UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-33861

MOTORCAR PARTS OF AMERICA, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

There were 12,052,271 shares of Common Stock outstanding at November 1, 2010.

MOTORCAR PARTS OF AMERICA, INC.

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MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

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

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

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2010 (Unaudited)	March 31, 2010
ASSETS		
Current assets:		
Cash	$ 5,815,000	$ 1,210,000
Short-term investments	265,000	451,000
Accounts receivable — net (see Note 4)	—	5,553,000
Inventory— net	27,773,000	31,547,000
Inventory unreturned	4,366,000	3,924,000
Deferred income taxes	8,455,000	8,391,000
Prepaid expenses and other current assets	1,928,000	2,735,000
Total current assets	48,602,000	53,811,000
Plant and equipment — net	11,563,000	12,693,000
Long-term core inventory — net	76,302,000	67,957,000
Long-term core inventory deposit	25,984,000	25,768,000
Long-term deferred income taxes	722,000	951,000
Long-term note receivable	1,894,000	—
Intangible assets — net	5,917,000	6,304,000
Other assets	1,660,000	1,549,000
TOTAL ASSETS	$ 172,644,000	$ 169,033,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 30,190,000	$ 31,603,000
Accrued liabilities	3,134,000	1,863,000
Accrued salaries and wages	2,574,000	3,590,000
Accrued workers' compensation claims	1,350,000	1,574,000
Customer finished goods returns accrual	6,696,000	7,454,000
Income tax payable	535,000	678,000
Other current liabilities	478,000	697,000
Current portion of term loan	2,000,000	2,000,000
Current portion of capital lease obligations	308,000	953,000
Total current liabilities	47,265,000	50,412,000
Term loan, less current portion	6,500,000	7,500,000
Deferred core revenue.	7,738,000	6,061,000
Deferred gain on sale-leaseback	58,000	319,000
Other liabilities	639,000	676,000
Capital lease obligations, less current portion	304,000	445,000
Total liabilities	62,504,000	65,413,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued	—	—
Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued	—	—
Common stock; par value $.01 per share, 20,000,000 shares authorized; 12,052,271 and 12,026,021 shares issued and outstanding at September 30, 2010 and March 31, 2010, respectively	121,000	120,000
Treasury stock, at cost, 14,400 shares of common stock at September 30, 2010 and none at March 31, 2010	(89,000)	—
Additional paid-in capital	92,934,000	92,792,000
Additional paid-in capital-warrant	1,879,000	1,879,000
Accumulated other comprehensive loss	(981,000)	(1,426,000)
Retained earnings	16,276,000	10,255,000
Total shareholders' equity	110,140,000	103,620,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 172,644,000	$ 169,033,000

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	Six Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Net sales	$77,211,000	$72,127,000	$40,977,000	$39,437,000
Cost of goods sold	52,984,000	54,140,000	28,295,000	28,621,000
Gross profit	24,227,000	17,987,000	12,682,000	10,816,000
Operating expenses:				
General and administrative	7,595,000	6,165,000	3,571,000	3,653,000
Sales and marketing	2,941,000	2,807,000	1,201,000	1,535,000
Research and development	762,000	668,000	396,000	334,000
Total operating expenses	11,298,000	9,640,000	5,168,000	5,522,000
Operating income	12,929,000	8,347,000	7,514,000	5,294,000
Other expense (income):				
Gain on acquisition	—	(1,331,000)	—	(1,331,000)
Interest expense — net	3,303,000	1,970,000	1,701,000	974,000
Income before income tax expense	9,626,000	7,708,000	5,813,000	5,651,000
Income tax expense	3,605,000	3,078,000	2,312,000	2,216,000
Net income	$ 6,021,000	$ 4,630,000	$ 3,501,000	$ 3,435,000
Basic net income per share	$ 0.50	$ 0.39	$ 0.29	$ 0.29
Diluted net income per share	$ 0.49	$ 0.38	$ 0.29	$ 0.28
Weighted average number of shares outstanding:				
Basic	12,043,818	11,967,797	12,038,636	11,973,510
Diluted	12,220,257	12,086,298	12,202,507	12,101,997

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended September 30,	
Cash flows from operating activities:	**2010**	**2009**
Net income	$ 6,021,000	$ 4,630,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,575,000	1,604,000
Amortization of intangible assets	387,000	258,000
Amortization of deferred gain on sale-leaseback	(262,000)	(262,000)
Amortization of deferred financing costs	42,000	—
Provision for inventory reserves	699,000	606,000
Provision for customer payment discrepancies	152,000	186,000
Net recovery of doubtful accounts	(98,000)	—
Deferred income taxes	173,000	587,000
Share-based compensation expense	29,000	98,000
Gain on acquisition	—	(1,331,000)
Impact of tax benefit on APIC pool from stock options exercised	3,000	36,000
Gain on redemption of short-term investment	(25,000)	—
Loss on disposal of assets	30,000	5,000
Changes in current assets and liabilities:		
Accounts receivable	5,499,000	(1,366,000)
Inventory	3,442,000	(131,000)
Inventory unreturned	(442,000)	439,000
Prepaid expenses and other current assets	785,000	(166,000)
Other assets	(115,000)	116,000
Accounts payable and accrued liabilities	(434,000)	3,436,000
Customer finished goods returns accrual	(758,000)	(1,331,000)
Income tax payable	(179,000)	(297,000)
Deferred core revenue	1,677,000	(425,000)
Long-term core inventory	(8,704,000)	(1,503,000)
Long-term core inventory deposits	(216,000)	(1,317,000)
Other liabilities	(201,000)	(1,147,000)
Net cash provided by operating activities	9,080,000	2,725,000
Cash flows from investing activities:		
Purchase of plant and equipment	(540,000)	(484,000)
Purchase of businesses	(464,000)	(2,489,000)
Long-term note receivable	(1,894,000)	—
Change in short term investments	186,000	37,000
Net cash used in investing activities	(2,712,000)	(2,936,000)
Cash flows from financing activities:		
Borrowings under revolving loan	30,700,000	20,000,000
Repayments under revolving loan	(30,700,000)	(17,900,000)
Repayments of term loan	(1,000,000)	—
Deferred financing costs	(16,000)	—
Payments on capital lease obligations	(786,000)	(814,000)
Exercise of stock options	69,000	123,000
Excess tax benefit from employee stock options exercised	44,000	—
Impact of tax benefit on APIC pool from stock options exercised	(3,000)	(36,000)
Repurchase of common stock, including fees	(89,000)	—
Proceeds from issuance of common stock	1,000	—
Net cash (used in) provided by financing activities	(1,780,000)	1,373,000
Effect of exchange rate changes on cash	17,000	19,000
Net increase in cash	4,605,000	1,181,000
Cash — Beginning of period	1,210,000	452,000
Cash — End of period	$ 5,815,000	$ 1,633,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,288,000	$ 1,915,000
Income taxes, net of refunds	3,487,000	2,650,000
Non-cash investing and financing activities:		
Settlement of accounts receivable in connection with the purchase of business.	$ —	$ 1,123,000

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Condensed Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six and three months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2011. This report should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2010, which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on June 14, 2010.

