation owned, directly or indirectly, by the stockholders of the COMPANY in substantially the same proportions as their ownership of stock of the COMPANY, Mel Marks, Richard Marks or any affiliate or family relative of either of them, or any trust for the benefit thereof), individually or as a group, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the COMPANY representing 30% or more of the combined voting power of the COMPANY'S then outstanding securities;

(ii) the shareholders of the COMPANY approve a merger or consolidation of the COMPANY with any other corporation, other than (A) a merger or a consolidation which would result in the voting securities of the COMPANY outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 80% of the combined voting power of the voting securities of the COMPANY or such surviving entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the COMPANY (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 30% of the combined voting power of the COMPANY's then outstanding securities; or

(iii) the shareholders of the COMPANY approve an agreement for the sale or disposition by the COMPANY of all or substantially all of the COMPANY'S assets.

(e) If EXECUTIVE shall voluntarily terminate this AGREEMENT pursuant to the provisions of Subparagraph 9(c), then the COMPANY shall pay EXECUTIVE'S Salary and benefits through March 31, 2006 at the annual rate in effect immediately prior to the Termination Date. For the purposes of the foregoing payments, the foregoing annual SALARY rate shall be the rate paid to EXECUTIVE without regard to any purported reduction or attempted reduction of such rate by the COMPANY.

EXECUTIVE shall not be required to mitigate the amount of any payment provided for in this Paragraph 9 by seeking employment or otherwise, nor shall the amount of any payment or benefit provided for in this Paragraph 9 be reduced by any compensation earned by EXECUTIVE as the result of consultancy with or employment by another entity, by retirement benefits, by offset against any amount claimed to be owed by EXECUTIVE to the COMPANY, or otherwise.

10. DISCLOSURE OF INFORMATION AND RESTRICTIVE COVENANT. EXECUTIVE acknowledges that, by his employment, he has been and will be in a confidential relationship with the COMPANY and will have access to confidential information and trade secrets of the



COMPANY, its subsidiaries and affiliates. Confidential information and trade secrets include, but are not limited to, customer, supplier, and client lists, marketing, distribution and sales strategies and procedures, operational and equipment techniques, business plans and system, quality control procedures and systems, special projects and technological research, including projects, research and reports for any entity or client or any project, research, report or the like concerning sales or manufacturing or new technology, EXECUTIVE compensation plans and any other information relating thereto, and any other records, files, drawings, inventions, discoveries, applications, processes, data, and information concerning the business of the COMPANY which are not in the public domain. EXECUTIVE agrees that in consideration of the execution of this AGREEMENT by the COMPANY:

(a) EXECUTIVE will not, during the term of this AGREEMENT or at any time thereafter, use, or disclose to any third party, trade secrets or confidential information of the COMPANY, including but not limited to, confidential information or trade secrets belonging or relating to the COMPANY, its subsidiaries, affiliates, customers and clients or proprietary processes or procedures of the COMPANY, its subsidiaries, affiliates, customers and clients. Proprietary processes and procedures shall include, but shall not be limited to, all information which is known or intended to be known only to executives of the COMPANY or others in a confidential relationship with the COMPANY or its respective subsidiaries and affiliates which relates to business matters.

(b) EXECUTIVE will not, during the term of this AGREEMENT, directly or indirectly, under any circumstance other than at the direction and for the benefit of the COMPANY, engage in or participate in any business activity, including, but not limit to, acting as a director, franchiser or franchisee, proprietor, syndicate member, shareholder or creditor or with a person having any other relationship with any other business, company, firm occupation or business activity, in any geographic area within the United States that is, directly or indirectly, competitive with any business completed by the COMPANY or any of its subsidiaries or affiliates during the term of this AGREEMENT or thereafter. Should EXECUTIVE own 5% or less of the issued and outstanding shares of a class of securities of a corporation the securities of which are traded on a national securities exchange or in the over-the-counter market, such ownership shall not cause EXECUTIVE to be deemed a shareholder under this Paragraph 10 (b).

(c) EXECUTIVE will not, during the term of this AGREEMENT, on his behalf or on behalf of any other business enterprise, directly or indirectly, under any circumstance other than at the direction and for the benefit of the COMPANY, solicit or induce any creditor, customer, supplier, officer, EXECUTIVE or agent of the COMPANY or any of its subsidiaries or affiliates to sever its relationship with or leave the employ of any such entities.

(d) This Paragraph 10 and Paragraphs 11, 12 and 13 hereof shall survive the expiration or termination of this AGREEMENT for any reason.

(e) It is expressly agreed by EXECUTIVE that the nature and scope of each of the provisions set forth above in this Paragraph 10 are reasonable and necessary. If, for any reason, any aspect of the above provisions as it applies to EXECUTIVE is determined by a court of competent jurisdiction to be unreasonable, or unenforceable, the provision shall only be modified to the minimum extent required to make the provisions reasonable and/or enforceable, as the case may be. EXECUTIVE acknowledges and agrees that his services are of a unique character and expressly grants to the COMPANY or any subsidiary, successor or assignee of the COMPANY, the right to enforce the provisions above through the use of all remedies available at law or in equity, including, but not limited to, injunctive relief.

11. COMPANY PROPERTY.

(a) Any patents, inventions, discoveries, applications or process, designs, devised, planned, applied, created, discovered or invented by EXECUTIVE in the course of EXECUTIVE'S employment under this AGREEMENT and which pertain to any aspect of the COMPANY'S or its respective subsidiaries' or affiliates' business shall be the sole and absolute property of the COMPANY, and EXECUTIVE shall make prompt report thereof to the COMPANY and promptly execute any and all documents reasonably requested to assure the COMPANY the full and complete ownership thereof.

(b) All records, files, lists, including computer generated lists, drawings, documents, equipment and similar items relating to the COMPANY'S business which EXECUTIVE shall prepare or receive from the COMPANY shall remain the COMPANY'S sole and exclusive property. Upon termination of this AGREEMENT, EXECUTIVE shall promptly return to the COMPANY all property of the COMPANY in his possession. EXECUTIVE further represents that he will not copy or cause to be copied, print out or cause to be printed out any software, documents or other materials originating with or belonging to the COMPANY. EXECUTIVE additionally represents that, upon termination of his employment with the COMPANY, he will not retain in his possession any such software, documents or other materials.

12. REMEDY. It is mutually understood and agreed that EXECUTIVE'S services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this AGREEMENT by EXECUTIVE, including but not limited to, the breach of the non-disclosure, non-solicitation and non-compete clauses of Paragraph 10 hereof, the COMPANY shall be entitled to equitable relief by way of injunction or otherwise in addition to damages the COMPANY may be entitled to recover.

13. REPRESENTATIONS AND WARRANTIES OF EXECUTIVE. In order to induce the COMPANY to enter into this AGREEMENT, EXECUTIVE hereby represents and warrants to the COMPANY as follows: (i) EXECUTIVE hereby has the legal capacity and unrestricted right to execute and deliver this AGREEMENT and to perform all of his obligations hereunder; (ii) the execution and delivery of this AGREEMENT by EXECUTIVE and the



performance of his obligations hereunder will not will not violate or be in conflict with any fiduciary or other duty, instrument, agreement, document, ,arrangement or other understanding to which EXECUTIVE is a party or by which he is or may be bound or subject; and (iii) EXECUTIVE is not a party to any instrument, agreement, document, arrangement or other understanding with any person (other than the COMPANY) requiring

or restricting the use or disclosure of any confidential information or the provision of any employment, consulting or other services, except any confidentiality agreements unrelated to the COMPANY'S industry and having no relationship or impact of any kind whatsoever with respect to this AGREEMENT and the transactions contemplated hereby.

14. NOTICES. All notices given hereunder shall be in writing and shall be deemed effectively given when hand-delivered or mailed, if sent by registered or certified mail, return receipt requested, addressed to EXECUTIVE at his address set forth on the first page of this AGREEMENT or to the COMPANY at its address set forth on the first page of this AGREEMENT or to such changed address as may be properly noticed hereunder.

15. ENTIRE AGREEMENT. This AGREEMENT constitutes the entire understanding of the parties with respect to its subject matter and no change, alteration or modification hereof may be made except in writing signed by the parties hereto. Any prior or other agreements, promises, negotiations or representations not expressly set forth in this AGREEMENT are of no force or effect.

16. SEVERABILITY. If any provision of the Agreement shall be unenforceable under any applicable law, then notwithstanding such unenforceability, the remainder of this AGREEMENT shall continue in full force and effect.

17. WAIVERS, MODIFICATIONS. No amendment, modification or waiver of any provision of this AGREEMENT shall be effective unless the same shall be in writing and signed by each of the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

18. INDEMNIFICATION. COMPANY shall indemnify EXECUTIVE against any and all claims of third parties arising out of his earlier services to the COMPANY and out of the performance of his duties pursuant to this AGREEMENT to the fullest extent permitted by law.

19. ASSIGNMENT. Neither this AGREEMENT, nor any of EXECUTIVE'S rights, powers, duties or obligation hereunder, may be assigned by EXECUTIVE. This AGREEMENT shall be binding upon and inure to the benefit of EXECUTIVE and his heirs and legal representatives and the COMPANY and its successors and assigns.

20. APPLICABLE LAW. This AGREEMENT shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of California, without regard to the conflicts of law rules thereof. 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 any provision of this AGREEMENT and any statue, 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 applicable legal requirements.

21. ARBITRATION; JURISDICTION AND VENUE; PREVAILING PARTY. All disputes or controversies between COMPANY and EXECUTIVE arising out of, in connection with or relating to this AGREEMENT shall be exclusively heard, settled and determined by arbitration before a retired Federal or California judge to be held in the City of Los Angeles, County of Los Angeles. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures. The parties also agree that judgment may be entered on the arbitrator's 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. The arbitrator shall allocate all of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees and expenses of the prevailing party, against the party who did not prevail.

22. FULL UNDERSTANDING. EXECUTIVE represents and agrees that he fully understands his rights to discuss all aspects of this AGREEMENT with his private attorney, that to the extent, if any, that he desires, he availed himself of this right, that he has carefully read and fully understands all of the provisions of this AGREEMENT, that he is competent to execute this AGREEMENT, that his agreement to execute the Agreement has not been obtained by any duress and that he freely and voluntarily enters into it, and that he has read this document in its entirety and fully understands the meaning, intent and consequences of this document.

23. COUNTERPARTS. This AGREEMENT may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same agreement.

24. LEGAL REPRESENTATION. The parties hereto acknowledge that each has been represented by independent counsel of such party's own choice throughout all of the negotiations which preceded the execution of this Employment Agreement and in connection with the preparation and execution of this Employment Agreement or has had the opportunity to do so and has not availed himself of it.

[SIGNATURE PAGE FOLLOWS]



IN WITNESS WHEREOF, the parties have executed this AGREEMENT as of the date first above written.

MOTORCAR PARTS & ACCESSORIES, INC.

By: _____

Name: _____

Title: _____

_____
SELWYN JOFFE

ACKNOWLEDGED BY THE BOARD OF DIRECTORS
OF MOTORCAR PARTS & ACCESSORIES, INC.:

_____
Douglas Horn

_____
Mel Marks

_____
Murray Rosenzweig

_____
Irving Siegel



EXHIBIT A

As part of EXECUTIVE'S obligations to the COMPANY, EXECUTIVE will identify 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 COMPANY (including any transaction resulting in a change of control, and without regard to form, sometimes described herein as a "PROPOSED TRANSACTION").

In the event of a closing of any PROPOSED TRANSACTION(s) at any time during the term of this AGREEMENT, EXECUTIVE shall be entitled to a fee as provided in this Paragraph. In any such event, the COMPANY shall pay EXECUTIVE 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.

Subject to the terms and conditions of this paragraph, 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 the seller or holder of its equity interests. If for any reason whatsoever, including, without limitation, the act, omission, negligence or willful default of any party, including the COMPANY, a PROPOSED TRANSACTION is not consummated, then EXECUTIVE shall not be entitled to any TRANSACTION FEE. The TRANSACTION FEE shall, at COMPANY'S 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 the 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 EXECUTIVE'S TRANSACTION FEE will be payable in proportion to each installment released and EXECUTIVE 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 holder of its equity interests are required to be returned to the acquirer for any reason, EXECUTIVE shall not be required to return any portion of the TRANSACTION FEE. EXECUTIVE hereby agrees that any



securities received by him as part of the TRANSACTION FEE hereunder shall be acquired and held subject to the same restrictions, if any, applicable to the securities issued by the acquirer or any affiliate thereof and that securities delivered to EXECUTIVE may bear an appropriate legend with respect to any such restrictions.

EXHIBIT 10.43

July 17, 2002

Personal and Confidential

Mr. Selwyn Joffe
and
Mr. Anthony Souza
Motorcar Parts & Accessories, Inc.
2929 California Street
Torrance, CA 90503

Dear Messrs. Joffe and Souza:

This letter confirms the understanding and agreement (the "Agreement") between Motorcar Parts & Accessories, Inc. (together with its subsidiaries and affiliates, the "Company") and Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey"). Houlihan Lokey's engagement as described herein will include providing certain consulting services to Company with respect to its business, which may 'include consultation in connection with any potential Transactions. For purposes of this Agreement, the term "Transaction" shall include any of the following: (i) the obtaining of financing for the Company or any of its subsidiaries, whether in the form of subordinated or senior debt, equity or equity equivalents, and whether or not such financing is arranged on a public or private basis (a "Financing Transaction"); (ii) a licensing, joint venture or other partnership transaction which provides the Company the night to receive other strategic consideration including but not limited to consideration received from long term exclusive and non exclusive licensing relationships with third parties (a "Strategic Transaction"); (iii) the purchase by the Company of all or substantially all of the stock or assets of another business for cash or other valuable consideration (an "Acquisition Transaction"); or (iv) any merger, consolidation, tender or exchange offer, leveraged buyout, leveraged recapitalization, or sale of assets or equity interests, or similar transaction involving all or a substantial part of the business, assets or equity interests of the Company and/or its subsidiaries and affiliates in one or more transactions (each, a "Sale Transaction")

1 . Engagement; Services; Term. The Company hereby retains Houlihan Lokey as its exclusive financial advisor to provide consulting and advisory services, including the following:

(a) Business Consultation: Houlihan Lokey will review the financial condition and future prospects of the Company, conduct such investigations of the Company's business and prospects as the parties reasonably determine are necessary or appropriate, conduct such interviews with the Company's management and directors as the parties reasonably determine are necessary or appropriate, review any other matters which the parties deem relevant to assist and advise the Company in its business and, in addition, provide advisory services in conjunction with the Company's efforts in acquiring financing in the approximate amount of $29,000,000 to "take out" the Company's cur rent credit facility with Wells Fargo Bank.

(b) Financial Advisory Services: Houlihan Lokey will provide financial advisory services, including consultation in connection with one or more of any Strategic Transaction,



Financing Transaction, Sale Transaction or Acquisition Transaction. Such financial advisory services will include: (i) preparing a memorandum, a management presentation and other documents and presentations as required; (ii) soliciting, coordinating and evaluating indications of interest and proposals regarding one or more of any Strategic Transaction, Financing Transaction, Sale Transaction or Acquisition Transaction; (iii) advising and assisting the Company in deciding whether to proceed with one or more of any Strategic Transaction, Financing Transaction (which advice and assistance is substantial, e.g., the placement of such financing), Sale Transaction or Acquisition Transaction; (iv) negotiating the financial aspects, and facilitating the consummation, of one or more of any Strategic Transaction, Financing Transaction, Sale Transaction or Acquisition Transaction; and (v) providing such other financial advisory and investment banking services reasonably necessary to accomplish the foregoing,

including the rendering of a fairness opinion if requested.

The Company agrees that neither it nor its management, directors and executive officers will engage in any discussions regarding a Transaction during the term of this Agreement, except in cooperation with Houlihan Lokey. In the event the Company or its management, directors or executive officers receives any material inquiry regarding a Transaction, Houlihan Lokey will be promptly informed of such inquiry so that it can evaluate such party and its interest in a Transaction, and assist the Company in any resulting negotiations.

This Agreement shall have an initial term of twelve (12) months, and thereafter shall be automatically extended on a month to month basis unless either party provides thirty days prior written notice of termination to the other party; provided, however ' that no expiration or termination of this Agreement shall affect (a) the Company's indemnification, reimbursement, contribution and other obligations as set forth on Schedule A attached hereto, (b) the confidentiality provisions set forth herein and Sections 69 hereof, and (c) Houlihan Lokey's night to receive, and the Company's obligation to pay, any and all fees and expenses due, and whether or not any Transaction shall be consummated prior to or subsequent to the effective date of termination, all as more fully set forth in this Agreement.

2. Fees and Expenses.

(a) In exchange for Houlihan Lokey's consulting services pursuant to Subsection (a) to Paragraph 1 above, the Company shall pay Houlihan Lokey a non refundable consulting fee of $ 100,000 ("Consulting Fee") upon the mutual execution of this Agreement.

(b) In the event of any Financing Transaction, Acquisition Transaction or Strategic Transaction, then the Company and Houlihan Lokey shall mutually agree upon the appropriate market fee in exchange for its services in connection therewith. The parties acknowledge that it is not contemplated that Houlihan Lokey will receive any fee in connection with Houlihan Lokey's advisory services under Section 1(a) above in connection with the Company's efforts in acquiring financing in the approximate amount of $29,000,000 to "take out" the Company's current credit facility with Wells Fargo Bank; provided, however, that if Houlihan Lokey is called upon by the Company to provide a substantial portion of the Financial Advisory Services as described 'in Section 1(b) above in connection with the Company's efforts and such "take out" financing occurs within the applicable time period provided by this Agreement, then the



Company and Houlihan Lokey shall negotiate in good faith on an appropriate market fee in exchange for such Financial Advisory Services.

(c) In the event Houlihan Lokey provides its financial advisory services and investment banking services in connection with any Sale Transaction, Houlihan Lokey shall be entitled to the following consideration:

(i) Upon the signing of a definitive purchase agreement or similar document in connection with such Sale Transaction the Company shall pay Houlihan Lokey a fee of $150,000 ("Progress Fee").

(ii) In addition to the foregoing Consulting Fee and Progress Fee, upon the consummation of a Sale Transaction, the Company shall pay Houlihan Lokey a cash fee ("Transaction Fee"), against which the Consulting Fee and Progress Fee actually received by Houlihan Lokey will be credited, equal to:

| | |
|---|---|
| - For a Transaction Value up to $80 million: | 1.25%, plus |
| - For a Transaction Value from $80 to $100 million: | 3.0% of such incremental value, plus |
| - For a Transaction Value in excess of $100 million: | 5.5% of such incremental value. |

For the purpose of calculating the Transaction Fee, the Transaction Value shall be the total proceeds and other consideration paid or received, or to be paid or received, in connection with a Transaction (which consideration shall be deemed to include amounts in escrow), including, without limitation,

cash, notes, securities, and other property; payments made in installments; amounts payable under any above market and out of the ordinary course consulting agreements, employment contracts, non compete agreements or similar extraordinary arrangements; and Contingent Payments (as defined below). If 50% or more but less than all of the Company's equity interests are sold, the Transaction Value shall be calculated as if 100% of the ownership of the equity interests of the Company had been sold by dividing (i) the total consideration, whether in cash, securities, notes or other forms of consideration, received or receivable by the Company and/or its creditors and equity holders by (ii) the percentage of ownership which is sold. In addition, if any of the Company's interest bearing liabilities are assumed, decreased or paid off 'in conjunction with a Transaction, or any of the Company's assets are retained, sold or otherwise transferred to another party prior to the consummation of a Transaction, the Transaction Value will be increased to reflect the fair market value of any such assets or interest bearing liabilities. Contingent Payments shall be defined as the fair market value of consideration received or receivable by the Company, its employees and/or former or current equity holders in the form of deferred performance based payments, "earn outs", or other contingent payments based upon the future performance of the Company or any of its businesses or assets.

In the case that less than 50% of the ownership of the equity interests of the Company are sold in any Sale Transaction, then the Company and Houlihan Lokey shall mutually agree upon the appropriate market Transaction Fee.



For the purpose of calculating the consideration received in a Transaction, any securities (other than a promissory note) will be valued at the time of the closing of a Transaction (without regard to any restrictions on transferability) as follows: (i) if such securities are traded on a stock exchange, the securities will be valued at the average last sale or closing price for the ten trading days immediately prior to the closing of a Transaction; (ii) if such securities are traded primarily in over the counter transactions, the securities will be valued at the mean of the closing bid and asked quotations similarly averaged over a ten trading day period immediately prior to the closing of a Transaction; and (iii) if such securities have not been traded prior to the closing of a Transaction, Houlihan Lokey will prepare a valuation of the securities, and Houlihan Lokey and the Company will negotiate in good faith to agree on a fair valuation thereof for the purposes of calculating the Transaction Fee. The value of any purchase money or other promissory notes shall be deemed to be the face amount thereof. Notwithstanding anything to the contrary contained herein, in the event the Transaction Value includes any deferred payment, including, but not limited to, promissory note or Contingent Payment, the Company and Houlihan Lokey will negotiate in good faith in an attempt to agree on that portion, if any, of the Transaction Fee to be paid to Houlihan Lokey as of the closing of the Transaction in consideration thereof (it is acknowledged that the failure to so agree shall not constitute the lack of good faith in negotiation). If the parties do not reach such an agreement, then the pro rata portion of any Transaction Fee which is derived from any deferred payment, including, but not limited to, promissory note or Contingent Payment, shall be due and payable to Houlihan Lokey upon the time of Company's receipt of such deferred amounts.

If this Agreement is terminated by the Company for any reason other than the material breach of Houlihan Lokey, and the Company consummates, or enters into an agreement in principle to engage in (and which subsequently closes), a Transaction within twelve (12) months after such termination date with any party which Houlihan Lokey identified, contacted or with whom Houlihan Lokey or the Company had discussions regarding a potential Transaction during the term of this Agreement and which party is identified on a list of "Contacted Parties" which Houlihan will prepare and deliver to Company within seven days following the termination of the Agreement, Houlihan Lokey shall be entitled to receive its Transaction Fee upon the consummation of such Transaction as if no such termination had occurred.

Additionally, and regardless of whether any Transaction is consummated, Houlihan Lokey shall be entitled to reimbursement of their reasonable out of pocket expenses incurred from time to time during the term hereof in connection with the services to be provided under this Agreement, promptly after invoicing the Company therefor but in no event greater than $50,000; provided, however, upon the reimbursable expenses hereunder reaching $25,000, all subsequent such

expenses in excess of $2,500 shall require the Company's prior written approval.

3. Information. The Company will furnish Houlihan Lokey with such information regarding the business and financial condition of the Company as is reasonably requested, all of which will be, to the Company's best knowledge, accurate and complete in all material respects at the time furnished. The Company further represents and warrants that any projections have been prepared in good faith based upon assumptions which, in light of the circumstances under which they are made, are reasonable. The Company will promptly notify Houlihan Lokey if it



learns of any material misstatement in, or material omission from, any information previously delivered to Houlihan Lokey. Houlihan Lokey may rely, without independent verification, on the accuracy and completeness of all information furnished by the Company or any other potential party to any Transaction. The Company understands that Houlihan Lokey will not be responsible for independently verifying the accuracy of such information, and shall not be liable for any inaccuracies therein. Except as may be required by law or court process, any opinions or advice (whether written or oral) rendered by Houlihan Lokey pursuant to this Agreement are intended solely for the benefit and use of the Company, and may not be publicly disclosed in any manner or made available to third parties (other than the Company's management, directors, advisors, accountants and attorneys) without the prior written consent of Houlihan Lokey, which consent shall not be unreasonably withheld.

Houlihan Lokey does not assume responsibility for the accuracy and completeness of the Information, including, but not limited to, any disclosure materials related to a Transaction, and Houlihan Lokey shall not be obligated to conduct any independent study or investigation as to the accuracy or completeness of the Information. The Company represents that the disclosure materials will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not false or misleading. In addition, the Company represents and warrants that the Information will be true, complete and correct in all material respects. The foregoing shall remain operative and in full force and effect regardless of any investigation made by or on behalf of Houlihan Lokey or any Indemnified Person (as defined elsewhere in this agreement) or any person controlling any of them.

The Company will furnish to Houlihan Lokey complete copies of all relevant documents with respect to a Transaction filed with or submitted to any regulatory agency prior to the consummation of a Transaction, and all such other data, material and other information as Houlihan Lokey may reasonably request. The Company will furnish to Houlihan Lokey, concurrently with their submission to others, all material drafts of and a copy of the final disclosure materials and financing and other documents related to a Transaction, and will keep Houlihan Lokey apprised of changes in the terms of a Transaction on a timely basis as they are decided upon.