The accompanying consolidated financial statements have been prepared on a consistent basis with, and there have been no material changes to, the accounting policies described in Note 2 to the consolidated financial statements that are presented in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

Reclassification

Certain items in the Consolidated Balance Sheet for the fiscal year ended March 31, 2010 have been reclassified to conform to the fiscal 2011 presentation (Refer to Note 4).

1. Company Background and Organization

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

The Company obtains used alternators and starters, commonly known as Used Cores, primarily from its customers using its core exchange program. The Company also purchases Used Cores from vendors (core brokers). The customers grant a credit to the consumer when the used part is returned to them, and the Company in turn provides a credit to the customers upon return to the Company. These Used Cores are an essential material needed for the remanufacturing operations.

The Company has remanufacturing, warehousing and shipping/receiving operations for alternators and starters in Mexico, California, Singapore and Malaysia. In addition, the Company utilizes third party warehouse distribution centers in Edison, New Jersey and Springfield, Oregon. In June 2010, the Company entered into a two year lease for a warehouse distribution facility in Berlin, Connecticut.

2. Long Term Note Receivable

In August 2010, the Company made a loan in the amount of approximately $1,894,000 (the "Loan") to Fenwick Automotive Products Limited ("Fenwick"), a privately-owned Toronto-based manufacturer, remanufacturer and distributor of new and remanufactured aftermarket auto parts pursuant to a debenture executed by Fenwick in favor of the Company (the "Debenture"). The Loan was to mature on the later of (i) October 21, 2010 and (ii) July 31, 2012 (provided that the indebtedness subject to the agreement among Fenwick, Royal Bank of Canada ("RBC") and certain other parties, dated July 6, 2010, as amended from time to time ("RBC Indebtedness"), was fully renewed or replaced prior to expiration of the deadline in the agreement). Since the RBC Indebtedness was not renewed or replaced prior to the relevant deadline, the Company is treating the Loan as a demand note in long-term assets due to the subordination noted below. The Loan bears interest at a rate equal to the prime rate plus 8.75% per annum, which is payable in cash quarterly in arrears beginning on September 30, 2010.

The Loan is secured by a blanket lien on all of Fenwick's assets, FAPL Holdings, Inc. ("FAPL"), Fenwick's parent company, and each of Fenwick's subsidiaries have also agreed to grant blanket liens of their assets to secure the Loan. The Company's rights to the payment of any amounts due in connection with the Loan and its rights as a secured party under the security agreements are subordinated to the rights of RBC as a lender to, and secured party of, Fenwick. Upon the occurrence of an event of default, as defined in the Debenture, the Company may declare all amounts under the Debenture immediately due and payable.

In connection with the Loan, the Company was granted an option to purchase outstanding shares of FAPL (or at the election of the Company, another Fenwick entity) for an aggregate purchase price of CDN$10,000,000 (the "Option"). The minimum percentage of shares subject to the Option is 51% and increases, up to a maximum of 80%, for reductions below CDN$10,000,000 in FAPL's adjusted net income for the fiscal year ending March 31, 2011. The Option is exercisable until August 25, 2012.

If the Company exercises the Option, the Company also has a call right, which expires on August 24, 2013, to acquire all the remaining outstanding shares of FAPL (or the applicable Fenwick entity) from its shareholders. If the call right expires without being exercised by the Company, the remaining shareholders are granted a put right to require the Company to acquire all the remaining outstanding shares. The payment for either the call or put shares shall be in cash or the Company's common stock, or a combination thereof, at the Company's option; provided, that the selling shareholders may require that up to 20% of the purchase price be paid in cash.

3. Intangible Assets

The following is a summary of the Company's intangible assets at September 30, 2010 and March 31, 2010.

		September 30, 2010		March 31, 2010	
	Weighted Average Amortization Period	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Trademarks	9 years	$ 553,000	$ 152,000	$ 553,000	$ 115,000
Customer relationships	12 years	6,464,000	1,123,000	6,464,000	799,000
Non-compete agreements	5 years	257,000	82,000	257,000	56,000
Total	11 years	$ 7,274,000	$ 1,357,000	$ 7,274,000	$ 970,000

Amortization expense related to intangible assets was $387,000 and $258,000 during the six months ended September 30, 2010 and 2009, respectively. Amortization expense related to intangible assets was $193,000 and $151,000 during the three months ended September 30, 2010 and 2009, respectively. The aggregate estimated future amortization expense for intangible assets is as follows:

Year Ending March 31,	
2011 - remaining six months	$ 387,000
2012	774,000
2013	774,000
2014	738,000
2015	670,000
Thereafter	2,574,000
Total	$ 5,917,000

4. Accounts Receivable — Net

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

Accounts receivable — net is comprised of the following:

	September 30, 2010		March 31, 2010
Accounts receivable — trade	$ 23,279,000		$ 30,977,000
Allowance for bad debts	(1,043,000)		(1,141,000)
Customer allowances earned	(7,700,000)		(5,104,000)
Customer payment discrepancies	(525,000)		(553,000)
Customer returns RGA issued (1)	(3,730,000)		(2,582,000)
Customer core returns accruals	(11,883,000)		(16,044,000)
Less: total accounts receivable offset accounts	(24,881,000)		(25,424,000)
Total accounts receivable — net	$ (1,602,000)	(2)	$ 5,553,000

(1) The portion of customer unit returns for which an RGA was issued at period end for in-transit unit returns (warranty returns) and finished goods returns (stock adjustment returns) is recorded as an offset account to accounts receivable — net. The estimated future warranty and stock adjustment returns accrual portion for which an RGA has not been issued is presented as a current liability in the Company's Consolidated Balance Sheets at September 30, 2010 and March 31, 2010, of $6,696,000 and $7,454,000, respectively. The March 31, 2010 customer finished goods returns accrual reclassification from accounts receivable — net to current liabilities totaling $7,454,000 did not have any impact on the Company's debt covenant calculations, consolidated financial position or results of operations.