Houlihan Lokey acknowledges that, in connection with the services to be provided pursuant to this Agreement, certain confidential, non public and/or proprietary information concerning the Company ("Confidential Information") has been or may be disclosed to Houlihan Lokey or its employees, attorneys and advisors (collectively, "Representatives"). Houlihan Lokey agrees that no Confidential Information will be disclosed, in whole or in part, to any other person (other than to any potential party to a Transaction under appropriate assurances of confidentiality contained in an executed customary nondisclosure agreement, to those Representatives who need access to any Confidential Information for purposes of performing the services to be provided hereunder which Representatives shall be bound by equivalent non disclosure covenants, or as may be required by legal process), without the Company's prior consent. The term "Confidential Information" does not include any information: (a) that was already in Houlihan Lokey's possession, or that was available to Houlihan Lokey on a non confidential basis, prior to the time of disclosure by the Company to Houlihan Lokey; (b)

obtained by Houlihan Lokey from a third person which, insofar as is known to Houlihan Lokey, is not subject to any prohibition against disclosure; or (c) which is or becomes generally available to the public through no fault of Houlihan Lokey or any of its Representatives. Houlihan Lokey shall be liable to the Company if any of its Representatives disclose any Confidential Information 'in breach of the foregoing provisions. Upon request, Houlihan Lokey agrees to return to the Company any Confidential Information, except for Confidential Information (i) incorporated into analyses, studies or other documents prepared by Houlihan Lokey or its Representatives, which Confidential Information shall continue to be held subject to the terms hereof, and (ii) which Houlihan Lokey is required to retain under any records retention policy or any law, regulation or securities exchange rule. If Houlihan Lokey becomes legally required to disclose any Confidential Information, prompt notice thereof shall be given to the Company, and Houlihan Lokey agrees to permit Company the opportunity to obtain an appropriate protective order preventing such disclosure; provided, however, that if any such disclosure is required notwithstanding the Company's efforts, Houlihan Lokey will provide only such information as is specifically requested and legally required. Without prejudice to any other rights or remedies the Company may have, Houlihan Lokey acknowledges and agrees that money damages would not be an adequate remedy for any breach of these provisions, and that the Company shall be entitled to an injunction, specific performance and other equitable relief for any threatened or actual breach hereof. Houlihan Lokey's obligations under this Section 3 shall remain in effect for a period of two (2) years following the termination of this Agreement.

4. The Opinion. If requested, Houlihan Lokey shall render an opinion as to the fairness (the "Opinion'), from a financial point of view, to the public stockholders of the Company and/or to the Company of the consideration to be received in connection with a Transaction. The Opinion shall not address the Company's underlying business decision to effect any Transaction. It is contemplated that the Opinion will include, in addition to any other matters that Houlihan Lokey in its sole discretion deems appropriate, a description of the principal materials that Houlihan Lokey has reviewed and upon which Houlihan Lokey is relying, and the principal assumptions and qualifications upon which Houlihan Lokey has relied. The Opinion will be signed and delivered as contemplated below. Houlihan Lokey shall be responsible only for conclusions or opinions set forth in its written Opinion, subject to the limitations set forth herein.

Houlihan Lokey consents to a description of and the inclusion of the text of its written Opinion in any filing required to be made by the Company with the Securities and Exchange Commission in connection with a Transaction and in materials delivered to the Company's stockholders that are a part of such filings, provided that any such description or 'inclusion shall be subject to Houlihan Lokey's prior review and approval, which approval shall not be unreasonably withheld. Any summary of, or reference to, the Opinion, any verbal presentation with respect thereto, or other references to Houlihan Lokey 'in connection with a Transaction, will in each instance be subject to Houlihan Lokey's prior review and written approval (which shall not be unreasonably withheld). Other than as set forth above, the Opinion will not be *included in, summarized or referred to in any manner *in any materials distributed to the public or the securityholders of the Company, or filed with or submitted to any governmental agency, without Houlihan Lokey's express, prior written consent (which shall not be unreasonably



withheld). Neither Houlihan Lokey's verbal conclusions nor the Opinion will be used for any purpose other than in connection with a Transaction.

In connection with the Opinion, Houlihan Lokey shall, subject to the limitations expressed herein or in the Opinion, make such reviews, analyses and inquiries as we deem necessary and appropriate under the circumstances. Among other things, Houlihan Lokey will meet with certain senior management of the Company, visit certain facilities and business offices of the Company, review certain of the Company's historical financial statements, review certain other documents pertaining to a Transaction, review forecasts and projections prepared by Company management and/or the Company's advisors, and review publicly available data about certain companies it deems comparable to the Company and certain transactions it deems relevant.

Each signatory hereto and each recipient of the Opinion acknowledges that Houlihan Lokey may be requested to render certain future services to other participants in a Transaction and that services rendered in the past or to be rendered by Houlihan Lokey hereunder do not represent any actual or potential conflict of interest on the part of Houlihan Lokey with respect to any such future services.

5. Indemnification; Standard of Care. The Company agrees to provide indemnification, contribution and reimbursement to Houlihan Lokey and certain other parties in accordance with, and farther agrees to be bound by the other provisions set forth in, Schedule A attached hereto.

6. Other Services. To the extent Houlihan Lokey is requested by the Company to perform any financial advisory or investment banking services which are not within the scope of this assignment, such fees shall be mutually agreed upon by Houlihan Lokey and the Company in writing, in advance, depending on the level and type of services required, and shall be in addition to the fees and expenses described hereinabove. In the event that Houlihan Lokey is called upon to render services, other than any services expressly provided for elsewhere *in this Agreement, in connection with any lawsuit or legal action (including, but not limited to, producing documents, answering interrogatories, giving depositions, giving expert or other testimony, and whether by subpoena, court process or order, or otherwise), then the Company shall pay Houlihan Lokey's then current base hourly rates for the persons involved by the time expended in rendering such services, including, but not limited to, time for meetings, conferences, preparation and travel, and all related reasonable out of pocket costs and expenses, and the reasonable legal fees and expenses of Houlihan Lokey's legal counsel incurred in connection therewith; provided, however, that the foregoing provision shall not apply in connection with either (i) any lawsuit or other legal action initiated by either party against the other, or (ii) any lawsuit or other legal action initiated by any third party against Houlihan Lokey for which Houlihan Lokey is not entitled to Indemnification under Schedule A, or (iii) any claim for indemnity by Houlihan Lokey under Schedule A.

7. Attorneys' Fees. If any party to this Agreement brings an action directly or indirectly based upon this Agreement or the matters contemplated hereby against another party, the prevailing party shall be entitled to recover, in addition to any other appropriate amounts, its



reasonable costs and expenses in connection with such proceeding, including, but not limited to, reasonable attorneys' fees and court costs.

8. Credit. Upon consummation of any Transaction, Houlihan Lokey may, a its own expense, place announcements in financial and other newspapers and periodicals (such as a customary "tombstone" advertisement) describing its services in connection therewith.

9. Miscellaneous. This Agreement shall be binding upon the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, express or implied, however, is intended to confer or does confer on any person or entity, other than the parties hereto and their respective successors and permitted assigns and, to the extent expressly set forth in Schedule A attached hereto, and the other Indemnified Parties, any rights or remedies under or by reason of this Agreement or as a result of the services to be rendered by Houlihan Lokey hereunder.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain *in full force and effect pursuant to the terms hereof

The Company agrees that it will be solely responsible for ensuring that any Transaction complies with applicable law.

This Agreement incorporates the entire understanding of the parties regarding the subject matter hereof, and supersedes all previous agreements or understandings regarding the same, whether written or oral.

This Agreement may not be amended, and no portion hereof may be waived,

except in a writing duly executed by the parties.

THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO SUCH STATE'S RULES CONCERNING CONFLICTS OF LAWS. EACH OF HOULIHAN LOKEY AND THE COMPANY (ON ITS OWN BEHALF AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ON BEHALF OF ITS EQUITY HOLDERS) WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) RELATED TO OR ARISING OUT OF THE ENGAGEMENT OF HOULIHAN LOKEY PURSUANT TO, OR THE PERFORMANCE BY HOULIHAN LOKEY OF THE SERVICES CONTEMPLATED BY, THIS AGREEMENT.

We look forward to working with you on this assignment. Please confirm that the foregoing terms are in accordance with your understanding by signing and returning the enclosed copy of this Agreement, together with payment in the amount of $100,000.

Very truly yours,

Houlihan Lokey Howard & Zukin Capital



By /S/ SCOTT J. ADELSON
---
Scott J. Adelson
Senior Managing Director

Accepted and agreed to as of July 17, 2002:

Motorcar Parts & Accessories, Inc.

By: /S/ SELWYN JOFFE
---
Selwyn Joffe
Chairman

By: /S/ ANTHONY SOUZA
---
Anthony Souza
President and Chief Executive Officer



## SCHEDULE A

This Schedule is attached to, and constitutes a material part of, that certain agreement dated July 17, 2002, addressed to Motorcar Parts & Accessories, Inc. by Houlihan Lokey (the "Agreement"). Unless otherwise noted, all capitalized terms used herein shall have the meaning set forth in the Agreement.

As a material part of the consideration for the agreement of Houlihan Lokey to furnish its services under the Agreement, the Company agrees to indemnify and hold harmless Houlihan Lokey and its affiliates, and their respective past, present and future directors, officers, shareholders, employees, agents and controlling persons within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended (collectively, the "Indemnified Parties"), to the fullest extent lawful, from and against any and all losses, claims, damages or liabilities (or actions in respect thereof), joint or several, arising out of or related to the Agreement, any actions taken or omitted to be taken by an Indemnified Party (including acts or omissions constituting ordinary negligence) in connection with the Agreement, or any Transaction or proposed Transaction contemplated thereby. In addition, the Company agrees to reimburse the Indemnified Parties for any legal or other expenses reasonably incurred by them in respect thereof at the time such expenses are incurred; provided, however the Company shall not be liable under the foregoing indemnity and reimbursement

agreement for any loss, claim, damage or liability which is finally judicially determined to have resulted primarily from the willful misconduct, bad faith or gross negligence of any Indemnified Party.

If for any reason the foregoing indemnification is unavailable to any Indemnified Party or insufficient to hold it harmless, the Company shall contribute to the amount paid or payable by the Indemnified Party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative benefits received (or anticipated to be received) by the Company, on the one hand, and Houlihan Lokey, on the other hand, in connection with the actual or potential Transaction and the services rendered by Houlihan Lokey. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or otherwise, then the Company shall contribute to such amount paid or payable by any Indemnified Party in such proportion as is appropriate to reflect not only such relative benefits, but also the relative fault of the Company, on the one hand, and Houlihan Lokey, on the other hand, in connection therewith, as well as any other relevant equitable considerations. Notwithstanding the foregoing, the aggregate contribution of all Indemnified Parties to any such losses, claims, damages, liabilities and expenses shall not exceed the amount of fees actually received by Houlihan Lokey pursuant to the Agreement.

The Company shall not effect any settlement or release from liability *in connection with any matter for which an Indemnified Party would be entitled to indemnification from the Company, unless such settlement or release contains a release of the Indemnified Parties reasonably satisfactory in form and substance to Houlihan Lokey. The Company shall not be required to indemnify any Indemnified Party for any amount paid or payable by such party in the settlement or compromise of any claim or action without the Company's prior written consent.



The Company farther agrees that neither Houlihan Lokey nor any other Indemnified Party shall have any liability, regardless of the legal theory advanced, to the Company or any other person or entity (including the Company's equity holders and creditors) related to or arising out of Houlihan Lokey's engagement, except for any liability for losses, claims, damages, liabilities or expenses incurred by the Company which are finally judicially determined to have resulted primarily from the willful misconduct, bad faith, or gross negligence of any Indemnified Party. The indemnity, reimbursement, contribution and other obligations and agreements of the Company set forth herein shall apply to any modifications of the Agreement, shall be in addition to any liability which the Company may otherwise have, and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Company and each Indemnified Party. The foregoing provisions shall survive the consummation of any Transaction and any termination of the relationship established by the Agreement.

Exhibit 10.44

SECOND AMENDMENT TO LEASE

This Second Amendment to Lease is made and entered into as of March 15, 2002, by and between GOLKAR ENTERPRISES, LTD. ("Lessor"), and MOTORCAR PARTS AND ACCESSORIES, INC., a New York corporation ("Lessee").

RECITALS:

A. Lessor and Lessee entered into that certain Standard Industrial/Commercial Single-Tenant Lease-Gross dated September 19, 1995 (the "Original Lease") with respect to the premises located at 2931 California Street, Torrance, California 90503 (the "Premises").

B. The Original Lease was amended by an Amendment To Lease dated October 3, 1996 (the "First Amendment") (the Original Lease and the First Amendment are hereinafter collectively referred to as the "Lease").

C. Lessee has exercised its option to extend the term of the Lease.

D. Lessor and Lessee desire to modify the Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms herein shall have the same meaning as set forth in the Lease except as specifically provided herein.

2. Modifying Paragraph 1.3 of the Original Lease and Paragraph 3 of the First Amendment, upon the expiration of the current Term on March 31, 2002, the Lease shall be extended for an additional five (5) years commencing April 1, 2002 and ending on March 31, 2007.

3. Modifying Paragraph 1.5 and Addendum Paragraph 4 of the Original Lease and Paragraph 4 of the First Addendum, commencing April 1, 2002, the Base Rent shall be $94,357.72 per month. During the period commencing October 1, 2004 and continuing through March 31, 2007, the monthly Base Rent of $94,357.72 will be increased to reflect any change in the Consumer Price Index between January, 2002 and July, 2004. The increase in the Consumer Price Index shall be computed based on the "Consumer Price Index for All Urban Consumers, Los Angeles-Anaheim-Riverside, All items, 1982-84=100", issued by the United States Department of Labor, Bureau of Labor Statistics. If the Index for the month of July, 2004 is greater than the Index for the month of January, 2002, then the monthly Base Rent will be increased in the same proportion as the increase. However, such increase shall not be more than a total of six (6) percent per year (15% in aggregate) nor less than a total of three (3) percent per year (7.5% in aggregate) during said period. In no event shall the monthly Base Rent be decreased as a result of any declines in said Consumer Price Index.