(2) Accounts receivable — net has been reclassified and included in accrued liabilities in the Company's Consolidated Balance Sheet at September 30, 2010.

Warranty Returns

The Company allows its customers to return goods to the Company that their end-user customers have returned to them, whether the returned item is or is not defective (warranty returns). The Company accrues an estimate of its exposure to warranty returns based on a historical analysis of the level of this type of return as a percentage of total unit sales. Amounts charged to expense for these warranty returns are considered in arriving at the Company's net sales. At September 30, 2010, the warranty return accrual of $1,658,000 was included under the customer returns RGA issued in the above table and the warranty estimate of $1,317,000 was included in customer finished goods returns accrual in the Consolidated Balance Sheets.

Change in the Company's warranty return accrual is as follows:

	Six Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ (3,445,000)	$ (2,596,000)	$ (3,594,000)	$ (2,604,000)
Charged to expense	19,219,000	18,406,000	10,254,000	10,211,000
Amounts processed	(19,689,000)	(17,863,000)	(10,873,000)	(9,676,000)
Balance at end of period	$ (2,975,000)	$ (3,139,000)	$ (2,975,000)	$ (3,139,000)

5. Inventory

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

	September 30, 2010	March 31, 2010
Non-core inventory		
Raw materials	$ 10,996,000	$ 10,362,000
Work-in-process	170,000	29,000
Finished goods	18,497,000	22,919,000
	29,663,000	33,310,000
Less allowance for excess and obsolete inventory	(1,890,000)	(1,763,000)
Total	$ 27,773,000	$ 31,547,000
Inventory unreturned	$ 4,366,000	$ 3,924,000
Long-term core inventory		
Used cores held at the Company's facilities	$ 20,971,000	$ 14,491,000
Used cores expected to be returned by customers	3,711,000	3,350,000
Remanufactured cores held in finished goods	16,214,000	17,955,000
Remanufactured cores held at customers' locations	36,234,000	32,878,000
	77,130,000	68,674,000
Less allowance for excess and obsolete inventory	(828,000)	(717,000)
Total	$ 76,302,000	$ 67,957,000
Long-term core inventory deposit	$ 25,984,000	$ 25,768,000

6. Major Customers

The Company's four largest customers accounted for the following total percentage of net sales and accounts receivable — trade:

	Six Months Ended September 30,		Three Months Ended September 30,	
Sales	**2010**	**2009**	**2010**	**2009**
Customer A	48%	44%	48%	42%
Customer B	19%	26%	21%	28%
Customer C	8%	8%	6%	9%
Customer D	8%	8%	7%	7%

Accounts receivable - trade	September 30, 2010	March 31, 2010
Customer A	40%	24%
Customer B	4%	15%
Customer C	11%	31%
Customer D	9%	4%

For the six months ended September 30, 2010 and 2009, one supplier provided approximately 18% and 30%, respectively, of the raw materials purchased. For the three months ended September 30, 2010 and 2009, one supplier provided approximately 15% and 33%, respectively, of the raw materials purchased. No other supplier accounted for more than 10% of the Company's raw materials purchases for the six and three months ended September 30, 2010 or 2009.

7. Debt

In October 2009, the Company entered into a revolving credit and term loan agreement (the “Credit Agreement”), with its bank and one additional lender (the “Lenders”), which permits the Company to borrow up to $45,000,000 (the “Credit Facility”). The Credit Facility is comprised of (i) a revolving facility with a $7,000,000 letter of credit sub-facility and (ii) a term loan. The Company may borrow on a revolving basis up to an amount equal to $35,000,000 minus all outstanding letter of credit obligations minus a borrowing reserve of $7,500,000 (the “Revolving Loan”). The borrowing reserve remains in effect only if the Company is party to a receivable discount program pursuant to which its accounts receivable owed to the Company by its largest customer are being discounted. The term loan is in the principal amount of $10,000,000 (the “Term Loan”).

The Revolving Loan and the Term Loan bear interest at the bank’s reference rate, plus an applicable margin, or a London Interbank Offered Rate (“LIBOR”) rate, plus an applicable margin, as selected by the Company in accordance with the Credit Agreement. The Credit Agreement, among other things, requires the Company to maintain certain financial covenants, including tangible net worth, fixed charge coverage ratio and leverage ratio covenants. The Company was in compliance with all financial covenants under the Credit Agreement as of September 30, 2010.

The Term Loan matures in October 2014 and requires principal payments of $500,000 on a quarterly basis. The Revolving Loan expires in October 2011 and provides the Company the option to request up to three one-year extensions.

In May 2010, the Company entered into a first amendment to the Credit Agreement with its Lenders. This amendment provides, among other things, that the borrowing reserve against the Company’s Revolving Loan commitment amount be increased from $7,500,000 to $10,000,000.

In November 2010, the Company entered into a second amendment to the Credit Agreement with its Lenders. This amendment, among other things, extended the expiration date of the Revolving Loan to October 2012.

The Lenders hold a security interest in substantially all of the Company’s assets. There was no outstanding balance on the Revolving Loan at September 30, 2010 and March 31, 2010. The Company had reserved $1,826,000 of the Revolving Loan for standby letters of credit for workers’ compensation insurance and $1,808,000 for commercial letters of credit as of September 30, 2010. As of September 30, 2010, $31,366,000 was available under the Revolving Loan, and of this, $10,000,000 was reserved for use in the event the Company’s largest customer discontinued its current practice of having the Company’s receivables discounted.

8. Accounts Receivable Discount Programs

The Company has established receivable discount programs with certain customers and their respective banks. Under these programs, the Company may sell those customers’ receivables to those banks at a discount to be agreed upon at the time the receivables are sold. These discount arrangements have allowed the Company to accelerate collection of customers’ receivables aggregating $70,950,000 and $31,113,000 for the six months ended September 30, 2010 and 2009, respectively, by a weighted average of 325 days and 337 days, respectively. On an annualized basis, the weighted average discount rate on the receivables sold to the banks during the six months ended September 30, 2010 and 2009 was 4.5% and 4.7%, respectively. The amount of the discount on these receivables, $2,855,000 and $1,389,000 for the six months ended September 30, 2010 and 2009, respectively, was recorded as interest expense.

9. Net Income Per Share

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

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

	Six Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 6,021,000	$ 4,630,000	$ 3,501,000	$ 3,435,000
Basic shares	12,043,818	11,967,797	12,038,636	11,973,510
Effect of dilutive stock options and warrants	176,439	118,501	163,871	128,487
Diluted shares	12,220,257	12,086,298	12,202,507	12,101,997
Net income per share:				
Basic	$ 0.50	$ 0.39	$ 0.29	$ 0.29
Diluted	$ 0.49	$ 0.38	$ 0.29	$ 0.28

The effect of dilutive options and warrants excludes 1,144,984 shares subject to options and 546,283 shares subject to warrants with exercise prices ranging from $7.27 to $15.00 per share for the six and three months ended September 30, 2010, respectively — all of which were anti-dilutive. The effect of dilutive options and warrants excludes 1,256,649 shares subject to options and 546,283 shares subject to warrants with exercise prices ranging from $4.60 to $15.00 per share for the six months ended September 30, 2009 and 1,248,316 shares subject to options and 546,283 shares subject to warrants with exercise prices ranging from $5.00 to $15.00 per share for the three months ended September 30, 2009 — all of which were anti-dilutive.

10. Comprehensive Income

Comprehensive income is defined as the change in equity during a period resulting from transactions and other events and circumstances from non-owner sources. The Company’s total comprehensive income consists of net income, unrealized (loss) gain on short-term investments and foreign currency translation adjustments.

	Six Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Net income	$6,021,000	$4,630,000	$3,501,000	$3,435,000
Unrealized (loss) gain on short-term investments	(14,000)	55,000	13,000	26,000
Foreign currency translation	459,000	(287,000)	428,000	(280,000)
Comprehensive net income	$6,466,000	$4,398,000	$3,942,000	$3,181,000

11. Income Taxes

Income tax expenses for the six and three months ended September 30, 2010 and 2009 reflect income tax rates higher than the federal statutory rates primarily due to state income taxes, which were partially offset by the benefit of lower statutory tax rates in foreign taxing jurisdictions. In addition, during the six months ended September 30, 2010, the rate was further offset to a rate below the federal statutory rate by a reduction in the liability for unrealized tax benefits due to the conclusion of the Internal Revenue Service (“IRS”) examination noted below.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions with varying statutes of limitations. At March 31, 2010, the IRS had an ongoing tax examination of the federal tax returns for the fiscal year ended March 31, 2007. In November 2009, the IRS expanded its ongoing tax examination of the federal tax returns to include the fiscal year ended March 31, 2008. In May 2010, the IRS concluded its examination of the Company’s federal income tax returns for the fiscal 2007 and 2008 tax years. The IRS required no changes to the Company’s tax returns for those fiscal years as filed.

12. Financial Risk Management and Derivatives

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

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

The Company had forward foreign currency exchange contracts with a U.S. dollar equivalent notional value of $6,844,000 and $6,159,000 at September 30, 2010 and March 31, 2010, respectively. The forward foreign currency exchange contracts entered into require the Company to exchange Mexican pesos for U.S. dollars. These contracts generally expire in a year or less, at rates agreed at the inception of the contracts. The counterparty to this derivative transaction is a major financial institution with investment grade or better credit rating; however, the Company is exposed to credit risk with this institution. The credit risk is limited to the potential unrealized gains (which offset currency fluctuations adverse to the Company) in any such contract should this counterparty fail to perform as contracted. Any changes in the fair values of forward foreign currency exchange contracts are reflected in current period earnings and accounted for as an increase or offset to general and administrative expenses.

The following tables show the effect of the Company's derivative instruments on its Consolidated Statement of Income:

Derivatives Not Designated as Hedging Instruments	Loss (Gain) Recognized within General and Administrative Expenses			
	Six Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Forward foreign currency exchange contracts	$332,000	$(1,103,000)	$(139,000)	$(139,000)

The fair value of the forward foreign currency exchange contracts of $185,000 and $517,000 is included in prepaid expenses and other current assets in the Consolidated Balance Sheets at September 30, 2010 and March 31, 2010, respectively.

13. Fair Value Measurements

The following table summarizes the Company's financial assets and liabilities measured at fair value, by level within the fair value hierarchy as of September 30, 2010 and March 31, 2010:

	September 30, 2010				March 31, 2010			
		Fair Value Measurements Using Inputs Considered as				Fair Value Measurements Using Inputs Considered as		
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets								
Short-term investments								
Cash	—	—	—	—	$207,000	$207,000	—	—
Mutual funds	$265,000	$265,000	—	—	244,000	244,000	—	—
Prepaid expenses and other current assets								
Forward foreign currency exchange contracts	185,000	—	$185,000	—	517,000	—	$517,000	—
Liabilities								
Other current liabilities								
Deferred compensation	265,000	265,000	—	—	451,000	451,000	—	—

The Company's short-term investments, which fund its deferred compensation liabilities, consist of investments in mutual funds. These investments are classified as Level 1 as the shares of these mutual funds trade with sufficient frequency and volume to enable the Company to obtain pricing information on an ongoing basis.

The forward foreign currency exchange contracts are primarily measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. During the six months ended September 30, 2010 and 2009, a loss of $332,000 and a gain of $1,103,000, respectively, were recorded in general and administrative expenses due to the change in the value of the forward foreign currency exchange contracts subsequent to entering into the contracts. During the each of the three month periods ended September 30, 2010 and 2009, a gain of $139,000 was recorded in general and administrative expenses due to the change in the value of the forward foreign currency exchange contracts subsequent to entering into the contracts.

During the six and three months ended September 30, 2010, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

The carrying amounts of cash, 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 amount of the long-term note receivable approximates its fair value based on current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity. The carrying amounts of the Revolving Loan, Term Loan and other long-term liabilities approximate their fair value based on current rates for instruments with similar characteristics.

14. Treasury Stock

In March 2010, the Company's Board of Directors authorized a share repurchase program of up to $5,000,000 of the Company's outstanding common stock from time to time in the open market and in private transactions at prices deemed appropriate by management. There is no expiration date governing the period over which the Company can repurchase shares under this program. During July 2010, the Company repurchased 14,400 shares at a total cost of approximately $89,000.