Should the United States Department of Labor re-adjust the above-described Consumer Price Index to a different base period than the base period in effect when this Lease is executed, then such change in the base shall be taken into account and reflected in all adjustments. Should the official reports of the United States Department of Labor be unavailable for the relevant

period at the time that any adjustment hereunder is to become effective, Lessee shall pay the rental on the unadjusted basis until the statistical information for the adjustment is available, and within fifteen (15) days from written notice by Lessor to Lessee of the adjustment including figures upon which the adjustment is based, Lessee shall pay to Lessor such sum as represents the difference between the rent paid and the adjusted amount of the rent due and payable. In addition, at such time, Lessee shall pay to Lessor an amount sufficient to cause the security deposit hereunder to be increased in an amount equal to the new monthly base rental. If the described Index shall no longer be published, another index generally recognized as authoritative shall be substituted by agreement of the parties. If they are unable to agree within thirty (30) days after demand by either party, the substitute index shall, on application of either party, be selected by the chief officer of the San Francisco Regional Office of the Bureau of Labor Statistics or its successor. If selection by such officer cannot be obtained, the adjustment shall be made by

mutual agreement or by arbitration.

4. Lessee's present security deposit shall be increased to $94,357.72. Pursuant to Paragraph 5 of the First Amendment, Lessor was to have paid interest to Lessee on Lessee's security deposit, but a portion of such interest was inadvertently not paid. In addition, a portion of Lessee's original security deposit of $60,252 was applied to certain unpaid charges so that the amount of Lessee's existing security deposit has been reduced to $52,695.86. Lessor will credit Lessee with the sum of $16,305.84 representing the unpaid interest through March 31, 2002. Upon the execution hereof, Lessee shall pay to Lessor the sum of $25,356.02, which when added to the above interest credit and the amount of Lessee's existing security deposit, will bring the amount of Lessee's security deposit to $94,357.72. A computation of such application of charges and interest has been delivered to Lessee concurrently herewith. Commencing April 1, 2002, Lessor shall not be required to pay Lessee any interest on its security deposit, and such security deposit shall be increased during the term hereof in accordance with Paragraph 5 of the Original Lease (i.e., so that the security deposit is always equal to one month's rent).

5. Lessor, at Lessor's sole cost and expense, shall: (a) repair the portion of the roof as set forth in Exhibit "A" attached hereto; (b) repair, patch, slurry and re-stripe the parking lot; (c) repair the broken bumpers in the parking lot (not all bumpers); and (d) remove the steel structural pad on the floor of the northeast corner of the Building. Such repairs shall be done as soon as is practicable after the execution hereof. Lessor further acknowledges that: (y) the brick facade at the west part of the main entrance to 2929 California Street is cracked and separating and may require repairs in the future; and (z) the roof over the mezzanine area has leaked at one point in the past (although it has not leaked for over one year), and may require repair in the future. Such repairs shall be at Lessor's sole cost and expense unless such repairs are made necessary by the future negligence or abuse by Lessee.

6. Other than the repairs set forth in Paragraph 5 above, Lessee acknowledges that, to Lessee's knowledge after due investigation, Lessor has no obligation currently to make any other repairs to the Premises, and that, to Lessee's knowledge after due investigation, Lessor is not in default under any of the terms, conditions or covenants of the Lease, and no, to Lessee's knowledge after due investigation, circumstance exists which, with the passage of time or the giving of notice by Lessee, or both, would constitute such a default.

7. Notwithstanding any other provision to the contrary, for purposes of determining the increases in insurance and Real Property Taxes for which Lessee is responsible, the "Base Premium" for purposes of Paragraph 8.1 of the Lease shall be the premium for the year 2002, and the base year for purposes of determining the increase in Real Property Taxes shall be the 2001-2002 fiscal tax year (the year during which this Amendment is executed).

8. Addendum 49 of the Original Lease and Paragraph 10 of the First Amendment are hereby deleted in their entirety. In lieu thereof, if this Lease has not been cancelled or terminated prior to March 31, 2007, and if Lessee is at the time of exercise and through March 31, 2007, in possession of the Premises and is not at the time of exercise and through March 31, 2007 in default of any of the terms, covenants or conditions of this Lease, Lessee is hereby granted an option to extend the Term of this Lease for an additional five (5) year period through March 31, 2012; provided that Lessee gives written notice to Lessor of the exercise of such option no later than September 30, 2006. The terms and conditions of the Lease during the extended five (5) year term shall be the same as set forth in the Lease as hereby amended, except that the monthly Base Rent during the period commencing April 1, 2007 and continuing through September 30, 2009, the monthly Base Rent of at the end of the first option term (i.e., the rent for the month of March, 2007) will be increased to reflect any change in the Consumer Price Index between July, 2004 and January, 2007. The increase in the Consumer Price Index shall be computed based on the "Consumer Price Index for All Urban Consumers, Los Angeles-Anaheim-Riverside, All Items, 1982-84=100", issued by the United States Department of Labor, Bureau of Labor Statistics. If the Index for the month of January, 2007 is greater than the Index for the month of July, 2004, then the monthly Base Rent will be increased in the same proportion as the increase. However, such increase shall not be more than a total of six (6) percent per year (15% in aggregate) nor less than a total of three (3) percent per year (7.5% in aggregate) during said period. In no event shall the monthly Base Rent be decreased as a result of any declines in said Consumer Price Index. During the period commencing October 1,

2009 and continuing through March 31, 2012, the monthly Base Rent for the month of September, 2009 will be increased to reflect any change in the Consumer Price Index between January, 2007 and July, 2009. The increase in the Consumer Price Index shall be computed based on the "Consumer Price Index for All Urban Consumers, Los Angeles-Anaheim-Riverside, All Items, 1982-84=100", issued by the United States Department of Labor, Bureau of Labor Statistics. If the Index for the month of July, 2009 is greater than the Index for the month of January, 2007, then the monthly Base Rent will be increased in the same proportion as the increase. However, such increase shall not be more than a total of six (6) percent per year (15% in aggregate) nor less than a total of three (3) percent per year (7.5% in aggregate) during said period. In no event shall the monthly Base Rent be decreased as a result of any declines in said Consumer Price Index.

Should the United States Department of Labor re-adjust the above-described Consumer Price Index to a different base period than the base period in effect when this Lease is executed, then such change in the base shall be taken into account and reflected in all adjustments. Should the official reports of the United States Department of Labor be unavailable for the relevant period at the time that any adjustment hereunder is to become effective, Lessee shall pay the rental on the unadjusted basis until the statistical information for the adjustment is available, and within fifteen (15) days from written notice by Lessor to Lessee of the adjustment including figures upon which the adjustment is based, Lessee shall pay to Lessor such sum as represents the difference between the rent paid and the adjusted amount of the rent due and payable. In

addition, at such time, Lessee shall pay to Lessor an amount sufficient to cause the security deposit hereunder to be increased in an amount equal to the new monthly base rental. If the described Index shall no longer be published, another index generally recognized as authoritative shall be substituted by agreement of the parties. If they are unable to agree within thirty (30) days after demand by either party, the substitute index shall, on application of either party, be selected by the chief officer of the San Francisco Regional Office of the Bureau of Labor Statistics or its successor. If selection by such officer cannot be obtained, the adjustment shall be made by mutual agreement or by arbitration.

9. Notwithstanding 1.10 of the Lease, the parties acknowledge that no Brokers were used in connection with this Lease extension by Lessor, and each party shall indemnify and hold harmless the other party, from and against any and all claims or demands with respect to any brokerage fees, finder's fees, agent's commissions or other compensation asserted by any person or entity in connection with this Lease extension. Lessee shall separately compensate Mark Berman, of Coldwell Banker Commercial / Westmac for his services in connection with the negotiation of this extension. Except as provided in the immediately preceding sentence, neither Lessee nor Lessor shall have any liability to any broker for this extension or upon exercise of the option set forth in Paragraph 8 above.

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

11. Lessor represents and warrants to Lessee that Lessor has obtained all necessary consents to enter into this Second Amendment, including, without limitation, the consent of Lessor's lender(s), if any.

In witness whereof, the parties have executed this Second Amendment to Lease as of the date first above written.

MOTORCAR PARTS AND ACCESSORIES, INC.,
A NEW YORK CORPORATION

By: /s/ Illegible
---
, President

By: /s/ Illegible
---
, Secretary

"Lessee"

Signatures continued on next page

GOLKAR ENTERPRISES, LTD.,
A CALIFORNIA LIMITED PARTNERSHIP

BY: /s/ DAVID V. KARNEY
---
David V. Karney, Trustee, General Partner

"Lessor"

EXHIBIT 10.45

# SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release (this "Agreement") is made and entered into as of the 14th day of February, 2003 (the "Agreement Effective Date"), by and between Anthony Souza, individually ("Souza"), and Motorcar Parts & Accessories, Inc., a New York corporation (together with its subsidiaries and affiliates, the "Company"), with reference to the following facts and objectives:

## RECITALS

(1) The Company is a leading remanufacturer of replacement alternators and starters for imported and domestic cars and light trucks in the United States and Canada. The Company also assembles and distributes ignition wire sets for imported and domestic cars and light trucks with facilities in the United States in Torrance, California and Nashville, Tennessee, as well as in Singapore and Malaysia;

(2) Souza has been employed by the Company as its President and Chief Executive Officer pursuant to the terms of an Employment Agreement dated December 1, 1999 (the "Employment Agreement"), and has been a director of the Company since December 1, 1999; and

(3) Souza and the Company entered into a letter agreement on February 14, 2003, pursuant to which Souza and the Company agreed to the terms and conditions of the termination of Souza's employment, among other matters (the "Letter Agreement"). The Letter Agreement provides for the parties to enter into this Agreement.



NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and subject to the terms and conditions set forth herein, the parties hereto hereby agree as follows:

1. RESIGNATION; DIRECTORSHIP. Souza has, effective at the close of business, California time, on the Agreement Effective Date, resigned as a director, officer and from any and all other positions and capacities with or in the Company (except as an independent consultant as set forth herein), a copy of which resignation is attached as Exhibit A. Notwithstanding the date that this Agreement is signed, and provided that it is not revoked pursuant to Section 4.3 hereof, Souza hereby confirms the termination of his employment by the Company effective as of the Agreement Effective Date. Except as set forth in Sections 2.1 through 2.8 hereof, inclusive, the Employment Agreement is terminated as of the Agreement Effective Date and has no further force, effect or validity.

2. CONSULTING SERVICES AND SEVERANCE BENEFITS. In lieu of any and all severance pay and other benefits provided for in the Employment Agreement, at law, or otherwise, the Company shall pay to or provide for the benefit of Souza the benefits described below. Souza acknowledges that the benefits and arrangements contained in this Agreement are anticipated to exceed the benefits to which Souza would have been entitled in the absence of this Agreement, and that such benefits represent fair and adequate consideration for the release contained herein and the other terms and conditions of this Agreement.



2.1 CONTINUATION OF BASE SALARY. The Company will continue payment of Souza's Base Salary, as provided in Section 5(a) of the Employment Agreement, through May 31, 2003.

2.2 VACATION PAY. Within three (3) business days after the date this Agreement is executed by the parties, the Company will pay Souza the sum of $34,615.38 (less $15,614.99 to be withheld for applicable payroll taxes) as vacation pay through May 31, 2003.

2.3 SICK PAY. Souza acknowledges that no sick pay is due to Souza.

2.4 BONUS. Not later than July 15, 2003, the Company will pay Souza his bonus for the fiscal year ended March 31, 2003 less any amounts advanced with respect thereto. In addition, any bonus that is payable to Souza for the two month period that will end on May 31, 2003, will be paid to Souza within 30 days after completion of the audited financial results of the Company for the fiscal year ending March 31, 2004. With regard to matters relating to Souza's bonus, the provisions of Section 5(c) of the Employment Agreement will govern.

2.5 BUSINESS EXPENSES. The Company will reimburse Souza for business expenses incurred by Souza in the manner provided in Section 6 of the Employment Agreement. In this regard, Souza may retain the cell phone he is currently using for business purposes and the Company will reimburse him for such usage. On May 31, 2003, Souza will return the cell phone to



the Company or purchase it for a mutually agreeable price. If practicable, Souza will be given the opportunity to retain the cell phone number for his use after May 31, 2003, whether or not he purchases the cell phone. Further, Souza will properly document or reimburse the Company for an aggregate of $1049.80 in charges incurred on an American Express issued to him.

2.6 HEALTH BENEFITS. The Company will pay Souza the sum of $2,086.45 per month for each of the months of March, April and May 2003, for health benefits under Section 7(a) of the Employment Agreement.