15. New Accounting Pronouncements

Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board (the "FASB") issued new guidance on the treatment of transfers of financial assets which eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. This new guidance is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The adoption of this guidance on April 1, 2010 did not have any impact on the Company's consolidated financial position and results of operations.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued new guidance which amends the consolidation guidance applicable to variable interest entities and is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The adoption of this guidance on April 1, 2010 did not have any impact on the Company's consolidated financial position and results of operations.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued an update which requires new disclosures for transfers in and out of Level 1 and Level 2 of the fair value hierarchy and expanded disclosures for activity in Level 3 of the fair value hierarchy. The update also clarifies existing disclosures regarding the level of disaggregation for disclosure and disclosures about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this update on January 1, 2010 did not have any impact on the Company's consolidated financial position and results of operations. The disclosures regarding certain Level 3 activity are effective for fiscal years beginning after December 15, 2010. The Company does not expect the adoption of this guidance on April 1, 2011 to have any material impact on its consolidated financial position and results of operations.

Disclosure Requirements Related to Financing Receivables

In July 2010, the FASB issued an update which requires enhanced disclosures about the credit quality of financing receivables and the related allowance for credit losses. Trade accounts receivable with maturities of one year or less are excluded from the disclosure requirements. Disclosures required as of the end of a reporting period are effective for interim and annual periods ending on or after December 15, 2010. The Company does not expect the adoption of this guidance on December 31, 2010 to have any material impact on its consolidated financial position and results of operations. The disclosures required about activity that occurs during a reporting period are effective for interim and annual periods beginning on or after December 15, 2010. The Company does not expect the adoption of this guidance on January 1, 2011 to have any material impact on its consolidated financial position and the results of operations.

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

The following discussion and analysis presents factors that Motorcar Parts of America, Inc. and its subsidiaries ("our", "we", or "us") believe are relevant to an assessment and understanding of our consolidated financial position and results of operations. This financial and business analysis should be read in conjunction with our March 31, 2010 audited consolidated financial statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on June 14, 2010.

Disclosure Regarding Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements with respect to our future performance that involve risks and uncertainties. Various factors could cause actual results to differ materially from those projected in such statements. These factors include, but are not limited to: concentration of sales to certain customers, changes in our relationship with any of our major customers, the increasing customer pressure for lower prices and more favorable payment and other terms, the increasing demands on our working capital, the significant strain on working capital associated with large Remanufactured Core inventory purchases from customers, our ability to obtain any additional financing we may seek or require, our ability to maintain positive cash flows from operations, potential future changes in our previously reported results as a result of the identification and correction of errors in our accounting policies or procedures or potential material weaknesses in our internal controls over financial reporting, lower revenues than anticipated from new and existing contracts, our failure to meet the financial covenants or the other obligations set forth in our credit agreement and our lenders' refusal to waive any such defaults, any meaningful difference between projected production needs and ultimate sales to our customers, increases in interest rates, changes in the financial condition of any of our major customers, the impact of high gasoline prices, the potential for changes in consumer spending, consumer preferences and general economic conditions, increased competition in the automotive parts industry, including increased competition from Chinese and other offshore manufacturers, difficulty in obtaining Used Cores and component parts or increases in the costs of those parts, political, criminal or economic instability in any of the foreign countries where we conduct operations, currency exchange fluctuations, unforeseen increases in operating costs and other factors discussed herein and in our other filings with the SEC.

Management Overview

The after-market for automobile parts is divided into two markets. The first market is the do-it-yourself ("DIY") market, which is generally serviced by the large retail chain outlets. Consumers who purchase parts from the DIY channel generally install parts into their vehicles themselves. In most cases, this is a cheaper alternative than having the repair performed by a professional installer. The second market is the professional installer market, commonly known as the do-it-for-me ("DIFM") market. This market is serviced by the retail chains, traditional warehouse distributors and the dealer networks. Generally, the consumer in this channel is a professional parts installer.

We remanufacture alternators and starters for import and domestic cars, light trucks, heavy duty, agricultural and industrial applications. These products are distributed to both the DIY and DIFM markets. Our products are distributed predominantly throughout the United States and Canada. Our products are sold to the largest auto parts retail chains in the United States and Canada. In addition, our products are sold to various traditional warehouses for the professional installers, and to major automobile manufacturers for both their after-market programs and their warranty replacement programs ("OES"). Demand and replacement rates for after-market remanufactured alternators and starters generally increase with increases in miles driven and the age of vehicles.

Historically, our business has focused on the DIY market. In times of recession, we believe consumers are more apt to purchase replacement parts in the DIY market because of lower prices compared to the DIFM market. We believe we have recently increased our market share in the DIY market.

The DIFM market is an attractive opportunity for growth. We are positioned to benefit from this market opportunity in two ways: (1) our auto parts retail customers are expanding their efforts to target the DIFM market and (2) we sell our products under private label and our Quality-Built®, Talon®, Xtreme®, Reliance™ and other brand names directly to suppliers that focus on professional installers. In addition, we sell our products to original equipment manufacturers for distribution to the professional installer both for warranty replacement and their general after-market channels. We have been successful in growing sales to this market.

In August 2010, we made a $1,894,000 secured loan to Fenwick Automotive Products Limited ("Fenwick"), a privately-owned Toronto-based manufacturer, remanufacturer and distributor of new and remanufactured aftermarket auto parts. In connection with this loan, we have an option to acquire substantial ownership interest in Fenwick. We believe this transaction provides us potential opportunities to expand beyond our existing product lines of alternators and starters and further enhance our market presence in North America.

Results of Operations for the Three Months Ended September 30, 2010 and 2009

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

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Gross profit percentage	30.9%	27.4%
Cash flow provided by (used in) operations	$9,013,000	$(245,000)
Finished goods turnover (annualized) (1)	5.6	5.9
Annualized return on equity (2)	13.5%	14.8%

(1) Annualized finished goods turnover for the fiscal quarter is calculated by multiplying cost of sales for the quarter by 4 and dividing the result by the average between beginning and ending non-core finished goods inventory values for the fiscal quarter. We believe this provides a useful measure of our ability to turn production into revenues.

(2) Annualized return on equity is computed as net income for the fiscal quarter multiplied by 4 and dividing the result by beginning shareholders' equity. Annualized return on equity measures our ability to invest shareholders' funds profitably.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Net sales	100.0%	100.0%
Cost of goods sold	69.1	72.6
Gross profit	30.9	27.4
Operating expenses:		
General and administrative	8.7	9.3
Sales and marketing	2.9	3.9
Research and development	1.0	0.8
Operating income	18.3	13.4
Gain on acquisition	—	3.4
Interest expense, net	4.2	2.5
Income tax expense	5.6	5.6
Net income	8.5%	8.7%

Net Sales. Net sales for the three months ended September 30, 2010 increased by $1,540,000 to $40,977,000 compared to net sales for the three months ended September 30, 2009 of $39,437,000. The increase in our net sales was primarily due to increased sales to our existing customers and increased sales to several new customers.

Cost of Goods Sold/Gross Profit. Cost of goods sold as a percentage of net sales decreased during the three months ended September 30, 2010 to 69.1% from 72.6% for the three months ended September 30, 2009, resulting in a corresponding increase in our gross profit of 3.5% to 30.9% for the three months ended September 30, 2010 from 27.4% for the three months ended September 30, 2009. The increase in the gross profit percentage was primarily due to lower per unit manufacturing costs as compared to the three months ended September 30, 2009.

General and Administrative. Our general and administrative expenses for the three months ended September 30, 2010 were $3,571,000, which represents a decrease of $82,000, or 2.2%, from general and administrative expenses for the three months ended September 30, 2009 of $3,653,000. This decrease in general and administrative expenses during the three months ended September 30, 2010 was primarily due to (i) $233,000 of decreased employee-related expenses and (ii) $74,000 of decreased professional services fees. These decreases in general and administrative expenses were partly offset by (i) $183,000 of increased general and administrative expenses at our offshore manufacturing facilities and (ii) $47,000 of increased travel expense.

Sales and Marketing. Our sales and marketing expenses for the three months ended September 30, 2010 decreased $334,000, or 21.8%, to $1,201,000 from $1,535,000 for the three months ended September 30, 2009. This decrease was due primarily to (i) reversal of commission expenses in connection with our prior year acquisition as certain thresholds were not met and (ii) decreased catalog expenses.

Research and Development. Our research and development expenses increased by $62,000, or 18.6%, to $396,000 for the three months ended September 30, 2010 from $334,000 for the three months ended September 30, 2009. The increase in research and development expenses was due primarily to employee-related expenses and an increase in the cost of supplies compared to the three months ended September 30, 2009.

Gain on Acquisition. During the three months ended September 30, 2009, we recorded a gain of $1,331,000 in connection with our August 2009 acquisition as the estimated fair value of the net assets acquired exceeded the fair value of the consideration transferred.

Interest Expense, Net. Our interest expense, net of interest income of $23,000, for the three months ended September 30, 2010 was $1,701,000. This represents an increase of $727,000, or 74.6%, over interest expense of $974,000 for the three months ended September 30, 2009. This increase was primarily attributable to a higher balance of receivables being discounted under the receivable discount programs during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009.

Income Tax. For the three months ended September 30, 2010 and 2009, we recognized income tax expense of $2,312,000 and $2,216,000, respectively. Our effective tax rates for the three months ended September 30, 2010 and 2009 were 39.8% and 39.2%, respectively. This increase was primarily due to a decrease in the benefit of lower statutory rates in foreign taxing jurisdiction during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009.

Results of Operations for the Six Months Ended September 30, 2010 and 2009

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

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

	Six Months Ended September 30,	
	2010	**2009**
Gross profit percentage	31.4%	24.9%
Cash flow provided by operations	$9,080,000	$2,725,000
Finished goods turnover (annualized) (1)	5.1	5.6
Annualized return on equity (2)	11.6%	9.9%

(1) Annualized finished goods turnover for the six months ended September 30, 2010 and 2009 is calculated by multiplying cost of sales for each six month period by 2 and dividing the result by the average between beginning and ending non-core finished goods inventory values for each six month period. We believe this provides a useful measure of our ability to turn production into revenues.

(2) Annualized return on equity is computed as net income for the six months ended September 30, 2010 and 2009 multiplied by 2 and dividing the result by beginning shareholders' equity. Annualized return on equity measures our ability to invest shareholders' funds profitably.

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

	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
Net sales	100.0%	100.0%
Cost of goods sold	68.6	75.1
Gross profit	31.4	24.9
Operating expenses:		
General and administrative	9.8	8.5
Sales and marketing	3.8	3.9
Research and development	1.0	0.9
Operating income	16.8	11.6
Gain on acquisition	—	1.8
Interest expense, net	4.3	2.7
Income tax expense	4.7	4.3
Net income	7.8%	6.4%

Net Sales. Net sales for the six months ended September 30, 2010 increased by $5,084,000 to $77,211,000 compared to net sales for the six months ended September 30, 2009 of $72,127,000. The increase in our net sales was primarily due to increased sales to our existing customers and increased sales to several new customers.

Cost of Goods Sold/Gross Profit. Cost of goods sold as a percentage of net sales decreased during the six months ended September 30, 2010 to 68.6% from 75.1% for the six months ended September 30, 2009, resulting in a corresponding increase in our gross profit of 6.5% to 31.4% for the six months ended September 30, 2010 from 24.9% for the six months ended September 30, 2009. The increase in the gross profit percentage was primarily due to lower per unit manufacturing costs during the six months ended September 30, 2010 as compared to the six months ended September 30, 2009.

General and Administrative. Our general and administrative expenses for the six months ended September 30, 2010 were $7,595,000, which represents an increase of $1,430,000, or 23.2%, from general and administrative expenses for the six months ended September 30, 2009 of $6,165,000. This increase in general and administrative expenses during the six months ended September 30, 2010 was primarily due to a loss of $332,000 recorded due to the changes in the fair value of forward foreign currency exchange contracts, compared to a gain of $1,103,000 during the six months ended September 30, 2009.

Sales and Marketing. Our sales and marketing expenses for the six months ended September 30, 2010 increased $134,000, or 4.8%, to $2,941,000 from $2,807,000 for the six months ended September 30, 2009. This increase was due primarily to (i) the addition of employees as a result of our acquisition in the prior year and (ii) increased travel expenses. These increases were partly offset by (i) reversal of commission expenses in connection with our prior year acquisition as certain thresholds were not met and (ii) decreased catalog expenses.