2.7 AUTOMOBILE ALLOWANCE AND EXPENSES. All expenses that are to be paid by the Company pursuant to Section 7(b) of the Employment Agreement shall be paid for Souza's automotive use through May 31, 2003. In addition, the Company will pay Souza an amount equal to $1,502.00 as reimbursement for documented automobile insurance costs that Souza incurred and paid prior to the Agreement Effective Date.

2.8 BENEFITS UNDER EXECUTIVE DEFERRED COMPENSATION PLAN. The Company confirms that Souza may withdraw, without restriction and at any time, the entire balance in his account under the Company's Executive Deferred Compensation Plan (the "Deferred Compensation Plan") to the extent of contributions by Souza and the Company through the Agreement Effective Date.



2.9 INDEMNIFICATION. The Company will indemnify Souza for his prior service as an officer and director of the Company and for Souza's service as a consultant following the Agreement Effective Date, to the fullest extent provided by applicable law and in accordance with the Company's Certificate of Incorporation and Bylaws. In this connection, Souza will cooperate with the Company and its counsel as the Company may reasonably request.

2.10 LEGAL EXPENSES. Each of the parties hereto shall bear his or its own legal expenses and related costs.

3. AGREEMENTS AND OPTIONAL TERMINATION.

3.1 AGREEMENT TO PROVIDE CONSULTING SERVICES. Commencing as of the Agreement Effective Date and continuing through May 31, 2004, Souza agrees to provide consulting services to the Company as an independent consultant. Souza shall make himself available to the Company, its Chief Executive Officer and other officers and to management employees, and its Board of Directors as they may request upon reasonable advance notice, but subject to other engagements Souza may schedule prior to the receipt of any such notice requesting his services for the Company. The Company's Chief Executive Officer and other officers of the Company shall have the authority to notify Souza and request his services. Consulting services that are requested from Souza will not

be inconsistent with Souza's duties while he was the Company's Chief Executive Officer. In this connection, Souza shall use reasonable efforts to cooperate with the



Company so that appropriate consulting times may be scheduled. The compensation and benefits set forth in Sections 2.1 through 2.8, above, shall be the total compensation payable to Souza for such consulting services for the period from the Agreement Effective Date through May 31, 2003. For the period from June 1, 2003 through May 31, 2004, Souza's compensation shall be $15,000/month, payable on or before the fifth day of each month during that one-year period. Souza shall be fully responsible for any and all taxes (including, without limitation, income taxes) that may arise in connection with the performance of his services as an independent consultant.

3.2 COPYRIGHT OWNERSHIP. If in the course of providing his services hereunder, Souza, alone or with employees of the Company, develops any material that the Company believes and informs Souza may be subject to protection under the United States Copyright Law, Souza agrees that exclusive ownership of the copyright shall reside in the Company and that such copyrightable matter shall be a "work made for hire" as such term is defined in he United States Copyright Law.

3.3 OPTIONAL TERMINATION. Souza may terminate his consulting Services for the Company at any time and for any reason following June 1, 2003, by giving the Company at least 30 days prior written notice thereof.

4. GENERAL RELEASE.

4.1 RELEASE. Souza, for and on behalf of himself and each and all of his past, present, and future agents, attorneys, affiliates, representatives, heirs, executors, administrators, family members, successors, and assigns, hereby fully and



forever releases the Company and its past, present, and future officers, directors, managers, shareholders, agents, employees, attorneys, affiliates, representatives, successors, and assigns (collectively, the "Company Related Parties") from all claims, demands, debts, obligations, liabilities, costs, expenses, rights of action, causes of action, or judgments of any kind or character whatsoever, whether known or unknown, suspected or unsuspected, contingent or absolute, direct or indirect, arising on or before the date hereof or that hereafter may be claimed to arise out of any action, inaction, event, or matter occurring on or before the date hereof, that were, might, or could have been asserted against the Company Related Parties (collectively, the "Released Claims"), including, but not limited to, any and all claims in connection with, arising out of, resulting from, or in any way relating to Souza's employment with the Company and the termination thereof; discrimination on the basis of: age; race; national origin; sex; marital status; disability; medical, physical, or mental condition; or sexual orientation; violation of public policy; wrongful termination; breach of express or implied contract; breach of the implied covenant of good faith and fair dealing; unpaid wages, benefits, accrued vacation, or other compensation; breach of the Employment Agreement, or any other contract; unfair labor practices; intentional or negligent infliction of emotional distress or any other personal injury tort; or violation of any federal, state, or local laws or regulations relating to employment discrimination or otherwise, including, but not limited to, the federal Age Discrimination in Employment Act ("ADEA") and the Older Workers' Benefit Protection Act. The Released Claims specifically do not include (i) any



claims arising out of the rights and obligations of the parties pursuant to this Agreement, (ii) any claims arising out of Souza's right to be indemnified by the Company, to the fullest extent provided by applicable law, and (iii) Souza's rights as an option holder under the Company's 1994 Stock Option Plan. Nothing in this release shall be interpreted to waive or release any right Souza has under applicable law to seek indemnification for claims that may be asserted

against him on behalf of the Company by one or more third parties.

4.2 KNOWING AND VOLUNTARY WAIVER. Souza understands and agrees that the Released Claims include ALL claims of any nature and kind whatsoever, whether known or unknown, suspected or unsuspected, and Souza hereby expressly waives all rights under Section 1542 of the Civil Code of California, which provides as follows:

> 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.

Souza acknowledges that he hereafter may discover facts different from or in addition to those that he now knows or believes to be true with respect to the Released Claims and agrees that this release shall be and remain effective in all respects notwithstanding any different or additional facts or the discovery thereof.

4.3 ADEA RIGHTS. Souza hereby acknowledges that he has been advised that, pursuant to the ADEA, he is entitled to consider this Agreement for a period of 21 days before execution hereof, and that he has the right to revoke this Agreement for



a period of seven days after execution hereof. Souza hereby acknowledges that this Agreement was delivered to him on February 20, 2003, and, if he has executed this Agreement before March 13, 2003, he has done so knowingly, and thereby expressly and voluntarily waives the right to consider this Agreement for a period of 21 days prior to execution. Notwithstanding the date that Souza signs this Agreement, he has the right to revoke this Agreement for a period of seven days after he signs it, as indicated next to his signature hereon.

4.4 COBRA RIGHTS. Notwithstanding the release provided for herein, the Company is obligated to, and shall, provide Souza timely written notification of Souza's rights, if any, to continuation of insurance coverage under the provisions of the Consolidated Omnibus Reconciliation Act of 1986 ("COBRA").

5. LIMITATION ON ACTIVITIES. For purposes hereof, the "business" of the Company is defined as set forth in subparagraph (1) in the RECITALS to this Agreement. For the periods set forth in the following Subsections of this Section 5, Souza agrees that he will not:

5.1 COMPETING BUSINESS. During the period he is a consultant to the Company, carry on or engage in any business that is competitive with, the same as, or similar to, the business of the Company anywhere within the United States of America;

5.2 SOLICITATION OF CUSTOMERS. During the period he is a consultant to the Company, call upon, solicit or cause to be solicited with respect to products or services similar to those of the Company, any customer of the Company. For



purposes hereof, a "customer of the Company" is any person or entity to which the Company has sold or actively offered to sell its products or services during the thirty-six month period ending on the Effective Date of this Agreement. Nothing in this Agreement shall prohibit Souza from soliciting or causing to be solicited any person or organization with respect to products or services not the same as or similar to those of the Company.

5.3 SOLICITATION OF EMPLOYEES. Through the period ending May 31, 2005, solicit for employment or other affiliation, as an employee, partner, co-owner, joint venturer, or consultant, any person who was employed by the Company on the Agreement Effective Date and while such person is employed by the Company.

6. CONFIDENTIAL INFORMATION.

6.1 DEFINITIONS. The term "confidential information" includes the following categories of information, regardless of whether such information would qualify as a "trade secret" under applicable law: (i) personal information regarding current and former Company employees including name, address, telephone number, email address, marital status, salary history, benefits, disciplinary history, medical information, and any other information in which employees have a privacy interest, but only to the extent that the Company treats such information as confidential information and takes steps to protect such information from unauthorized disclosure or misuse; (ii) specific information regarding Company customers that has been developed and compiled with the time, effort and resources of the Company and its employees, the



names of customer contact personnel, promotional program participation patterns and preferences of customers, promotional program participation terms, special promotional programs, promotional program terms, conditions and pricing, customer credit records and payment history, customer correspondence and files, but only to the extent that the Company treats such information as confidential information and takes steps to protect such information from unauthorized disclosure or misuse; (iii) non-public business practices and ideas of the Company, including sales techniques and new product ideas and plans; and (iv) non-public financial information relating to the Company and its operations.

6.2 DUTY OF NONDISCLOSURE. Souza agrees that neither he nor any of his employees, agents, representatives, affiliates, or partners shall, at any time, directly or indirectly, disclose or use any confidential information of or relating to the Company that is known to Souza as of the Agreement Effective Date or confidential information which may be disclosed to Souza in the course of his consulting activities for the Company. Souza hereby acknowledges that certain confidential information is the property of the Company or that the Company may be under a duty to prevent the disclosure thereof to third parties, that such confidential information was made known to Souza in confidence in connection with his duties as an officer, director, and employee of, or consultant to, the Company, and that any use of such confidential information by Souza other than for the sole benefit of the Company would be wrongful and would cause irreparable harm. Souza shall be under no obligation to protect the confidentiality of any



information that: (i) becomes publicly known through no breach or fault of Souza; (ii) is obtained by Souza from a third party who has the right to transfer or disclose it without breach of any obligation of confidentiality; (iii) is disclosed by Souza under legal process such as a subpoena or other examination in the course of litigation or a public or private governmental investigation after giving prompt notice to the Company of such subpoena or other legal process and cooperates as the Company may reasonably request, at its expense, to quash such proceeding; or (iv) has been disclosed by Souza prior to the Agreement Effective Date in the course of his service as an officer or director of the Company, except for information that was disclosed under circumstances where the recipient accepted the disclosure under a written agreement of confidentiality.

6.3 OTHER AGREEMENTS AND OBLIGATIONS. Souza acknowledges that, as an employee, executive and director of the Company, he is a party to various prior agreements and understandings with and for the benefit of the Company. Such agreements and understandings shall not survive the execution of this Agreement and the transactions contemplated hereby. Further, the Letter Agreement shall not survive the execution of this Agreement, and will be superseded and replaced by this Agreement.

7. INJUNCTIVE RELIEF. Souza agrees and acknowledges that it would be difficult to compensate the Company fully for damages for breach of any of the provisions of Sections 5 and 6 hereof (other than Section 6.3). Accordingly, Souza specifically agrees that the Company will be entitled to temporary and permanent injunctive relief to enforce the provisions of such Sections, and that such relief may be

granted without the necessity of posting a bond or of proving actual damages. This provision with respect to injunctive relief will not, however, diminish the Company's right to claim and to recover damages.

8. REPRESENTATIONS AND WARRANTIES OF SOUZA. Souza hereby represents and warrants to the Company as follows:

8.1 NO ASSIGNMENT. Souza has not assigned or transferred, or purported or agreed to assign or transfer, to any individual, partnership, corporation, or other entity, all or any portion of his or its right, title, or interest in and to the Employment Agreement or any of the Released Claims.

8.2 COMPLIANCE. This Agreement and the consummation of the transactions contemplated hereby has not and will not result in the breach of any term or provision of, or constitute a default under, any court order, judicial decree, lien, indenture, mortgage, deed of trust, lease agreement, instrument, commitment, or other arrangement to which Souza is a party or by which he is bound.

9. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. As of the Agreement Effective Date, the Company hereby represents and warrants to the Souza as follows:

9.1 AUTHORITY. The Company has the requisite authority to enter into the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement have been duly approved and authorized by all necessary action by the Board of Directors of the Company.



9.2 COMPLIANCE. This Agreement and the consummation of the transactions contemplated by this Agreement has not and will not result in the breach of any term or provision of, or constitute a default under, any court order, judicial decree, lien, indenture, mortgage, deed of trust, lease, agreement, instrument, commitment, or other arrangement to which the Company is a party or by which he is bound.

10. LEGAL REPRESENTATION. Each of the parties hereto represents that such party has been represented by legal counsel of his or its own choosing.

11. NOTICES. All notices, demands and other communications required, desired, or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given immediately if personally delivered; twenty-four hours after being delivered to overnight delivery couriers or sent by telecopy, e-mail, or other electronic transmitting device, provided that the device records the date and time of successful transmission thereof; or five days after mailing by registered or certified mail, postage prepaid, return receipt requested, addressed in accordance with the addresses set forth below, or to such other addresses of which notice is given pursuant to this Section.

If to Souza: Mr. Anthony Souza
16051 Avenida San Miquel
La Mirada, CA 90638
Telephone: (562) 947-9873
Facsimile: (562) 947-0499

With a copy to: Jack Goldman, Esq.
Miller & Holguin
Suite 700



1801Century Park East
Los Angeles, CA 90067
Telephone: (310) 556-1990

Facsimile: (310) 557-2205

If to the Company: Motorcar Parts & Accessories, Inc.
2929 California Street
Torrance, CA 90503
Attention: Selwyn Joffe, Chairman, President & CEO
Telephone: (310) 972-4005
Facsimile: (310) 224-5128

With a copy to: Michael M. Umansky, Esq.
Motorcar Parts & Accessories, Inc.
2929 California Street
Torrance, CA 90503
Telephone: (310) 972-4015
Facsimile: (310) 224-5128

12. ENTIRE AGREEMENT. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes any prior agreements, arrangements, understandings, representations, warranties and covenants between the parties hereto, including, without limitation, the Letter Agreement.

13. NO WAIVER. No delay or omission in the exercise of any right or remedy shall impair such right or remedy or be construed as a waiver. A consent to or approval of any act shall not be deemed to waive or render unnecessary consent to or approval of any other or subsequent act. All rights of the parties hereto are separate and cumulative, and no one of them, whether exercised or not, will be deemed to be to the exclusion of any other rights, and no one of them will be deemed to limit or prejudice any other legal or equitable rights or remedies that the parties hereto may have. The parties



hereto will not be deemed to waive (either expressly or by implication) any of their rights or remedies under this Agreement except by a duly executed written waiver.

14. SEVERABILITY. If any portion of this Agreement is for any reason declared invalid or unenforceable by reason of any applicable law, the validity of the remaining portions shall not be affected thereby and such remaining portions shall remain in full force and effect as if this Agreement had been executed with the invalid portion eliminated.

15. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of California in effect from time to time. The parties agree that proper venue will be in the Superior Court of Los Angeles County.

16. ARBITRATION OF DISPUTES. Except as otherwise provided in this Agreement, any controversy between the parties arising out of this Agreement shall be submitted to the American Arbitration Association for arbitration by a sole arbitrator in Los Angeles, California. The costs of the arbitration, including any American Arbitration Association administration fee, the arbitrator's fee, and costs for the use of facilities during the hearings, shall be borne equally by the parties to the arbitration. Attorneys' fees may be awarded to the prevailing or most prevailing party at the discretion of the arbitrator. The provisions of Sections 1282.6, 1283, and 1283.05 of the California Code of Civil Procedure apply to the arbitration. The arbitrator shall not have any power to alter, amend, modify or change any of the terms of this Agreement nor to grant any



remedy which is either prohibited by the terms of this Agreement, or not available in a court of law.

17. ATTORNEYS' FEES. In any arbitration or other proceedings to enforce or to interpret any part of this Agreement, or any action arising out of the transactions or relationships that are the subject matter hereof, the prevailing party shall be entitled to recover as an element of its costs of the

action, and not as damages, all attorneys' fees reasonably incurred in bringing such action and in enforcing any judgment or award granted therein, all of which shall be deemed to have accrued upon the commencement of such action. The "prevailing party" shall be the party that is entitled to recover its costs of the action, regardless of whether the action proceeds to final judgment. Any judgment or order entered in such action shall contain a specific provision providing for the recovery of attorneys' fees and costs incurred in enforcing such judgment or order.

18. AMENDMENT. No supplement, amendment, or modification hereof shall be valid unless it shall be in writing and signed by all parties hereto.

19. SUCCESSORS AND ASSIGNS. Except as otherwise specifically provided herein, all of the terms, provisions, and obligations of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, representatives, successors and assigns.

20. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All written representations and warranties of the parties set forth in this Agreement will survive the consummation of the transactions contemplated by this Agreement.



21. THIRD PARTIES. This Agreement and all conditions and provisions hereof are intended for the sole and exclusive benefit of the parties hereto and their respective successors and assigns, and nothing contained herein shall be construed to give any other person or entity any legal or equitable right, remedy, or claim under or in respect of this Agreement or any provision hereof.

22. FURTHER ASSURANCES. Each party shall execute and deliver all such further instruments, documents or similar materials, and shall perform any and all acts necessary, to give full force and effect to all of the terms and provisions of this Agreement.

[SIGNATURE PAGE FOLLOWS]



IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the dates set forth opposite their names below.

Dated: June 30, 2003 /s/ Anthony Souza

_____

Anthony Souza

Dated: June 30, 2003 Motorcar Parts & Accessories, Inc.

By: /s/ Selwyn Joffe

_____

Selwyn Joffe, Chairman of the Board,
President and Chief Executive Officer



EXHIBIT A

RESIGNATION

Anthony Souza
16051 Avenida San Miquel
La Mirada, CA 90638

February 14, 2003

Motorcar Parts & Accessories, Inc.
2929 California Street
Torrance, CA 90503
Attention: Mr. Selwyn Joffe, Chairman of the Board

Gentlemen:

This shall confirm my resignation, effective at the close of business, California time, today, as a director, officer and from any and all other positions and capacities with or in Motorcar Parts & Accessories, Inc. and any of its subsidiaries and affiliates, except for the consulting services I may be providing pursuant to the Separation Agreement and Release dated as of the date hereof.

Sincerely,

Anthony Souza

Exhibit 10.46

# EMPLOYMENT AGREEMENT

This employment agreement (this "AGREEMENT") dated as of April 1, 2003 (the "EFFECTIVE DATE"), is entered into by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation currently having an address at 2929 California Street, Torrance, California 90503 (together with its subsidiaries and affiliates, the "COMPANY"), and Charles W. Yeagley, an individual residing at 1401 Launer Drive, La Habra, California 90631 ("EMPLOYEE").

WITNESSETH:

WHEREAS, the COMPANY desires to continue to employ EMPLOYEE as its Chief Financial Officer (or such other position as shall be determined by the Board of Directors of the COMPANY, or any duly authorized and acting committee thereof, the "BOARD OF DIRECTORS") and EMPLOYEE desires to be so employed by the COMPANY, all upon the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. EMPLOYMENT; 2001 AGREEMENT. Subject to and upon the terms and conditions contained in this AGREEMENT, the COMPANY hereby agrees to employ EMPLOYEE and EMPLOYEE agrees to continue in the employ of the COMPANY, for the period set forth in Paragraph 2 hereof, to render the services to the COMPANY, its Affiliates and/or subsidiaries described in Paragraph 3 hereof. The Employment Agreement between the COMPANY and the EMPLOYEE dated as of November 6, 2001 (the "2001 AGREEMENT") shall terminate as of the EFFECTIVE DATE; provided, however, that any Bonus due EMPLOYEE as provided in the 2001 AGREEMENT with respect to the fiscal year ending March 31, 2003 and any other benefits due and unpaid to EMPLOYEE thereunder on the EFFECTIVE DATE shall be paid as provided therein.

2. TERM. EMPLOYEE'S term of employment under this AGREEMENT shall commence on the EFFECTIVE DATE and shall continue for a period through and including March 31, 2006, (the "EMPLOYMENT TERM") unless extended in writing by both parties or earlier terminated pursuant to the terms and conditions set forth herein.

3. DUTIES.

   (a) Unless otherwise determined by the BOARD OF DIRECTORS, EMPLOYEE shall be employed as the COMPANY'S Chief Financial Officer and shall report to the COMPANY'S President and Chief Executive Officer. It is agreed that EMPLOYEE shall perform his service in the COMPANY'S Torrance, California, facilities, or any other facilities mutually agreeable to the parties.

   (b) EMPLOYEE agrees to abide by all By-Laws and applicable policies of the Company, including but not limited to the Company's Code of Business Conduct and Ethics, promulgated at any time and from time to time by the BOARD OF DIRECTORS, and the directions of the COMPANY'S President and Chief Executive Officer.



4. EXCLUSIVE SERVICES AND BEST EFFORTS. EMPLOYEE shall devote all of his working time, attention, best efforts and ability to the service of the COMPANY during the term of this AGREEMENT.

5. COMPENSATION. As compensation for his services and covenants hereunder, the COMPANY shall pay EMPLOYEE the following:

   (a) Base Salary. The COMPANY shall pay EMPLOYEE a base salary ("SALARY") of Two Hundred Fifteen Thousand Dollars ($215,000) per year.

   (b) Bonus. EMPLOYEE shall participate in the COMPANY'S Executive Bonus Program as and when adopted and amended from time to time by the

BOARD OF DIRECTORS. In the event of any part-year service by the EMPLOYEE, any Bonus shall be prorated (as reasonably determined by the BOARD OF DIRECTORS) for any part year service by EMPLOYEE.

6. BUSINESS EXPENSES. EMPLOYEE shall be reimbursed for, and entitled to advances if permitted by applicable law (subject to repayment to the COMPANY if not actually incurred by EMPLOYEE) with respect to, only those business expenses incurred by him which are reasonable and necessary for EMPLOYEE to perform his duties under this AGREEMENT in accordance with policies established from time to time by the COMPANY. All expenditures and advances in excess of Five Hundred Dollars ($500.00) must be approved by the President and Chief Executive Officer of the COMPANY prior to being incurred or advanced.

7. EMPLOYEE BENEFITS.

(a) EMPLOYEE shall be entitled to three (3) weeks paid vacation each year during the EMPLOYMENT TERM at such times as do not, in the opinion of the President and Chief Executive Officer, interfere with EMPLOYEE'S performance of his duties hereunder.

(b) During the term of this AGREEMENT, if EMPLOYEE does not elect medical insurance coverage for himself and his eligible family through the COMPANY, he shall receive as an allowance for such medical insurance an amount equal to the then cost which would be incurred by the COMPANY in supplying such coverage for EMPLOYEE and his eligible family. The COMPANY may withhold from any benefits payable to EMPLOYEE all federal, state, local and other taxes and amounts as shall be permitted or required pursuant to law, rule or regulation. All of the benefits to which EMPLOYEE may be entitled may be changed from time to time or withdrawn at any time in the sole discretion of the COMPANY.

(c) During the EMPLOYMENT TERM the COMPANY shall provide to executive an automobile allowance in the amount of Five Hundred Dollars ($500.00) per month, payable monthly.



8. DEATH AND DISABILITY.

(a) The EMPLOYMENT TERM shall terminate on the date of EMPLOYEE'S death, in which event EMPLOYEE'S accrued SALARY and BONUS, reimbursable expenses and benefits, including accrued but unused vacation time, owing to EMPLOYEE through the date of EMPLOYEE'S death shall be paid to the EMPLOYEE'S estate. EMPLOYEE'S estate will not be entitled to any other compensation upon termination of this AGREEMENT pursuant to this Paragraph 8(a)

(b) If, during the EMPLOYMENT TERM, EMPLOYEE, because of physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this AGREEMENT for a period of three (3) consecutive months, the COMPANY may, upon at least ten (10) days' prior written notice given at any time after the expiration of such three (3) month period to EMPLOYEE of its intention to do so, terminate this AGREEMENT as of such date as may be set forth in the notice. In any case of such termination, EMPLOYEE shall be entitled to receive his accrued SALARY and BONUS, if any, reimbursable expenses and benefits owing to EMPLOYEE through the date of termination. EMPLOYEE will not be entitled to any other compensation upon termination of this AGREEMENT.

9. TERMINATION FOR CAUSE.

(a) The COMPANY may terminate the employment of EMPLOYEE for Cause (as hereinafter defined) without prior notice. Upon any such termination, the COMPANY shall be released from any and all further obligations under this AGREEMENT, except that the COMPANY shall be obligated to pay EMPLOYEE his SALARY, reimbursable expenses and benefits owing to EMPLOYEE through the day on which EMPLOYEE is terminated. EMPLOYEE will not be entitled to any other compensation upon termination of this AGREEMENT pursuant to this Paragraph 9(a).

(b) As used herein, the term "Cause" shall mean: (i) the willful failure

of EMPLOYEE to perform his duties pursuant to Paragraph 3 hereof, which failure is not cured by EMPLOYEE within ten (10) days following notice thereof from the COMPANY; (ii) any other material breach of this AGREEMENT by EMPLOYEE, including any of the material representations or warranties made by EMPLOYEE; (iii) any act, or failure to act by EMPLOYEE in bad faith or to the detriment or to the detriment of the COMPANY; (iv) the commission by EMPLOYEE of an act involving moral turpitude, dishonesty, theft, unethical business conduct, or any other conduct which significantly impairs the reputation of, or harms, the COMPANY, its subsidiaries or affiliates; (v) any misrepresentation, concealment or omission by EMPLOYEE of any material fact in seeking or continuing employment hereunder, or (vi) any other occurrence or circumstance generally recognized a "cause" for employment termination under applicable law.