Research and Development. Our research and development expenses increased by $94,000, or 14.1%, to $762,000 for the six months ended September 30, 2010 from $668,000 for the six months ended September 30, 2009. The increase in research and development expenses was due primarily to employee-related expenses and an increase in the cost of supplies compared to the six months ended September 30, 2009.

Gain on Acquisition. During the six months ended September 30, 2009, we recorded a gain of $1,331,000 in connection with our August 2009 acquisition as the estimated fair value of the net assets acquired exceeded the fair value of the consideration transferred.

Interest Expense, Net. Our interest expense, net of interest income of $23,000, for the six months ended September 30, 2010 was $3,303,000. This represents an increase of $1,333,000, or 67.7%, over interest expense of $1,970,000 for the six months ended September 30, 2009. This increase was primarily attributable to a higher balance of receivables being discounted under the receivable discount programs during the six months ended September 30, 2010 as compared to the six months ended September 30, 2009. This increase in net interest expense was partly offset by a decrease in interest expense incurred on our Revolving Loan and capital lease obligations.

Income Tax. For the six months ended September 30, 2010, we recognized income tax expense of $3,605,000 compared to an income tax expense of $3,078,000 recognized for the six months ended September 30, 2009. Our effective tax rate for the six months ended September 30, 2010 and 2009 was 37.5% and 39.9%, respectively. The lower effective tax rate for the six months ended September 30, 2010 reflects a reduction in the liability for unrecognized tax benefits due to the conclusion of an IRS examination of the federal tax returns for fiscal years ended March 31, 2007 and March 31, 2008. We were notified during May 2010 that the IRS required no changes to our tax returns for those fiscal years as filed.

Liquidity and Capital Resources

Overview

At September 30, 2010, we had working capital of $1,337,000, a ratio of current assets to current liabilities of 1:1, and cash of $5,815,000, compared to working capital of $3,399,000, a ratio of current assets to current liabilities of 1.1:1, and cash of $1,210,000 at March 31, 2010. The decrease in working capital from March 31, 2010 primarily resulted from a decrease in our non-core inventory levels, which was due primarily to higher sales, and a decrease in our accounts receivable balance due primarily to a higher balance of receivables being discounted under the receivable discount programs, which allowed us to pay down our accounts payable balances.

During the six months ended September 30, 2010, we used cash generated by operations and from our use of receivable discount programs with certain of our major customers as our primary sources of liquidity. These sources were primarily used to make the quarterly principal payment on the Term Loan and pay the purchase price holdback in connection with our May 2008 acquisition. In addition, in August 2010, we made a secured loan of $1,894,000 to Fenwick.

We believe our cash generated by operations, amounts available under our Revolving Loan, and our cash and short term investments on hand are sufficient to satisfy our expected future working capital needs, capital lease commitments, repayment of the current portion of our Term Loan, and capital expenditure obligations over the next twelve months.

Cash Flows

Net cash provided by operating activities was $9,080,000 and $2,725,000 for the six months ended September 30, 2010 and 2009, respectively. The most significant changes in operating activities for the six months ended September 30, 2010 compared to the six months ended September 30, 2009 were (i) a higher balance of receivables being discounted under the receivable discount programs we have with certain of our major customers and (ii) a decrease in our non-core inventory levels due primarily to higher sales. These changes in operating activities were partly offset by (i) an increase in our long-term core inventory levels and (ii) a decrease in our accounts payable balances. During the six months ended September 30, 2010, the increase in long-term core inventory was primarily due to increase in our Used Cores held in our facilities and increase in Remanufactured Cores held for sale at our customers' locations.

Net cash used in investing activities was $2,712,000 and $2,936,000 during the six months ended September 30, 2010 and 2009, respectively. The decrease in net cash used in investing activities primarily resulted from the payment of the purchase price holdback of $464,000 in connection with our May 2008 acquisition compared to the payment of $2,489,000 during the six months ended September 30, 2009 for our acquisitions. This decrease in net cash used in investing activities was partly offset by the secured loan made to Fenwick in August 2010. Capital expenditures for the six months ended September 30, 2010 primarily related to the purchase of equipment for our manufacturing facilities and improvements to our California facility compared to purchases in the same period of the prior year primarily related to purchases of equipment for our manufacturing facilities.

Net cash used in financing activities was $1,780,000 during the six months ended September 30, 2010 compared to net cash provided by financing activities of $1,373,000 during the six months ended September 30, 2009. This change was primarily due to repayments of our Term Loan during the six months ended September 30, 2010 compared to borrowings under our previous revolving loan during the six months ended September 30, 2009. Additionally, during the six months ended September 30, 2010, we repurchased 14,400 shares at a total cost of $89,000 pursuant to a share repurchase program authorized by our Board of Directors in March 2010.

Capital Resources

Debt

In October 2009, we entered into a revolving credit and term loan agreement (the “Credit Agreement”) with our bank and one additional lender (the “Lenders”), which permits us to borrow up to $45,000,000 (the “Credit Facility”). The Credit Facility is comprised of (i) a revolving facility with a $7,000,000 letter of credit sub-facility and (ii) a term loan. We may borrow on a revolving basis up to an amount equal to $35,000,000 minus all outstanding letter of credit obligations minus a borrowing reserve of $7,500,000 (the “Revolving Loan”). The borrowing reserve remains in effect only if we are party to a receivable discount program pursuant to which our accounts receivable owed to us by our largest customer are being discounted. The term loan is in the principal amount of $10,000,000 (the “Term Loan”).

The Credit Agreement, among other things, requires us to maintain certain financial covenants, including tangible net worth, fixed charge coverage ratio and leverage ratio covenants. We were in compliance with all financial covenants under the Credit Agreement as of September 30, 2010.

The Term Loan matures in October 2014 and requires principal payments of $500,000 on a quarterly basis. The Revolving Loan expires in October 2011 and provides us the option to request up to three one-year extensions.

In May 2010, we entered into a first amendment to the Credit Agreement with our Lenders. This amendment provides, among other things, that the borrowing reserve against our Revolving Loan commitment amount be increased from $7,500,000 to $10,000,000.

In November 2010, we entered into a second amendment to the Credit Agreement with our Lenders. This amendment, among other things, (i) extended the expiration date of the Revolving Loan to October 2012 and (ii) lowered the applicable margins on our borrowings to the levels described below.