10. DISCLOSURE OF INFORMATION AND RESTRICTIVE COVENANT. EMPLOYEE acknowledges that, by his employment, he has been and will be in a confidential relationship with the COMPANY and will have access to confidential information and trade secrets of the COMPANY, its subsidiaries and affiliates. Confidential information and trade secrets include, but are not limited to, customer, supplier, and client lists, marketing, distribution and sales strategies and procedures, operational and equipment techniques, business plans and system, quality control procedures and systems, special projects and technological research, including projects, research and reports for any entity or client or any project, research, report or the like concerning sales or manufacturing or new technology, employee compensation plans and any other information relating thereto, and any other records, files, drawings, inventions, discoveries, applications, processes, data, and information concerning the business of the COMPANY which are not in the public domain. EMPLOYEE agrees that in consideration of the execution of this AGREEMENT by the COMPANY:

(a) EMPLOYEE will not, during the term of this AGREEMENT or at any time thereafter, use, or disclose to any third party, trade secrets or confidential information of the COMPANY, including but not limited to, confidential information or trade secrets belonging or relating to the COMPANY, its subsidiaries, affiliates, customers and clients or proprietary processes or procedures of the COMPANY, its subsidiaries, affiliates, customers and clients. Proprietary processes and procedures shall include, but shall not be limited to, all information which is known or intended to be known only to employees of the COMPANY, its respective subsidiaries and affiliates or others in a confidential relationship with the COMPANY or its respective subsidiaries and affiliates which relates to business matters.

(b) EMPLOYEE will not, during the term of the AGREEMENT, directly or indirectly, under any circumstance other than at the direction and for the benefit of the COMPANY, engage in or participate in any business activity, including, but not limit to, acting as a director, franchisor or franchisee, proprietor, syndicate member, shareholder or creditor or with a person having any other relationship with any other business, company, firm occupation or business activity, in any geographic area within the United States that is, directly or indirectly, competitive with any business completed by the COMPANY or any of its subsidiaries or affiliates during the term of this AGREEMENT or thereafter. Should EMPLOYEE own 5% or less of the issued and outstanding shares of a class of securities of a corporation the securities of which are traded on a national securities exchange or in the over-the-counter market, such ownership shall not cause EMPLOYEE to be deemed a shareholder under this Paragraph 10 (b).

(c) EMPLOYEE will not, during the term of this AGREEMENT and for a period of two (2) years thereafter on his behalf or on behalf of any other business enterprise, directly or indirectly, under any circumstance other than at the direction and for the benefit of the COMPANY, solicit or induce any creditor, customer, supplier, officer, employee or agent of the COMPANY or any of its subsidiaries or affiliates to sever its relationship with or leave the employ of

any such entities.



(d) This Paragraph 10 and Paragraphs 11, 12 and 13 hereof shall survive the expiration or termination of this AGREEMENT for any reason.

(e) It is expressly agreed by EMPLOYEE that the nature and scope of each of the provisions set forth above in this Paragraph 10 are reasonable and necessary. If, for any reason, any aspect of the above provisions as it applies to EMPLOYEE is determined by a court of competent jurisdiction to be unreasonable, or unenforceable, the provision shall only be modified to the minimum extent required to make the provisions reasonable and/or enforceable, as the case may be. EMPLOYEE acknowledges and agrees that his services are of a unique character and expressly grants to the COMPANY or any subsidiary, successor or assignee of the COMPANY, the right to enforce the provisions above through the use of all remedies available at law or in equity, including, but not limited to, injunctive relief.

11. COMPANY PROPERTY.

(a) Any patents, inventions, discoveries, applications or process, designs, devised, planned, applied, created, discovered or invented by EMPLOYEE in the course of EMPLOYEE'S employment under this AGREEMENT and which pertain to any aspect of the COMPANY'S or its respective subsidiaries' or affiliates' business shall be the sole and absolute property of the COMPANY, and EMPLOYEE shall make prompt report thereof to the COMPANY and promptly execute any and all documents reasonably requested to assure the COMPANY the full and complete ownership thereof.

(b) All records, files, lists, including computer generated lists, drawings, documents, equipment and similar items relating to the COMPANY'S business which EMPLOYEE shall prepare or receive from the COMPANY shall remain the COMPANY'S sole and exclusive property. Upon termination of this AGREEMENT, EMPLOYEE shall promptly return to the COMPANY all property of the COMPANY in his possession. EMPLOYEE further represents that he will not copy or cause to be copied, print out or cause to be printed out any software, documents or other materials originating with or belonging to the COMPANY. EMPLOYEE additionally represents that, upon termination of his employment with the COMPANY, he will not retain in his possession any such software, documents or other materials.

12. REMEDY. It is mutually understood and agreed that EMPLOYEE'S services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this AGREEMENT by EMPLOYEE, including but not limited to, the breach of the non-disclosure, non-solicitation and non-compete clauses of Paragraph 10 hereof, the COMPANY shall be entitled to equitable relief by way of injunction or otherwise in addition to damages the COMPANY may be entitled to recover.



13. REPRESENTATIONS AND WARRANTIES OF EMPLOYEE.

(a) In order to induce the COMPANY to enter into this AGREEMENT, EMPLOYEE hereby represents and warrants to the COMPANY as follows: (i) EMPLOYEE hereby has the legal capacity to unrestricted right to execute and deliver this AGREEMENT and to perform all of his obligations hereunder; (ii) the execution and delivery of this AGREEMENT by EMPLOYEE and the performance of his obligations hereunder will not will not violate or be in conflict with any fiduciary or other duty, instrument, agreement, document, arrangement or other understanding to which EMPLOYEE is a party or by which he is or may be bound or subject; and (iii) EMPLOYEE is not a party to any instrument, agreement, document, arrangement or other understanding with any person (other than the COMPANY) requiring or restricting the use or disclosure of any confidential information or

the provision of any employment, consulting or other services.

(b) EMPLOYEE hereby agrees to indemnify and hold harmless the COMPANY from and against any and all losses, costs, damages and expenses (including, without limitation, its reasonable attorneys' fees) incurred or suffered by the COMPANY resulting from any breach by EMPLOYEE of any of his representations or warranties set forth in Paragraph 13(a) hereof.

14. NOTICES. All notices given hereunder shall be in writing and shall be deemed effectively given when hand-delivered or mailed, if sent by registered or certified mail, return receipt requested, addressed to EMPLOYEE at his address set forth on the first page of this AGREEMENT or to the COMPANY at its address set forth on the first page of this AGREEMENT or to such changed address as may be properly noticed hereunder.

15. ENTIRE AGREEMENT. Other than any separate agreements which supplement and are cumulative to paragraphs 10, 11 and 12 hereof, this AGREEMENT constitutes the entire understanding of the parties with respect to its subject matter and no change, alteration or modification hereof may be made except in writing signed by the parties hereto. Any prior or other agreements, promises, negotiations or representations not expressly set forth in this AGREEMENT are of no force or effect.

16. SEVERABILITY. If any provision of this AGREEMENT shall be unenforceable under any applicable law, then notwithstanding such unenforceability, the remainder of this AGREEMENT shall continue in full force and effect.

17. WAIVERS, MODIFICATIONS, ETC. No amendment, modification or waiver of any provision of this AGREEMENT shall be effective unless the same shall be in writing and signed by each of the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

18. INDEMNIFICATION. COMPANY shall indemnify EMPLOYEE against any and all claims of third parties arising out of the lawful and authorized performance of his duties pursuant to this AGREEMENT by EMPLOYEE to the fullest extent permitted by law.



19. ASSIGNMENT. Neither this AGREEMENT, nor any of EMPLOYEE'S rights, powers, duties or obligation hereunder, may be assigned by EMPLOYEE. This AGREEMENT shall be binding upon and inure to the benefit of EMPLOYEE and his heirs and legal representatives and the COMPANY and its successors and assigns.

20. APPLICABLE LAW. This AGREEMENT shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of California, without regard to the conflicts of law rules thereof. 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 any provision of this AGREEMENT and any statue, 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 applicable legal requirements.

21. ARBITRATION; JURISDICTION AND VENUE; PREVAILING PARTY It is hereby irrevocably agreed that all disputes or controversies between COMPANY and EMPLOYEE arising out of, in connection with or relating to this AGREEMENT shall be exclusively heard, settled and determined by arbitration before a retired Federal or California judge to be held in the City of Los Angeles, County of Los Angeles. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures. The parties also agree that judgment may be entered on the arbitrator's 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. The arbitrator shall allocate all of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees and expenses of the prevailing party, against the party who did not prevail.

22. FULL UNDERSTANDING. EMPLOYEE represents and agrees that he fully understands his rights to discuss all aspects of this AGREEMENT with his private attorney, that to the extent, if any, that he desires, he availed himself of this right, that he has carefully read and fully understands all of the provisions of this AGREEMENT, that he is competent to execute this AGREEMENT, that his agreement to execute this AGREEMENT has not been obtained by any duress and that he freely and voluntarily enters into it, and that he has read this document in its entirety and fully understands the meaning, intent and consequences of this document.

23. COUNTERPARTS. This AGREEMENT may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same agreement.

24. LEGAL REPRESENTATION. The parties hereto acknowledge that each has been represented by independent counsel of such party's own choice throughout all of the negotiations which preceded the execution of this AGREEMENT and in connection with the preparation and execution of this AGREEMENT or has had the opportunity to do so and has not availed himself or itself of it.



IN WITNESS WHEREOF, the parties have executed this AGREEMENT as of the date first above written.

MOTORCAR PARTS & ACCESSORIES, INC.

By: /s/ Selwyn Joffe
---

Name/Date: Selwyn Joffe
---

Title: Chairman of the Board, President and Chief Executive Officer
---

/s/ Charles W. Yeagley
---
CHARLES W. YEAGLEY/DATE

EXHIBIT 10.47

# WARRANT CANCELLATION AGREEMENT AND RELEASE

This WARRANT CANCELLATION AGREEMENT AND RELEASE (the "Agreement") is made as of April 30, 2003 by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation (the "Company"), and WELLS FARGO BANK, N.A., a national banking corporation ("Holder").

## RECITALS

WHEREAS, the Company issued to Holder on or about April 20, 2000 that certain "Warrant to Purchase Common Stock", No. W-1, exercisable for 400,000 shares, as amended by that certain "Amendment No. 1 to Warrant" executed by the parties on or about May 31, 2001 (as so amended, the "Warrant"); and

WHEREAS, the Company desires to acquire the Warrant from Holder and cancel the Warrant in exchange for a net cash payment to Holder of seven hundred thousand dollars ($700,000.00) (the "Purchase Price"), effective upon execution of this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises, covenants and conditions contained herein, the parties hereby agree as follows:

## AGREEMENT

1. THE TRANSACTION.

1.1 WARRANT CANCELLATION. Subject to the terms and conditions of this Agreement, upon execution of this Agreement (a) the Company shall deliver to Holder or its order the amount of the Purchase Price, with no holdback or deduction whatsoever, plus expenses pursuant to Section 1.3 below, by wire transfer of immediately available funds paid according to the wire instructions attached hereto as Exhibit A and confirmed by a Fed reference number, and (b) Holder shall surrender its original, manually-executed form of the Warrant to the Company for cancellation and agrees to accept the Purchase Price as full payment for cancellation thereof, whereupon the Company shall mark the face of the Warrant "cancelled" and such Warrant shall be deemed expired. The payment for and cancellation of the Warrant shall take place at the offices of Morrison & Foerster LLP, 555 West Fifth Street, Los Angeles, CA 90013 (the "Closing").

1.2 EXPENSES. At the Closing, the Company shall reimburse Holder an amount equal to two thousand five hundred dollars ($2,500.00) towards the fees and costs of Holder's counsel in connection with the negotiation, execution and delivery of this Agreement.

2. RELEASE. In consideration of the Purchase Price, Holder hereby releases and forever discharges the Company and its predecessors, successors, assigns and each of them, and each past, present, and future director, partner, subsidiary, division or entity or affiliated corporation, and each past, present or future employee, agent, representative, attorney, accountant, officer, director, stockholder, subscriber, and all persons acting by, through, under or in concert with



them, or any of them, of and from any and all claims, actions, causes of action, suits, debts, liens, demands, contracts, liabilities, agreements, costs, expenses, or losses of any type, whether known or unknown, fixed or contingent, which Holder had, now has, or may hereafter have, arising out of or resulting from the Warrant, or the shares of capital stock of the Company issuable upon exercise of the Warrant, including but not limited to, (i) Holder's claim to any equity interest in the Company, and (ii) any and all claims with respect to rights of notice under the Warrant or applicable law.

HOLDER ACKNOWLEDGES THAT IT HAS BEEN ADVISED BY ITS LEGAL COUNSEL AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN ITS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY IT MUST HAVE MATERIALLY AFFECTED ITS SETTLEMENT WITH THE DEBTOR."

3. REPRESENTATIONS AND WARRANTIES OF HOLDER. Holder hereby represents and warrants to the Company as follows:

3.1 AUTHORIZATION. Holder has, as appropriate, full power and legal capacity and all corporate right, power, legal capacity and authority to enter into this Agreement and the transactions contemplated hereby. The execution, delivery and performance of this Agreement has been duly and validly approved and authorized by Holder. This Agreement constitutes a valid and legally binding obligation of Holder, enforceable in accordance with its terms.

3.2 OWNERSHIP OF WARRANT. Holder has good and valid title to, and owns all right, title and interest (legal and beneficial) in, the Warrant being cancelled pursuant to this Agreement, free and clear of all liens. Upon payment for expiration of the Warrant in accordance with this Agreement, the Warrant shall be cancelled free and clear of all liens.

4. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby represents and warrants to Holder as follows:

4.1 AUTHORIZATION. The Company has, as appropriate, full power and legal capacity and all corporate right, power, legal capacity and authority to enter into this Agreement and the transaction contemplated hereby. The execution, delivery and performance of this Agreement has been duly and validly approved and authorized by the Company and specifically approved by the Board of Directors of the Company. This Agreement constitutes a valid and legally binding obligation of the Company, enforceable in accordance with its terms.



4.2 NO CONSENT. No consent or approval of, or filing with, any governmental authority or other person not a party hereto is required for the execution, delivery and performance by the Company of this Agreement or the consummation of the transactions contemplated hereby.

4.3 NO CONFLICT. The execution, delivery and performance of this Agreement will not violate or conflict with (i) any contract to which the Company is a party or by which the Company or any of its assets or properties are bound, (ii) any decree or judgment of any court or other governmental authority applicable to or binding on the Company, (iii) any law applicable to the Company or the transfer of the Warrant, or (iv) any provision of the Charter or Bylaws of the Company. To the Company's knowledge, there is no agreement by or among any of the stockholders of the Company which relates to the subject matter of this Agreement or which gives any stockholder of the Company any preemptive, first refusal, or other right or privilege in connection with the execution of this Agreement or consummation of the transactions contemplated hereby.

4.4 COMPLIANCE WITH LAW. The Company has consulted with its outside legal counsel and received advice which it believes to be reliable that the execution, delivery and performance of this Agreement by the Company would comply with the provisions of New York State corporation law and California corporation law applicable to the Company, including without limitation Section 513 of the Business Corporation Law of the New York State Consolidated Laws (entitled "Purchase, redemption and certain other transactions by a corporation with respect to its own shares") to the extent applicable to the Company.

4.5 SEC FILINGS. Since January 1, 2001, the Company has timely filed all reports, schedules, forms, statements and other documents (collectively, the "SEC Documents") required to be filed by it with the Securities and Exchange Commission ("SEC") pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC applicable to the SEC Documents. None of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material

fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

5. MISCELLANEOUS.

5.1 GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the State of California.

5.2 COUNTERPARTS. This Agreement may be executed in one or more counterparts and delivered by facsimile, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

5.3 NOTICES. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given if delivered



personally or by commercial messenger or courier service to the party to be notified at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by advance notice to the other party.

5.4 AMENDMENT AND WAIVERS. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the parties hereto.

5.5 ENTIRE AGREEMENT. This Agreement, the other agreements and the documents referred to herein constitute the entire agreement among the parties and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein. The section headings herein are for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement

5.6 FURTHER ASSURANCES. Each of the parties shall from time to time and at all times hereafter make, do, execute, or cause or procure to be made, done and executed such further acts, deeds, conveyances, consents and assurances without further consideration, which may be reasonably required to effect the transactions contemplated by this Agreement.

[SIGNATURE PAGE FOLLOWS]



IN WITNESS WHEREOF, this Warrant Cancellation Agreement and Release has been executed by the undersigned as of the day and year first above written.

| | |
|---|---|
| MOTORCAR PARTS & ACCESSORIES, INC. | WELLS FARGO BANK, N.A. |
| By: _____ | By: _____ |
| Name: _____ | Name: _____ |
| Title: _____ | Title: _____ |
| By: _____ | Address: _____ |
| Name: _____ | _____ |
| Title: _____ | |
| Address: _____ | |
| _____ | |

#5476003189

Exhibit 10.48

MOTORCAR PARTS & ACCESSORIES, INC.

CODE OF BUSINESS CONDUCT AND ETHICS

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The Board of Directors of MPA has adopted the following Code of Business Conduct and Ethics. This Code applies to all MPA companies, their officers, directors and employees. Additional policies, procedures and practices may be in place at MPA companies that supplement, support or clarify the policies in this Code.

No code or policy can anticipate every situation or provide definitive answers to all questions that may arise. Accordingly, this Code is intended to focus each individual director, officer and employee on areas of ethical risk, provide guidance to directors, officers and employees to help them recognize and deal with ethical issues, establish mechanisms to report unethical conduct, and help foster MPA's values and operating principles. When in doubt about the best course of action, employees are encouraged to bring questions about particular circumstances to the attention of their senior Human Resources representative at the MPA company where the individual is employed and/or a member of MPA's Ethics Committee, unless a particular policy in this Code directs otherwise. Members of the Board should contact the Company's Chief Executive Officer or General Counsel.

As used in this Code, unless the context otherwise requires, references to "MPA," the "Company" or the "MPA companies" shall mean Motorcar Parts & Accessories, Inc. and all of its controlled subsidiaries, whether domestic or foreign, and references to the "Board" shall mean the Board of Directors of MPA. "Non-token personal benefits" shall mean gifts, meals transportation, entertainment or other favors of more than nominal or insignificant value ($25 or less).



COMPLIANCE WITH GOVERNMENTAL LAWS, RULES AND REGULATIONS

It is MPA's policy to comply with all applicable laws, rules and regulations, and MPA expects its directors, officers and employees to carry out their responsibilities on behalf of MPA in accordance with such laws, rules and regulations and to refrain from illegal conduct. No individual is expected to know the details of all applicable laws, rules and regulations. Nevertheless, individuals who have questions about whether particular circumstances may involve illegal conduct should seek advice from MPA's General Counsel and its Ethics Committee.

CONFIDENTIALITY

Directors, officers and employees should maintain the confidentiality of non-public information and records entrusted to them by MPA, and any other confidential information that comes to them, from whatever source, in the course of performing their responsibilities as a director, officer or employee, except when disclosure is authorized by the Company's General Counsel, or required by laws, rules, regulations or legal process.

CONFLICTS OF INTEREST

It is MPA's policy that all directors, officers and employees avoid business and personal situations that may give rise to a conflict of interest. A "conflict of interest" occurs when an individual's private interest interferes or appears to interfere with MPA's interests. A conflict of interest can arise in numerous areas including the following:

- a director, officer or employee takes actions or has interests that may make it difficult to perform his or her work on behalf of MPA objectively and effectively.

- a director, officer or employee has a direct or indirect interest in a transaction where MPA is or may become a party, property that MPA may acquire, or an entity with which MPA does or may do business, except where prior full disclosure of the facts is made to MPA in accordance with the procedures outlined under "Compliance Standards, Reporting and Disciplinary Action" below.

- a director, officer or employee, or member of his or her family, receives improper, non-token personal benefits as a result of his or her position as a director, officer or employee of a MPA company.

Because conflicts of interest may not always be clear-cut, employees are encouraged to bring questions about particular situations to the attention of the Ethics Committee and/or to MPA's General Counsel. Members of the Board should direct questions to MPA's Chief Executive Officer and/or General Counsel.

CORPORATE OPPORTUNITIES

Directors, officers and employees are prohibited from taking for themselves personally opportunities in which they could reasonably anticipate that MPA might have an interest or that are discovered through the use of MPA property, information or position. An exception to this policy exists if, after full disclosure of the facts is made in accordance with the procedures outlined under "Compliance Standards, Reporting and Disciplinary Action" below, the disinterested members of the Board or MPA's Ethics Committee, as appropriate, determine that MPA will not pursue the opportunity.



FAIR DEALING

MPA aims to succeed through fair and honest competition. MPA seeks superior performance, but never through unethical or illegal business practices. Directors, officers and employees should endeavor to deal fairly with MPA's customers, suppliers, competitors and employees. No one should take unfair advantage of another individual through manipulation, concealment, abuse of privileged information, or misrepresentation of material facts.

PROTECTION AND PROPER USE OF ASSETS

Company assets, such as information, supplies, equipment, materials, intellectual property, software, hardware and facilities, among other Company properties and assets, are valuable resources owned or licensed by or otherwise belonging to MPA and are to be used solely for Company purposes. Safeguarding this property from loss, damage or theft is the responsibility of all employees. No person shall take MPA property or assets for personal use or gain, nor shall MPA property or assets be given away, sold or traded without proper authorization. Incidental and immaterial personal use of assets such as computers and other equipment, telephones and supplies and other personal usage in accordance with Board or Management Committee approved policies/procedures are permitted exceptions to this policy.

PUBLIC REPORTING

MPA employees are responsible for the accurate and complete reporting of financial information within their respective areas of responsibility and for the timely notification to the senior officer of MPA where the individual is employed of significant transactions, trends and other financial or non-financial information that



may be material to MPA. Reports and documents that MPA files with or submits to the Securities and Exchange Commission, and other public communications, should

contain full, fair, accurate, timely and understandable disclosure.

SECURITIES LAWS

Employees may not trade in (or even recommend) MPA stock based on inside information. "Insider trading" is the purchase or sale of a publicly traded security while in possession of important non-public information about the issuer of the security. Such information includes, for example, non-public information on Company earnings, significant gains or losses of business, or the hiring, firing or resignation of a Director or Officer of the Company. Insider trading, as well as "tipping", which is communicating such information to anyone who might use it to purchase or sell securities, are prohibited by the securities laws. When in doubt, information obtained as an employee of the Company should be presumed to be important and not public.

Officers and directors of the Company are also prohibited from trading in Company stock during any period in which participants in the Company's retirement plans could not engage in a similar type of transaction. Employees who have questions pertaining to the sale or purchase of a security under circumstances that might involve confidential information or securities laws should consult with a member of MPA's Ethics Committee or the Company's General Counsel. In appropriate circumstances, individuals may be referred to their personal attorneys.

COMPLIANCE STANDARDS, REPORTING AND DISCIPLINARY ACTION

MPA is committed to operating according to the high standards of business conduct and ethics set forth in this Code of Business Conduct and Ethics. Each director, officer and employee is expected to report what he



or she believes in good faith are actual or potential conflicts of interest, corporate opportunities, violations of applicable laws or non-compliance with this Code by any MPA director, officer or employee. The Company's Audit Committee and/or Ethics Committee (or its designee) is generally responsible for the enforcement of this Code of Business Conduct and Ethics relating to officers and employees. The Audit Committee of the Board (or its designee) is generally responsible for enforcement of the Code relating to members of the Board.

Employees should report actual or potential conflicts of interest, corporate opportunities, or violations of this Code involving any MPA director, officer or employee to a member of MPA's Audit Committee and/or Ethics Committee and/or to MPA's General Counsel. Members of the Board should report these matters to MPA's Chief Executive Officer and/or General Counsel and/or Ethics Committee. Alternatively, if an accounting or auditing matter is involved, concerns or reports of possible violations may be submitted in writing to the chair of MPA's Audit Committee, c/o Douglas Hoto, 6841 Lions Head Lane, Boca Raton, FL 33496. Communications about accounting and auditing matters may be submitted anonymously and will be kept confidential, except where disclosure is required to investigate the matter or by laws, rules, or regulations or legal process. It is MPA's policy to prohibit any form of retaliation for reports of misconduct by others made in good faith. It is MPA's policy that waivers of this Code will not be granted except in very limited circumstances. Any waivers of this Code for directors and executive officers of MPA may only be made by the Board or the Audit Committee of the Board after disclosure of all material facts by the individual seeking the waiver and will be promptly disclosed as required by law or stock exchange regulation. Any waivers for other individuals may only be granted by MPA's Board of Directors, its Audit or Ethics Committee or the General Counsel after disclosure of all material facts by the individual seeking the waiver.

Where Code violations are determined to exist, appropriate corrective and disciplinary action will be taken, which may include one or more of the following measures, as applicable: (i) counseling; (ii) a warning; (iii) a



reprimand noted in the employee's personnel file; (iv) probation; (v) change,

including reassignment, in job responsibilities, authority and/or title; (vi) temporary suspension, with or without pay; (vii) termination of employment or other relationship with MPA; (viii) removal as a director or officer; (ix) reimbursement of losses or damages resulting from the violation; or (x) referral for criminal prosecution or civil action.

EXHIBIT 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Motorcar Parts & Accessories, Inc. (the "Company") on Form 10-K for the year ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Selwyn Joffe, Chief Executive Officer of the Company, certify, pursuant to 19 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/S/ SELWYN JOFFE
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Selwyn Joffe
Chief Executive Officer
June 27, 2003

EXHIBIT 99.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Motorcar Parts & Accessories, Inc. (the "Company") on Form 10-K for the year ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Charles Yeagley, Chief Financial Officer of the Company, certify, pursuant to 19 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/S/ CHARLES YEAGLEY
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Charles Yeagley
Chief Financial Officer
June 27, 2003