The Lenders hold a security interest in substantially all of our assets. There was no outstanding balance on the Revolving Loan at September 30, 2010 and March 31, 2010. Additionally, we had reserved $1,826,000 of the Revolving Loan for standby letters of credit for workers’ compensation insurance and $1,808,000 for commercial letters of credit as of September 30, 2010. As of September 30, 2010, $31,366,000 was available under the Revolving Loan, and of this, $10,000,000 was reserved for use in the event our largest customer discontinued its current practice of having our receivables discounted.

The Revolving Loan and the Term Loan bear interest at either our bank's reference rate plus an applicable margin or a London Interbank Offered Rate ("LIBOR") rate (which in the case of the Term Loan shall not be lower than 3.75%) plus an applicable margin, as selected by us in accordance with the Credit Agreement. The reference rate is, as further described in the Credit Agreement, the higher of our bank's announced base rate and the Federal funds rate plus 1/2 percent. The applicable margins are determined quarterly on a prospective basis as set forth below:

Leverage Ratio	Applicable LIBOR Margin	Applicable Reference Rate Margin
Less than 1.0:1.0	250 basis points	125 basis points
Greater than or equal to 1.0:1.0, but less than 1.5:1.0	275 basis points	150 basis points
Greater than or equal to 1.5:1.0	300 basis points	175 basis points

Our ability to comply in future periods with the financial covenants in the Credit Agreement, will depend on our ongoing financial and operating performance, which, in turn, will be subject to economic conditions and to financial, business and other factors, many of which are beyond our control and will be substantially dependent on the selling prices and demand for our products, customer demands for marketing allowances and other concessions, raw material costs, and our ability to successfully implement our overall business strategy, including acquisitions. If a violation of any of the covenants occurs in the future, we would attempt to obtain a waiver or an amendment from our Lenders. No assurance can be given that we would be successful in this regard.

Receivable Discount Programs

Our liquidity has been positively impacted by receivable discount programs we have established with certain customers and their respective banks. Under these programs, we have the option to sell those customers' receivables to those banks at a discount to be agreed upon at the time the receivables are sold. The weighted average discount under this program was 4.5% during the six months ended September 30, 2010 and has allowed us to accelerate collection of receivables aggregating $70,950,000 by a weighted average of 325 days. While these arrangements have reduced our working capital needs, there can be no assurance that these programs will continue in the future. These programs resulted in interest expense of $2,855,000 during the six months ended September 30, 2010. Interest expense resulting from these programs would increase if interest rates rise, if utilization of these discounting arrangements expands or if the discount period is extended to reflect more favorable payment terms to customers.

Off-Balance Sheet Arrangements

At September 30, 2010, we had no off-balance sheet financing or other arrangements with unconsolidated entities or financial partnerships (such as entities often referred to as structured finance or special purpose entities) established for purposes of facilitating off-balance sheet financing or other debt arrangements or for other contractually narrow or limited purposes.

Capital Expenditures and Commitments

Capital Expenditures

Our capital expenditures were $540,000 for the six months ended September 30, 2010 and primarily related to the purchase of equipment for our manufacturing facilities and improvements for our California facility. We expect our fiscal year 2011 capital expenditures to be approximately $2.0 million. We expect to use our working capital and incur additional capital lease obligations to finance these capital expenditures.

Related Party Transactions

Our related party transactions primarily consist of employment and director agreements and stock option agreements. Our related party transactions have not changed since March 31, 2010.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates that are presented in the

Company's Annual Report on Form 10-K for the year ended March 31, 2010, which was filed on June 14, 2010, except as discussed below.

New Accounting Pronouncements

Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board (the "FASB") issued new guidance on the treatment of transfers of financial assets which eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. This new guidance is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The adoption of this guidance on April 1, 2010 did not have any impact on our consolidated financial position and results of operations.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued new guidance which amends the consolidation guidance applicable to variable interest entities and is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The adoption of this guidance on April 1, 2010 did not have any impact on our consolidated financial position and results of operations.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued an update which requires new disclosures for transfers in and out of Level 1 and Level 2 of the fair value hierarchy and expanded disclosures for activity in Level 3 of the fair value hierarchy. The update also clarifies existing disclosures regarding the level of disaggregation for disclosure and disclosures about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this update on January 1, 2010 did not have any impact on our consolidated financial position and results of operations. The disclosures regarding certain Level 3 activity are effective for fiscal years beginning after December 15, 2010. We do not expect the adoption of this guidance on April 1, 2011 to have any material impact on our consolidated financial position and results of operations.

Disclosure Requirements Related to Financing Receivables

In July 2010, the FASB issued an update which requires enhanced disclosures about the credit quality of financing receivables and the related allowance for credit losses. Trade accounts receivable with maturities of one year or less are excluded from the disclosure requirements. Disclosures required as of the end of a reporting period are effective for interim and annual periods ending on or after December 15, 2010. We do not expect the adoption of this guidance on December 31, 2010 to have any material impact on our consolidated financial position and results of operations. The disclosures required about activity that occurs during a reporting period are effective for interim and annual periods beginning on or after December 15, 2010. We do not expect the adoption of this guidance on January 1, 2011 to have any material impact on our consolidated financial position and the results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K as of March 31, 2010, which was filed on June 14, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, we have conducted an evaluation of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on this evaluation, our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2010.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the second quarter ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, filed on June 14, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Limitation on Payment of Dividends—The Credit Agreement prohibits the declaration or payment of any dividends by us other than dividends payable in our capital stock.

Issuer Purchases of Equity Securities

The following table presents information about our purchases of shares of our common stock during the fiscal quarter ended September 30, 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)(2)
July 1 - July 31, 2010	14,400	$6.16	14,400	$4,911,339
August 1 - August 31, 2010	—	—	—	—
September 1 - September 30, 2010	—	—	—	—

(1) On March 16, 2010, we announced that our Board of Directors had authorized a share repurchase program of up to $5,000,000 of our outstanding common stock from time to time in the open market and in private transactions at prices deemed appropriate by management. There is no expiration date governing the period over which we can repurchase shares under this program.

(2) Excludes brokerage commissions paid by us.

Item 5. Other Information

On August 18, 2010, our Board of Directors adopted and approved, effective immediately, our Amended and Restated By-Laws (the "Amended and Restated By-Laws") that, among other things, (i) added advance notice provisions, (ii) conformed the language of the by-laws to certain aspects of New York law and (iii) clarified and modernized certain other by-law provisions.

The advance notice provisions in the Amended and Restated By-Laws, among other things:

- require shareholders to provide advance notice of shareholder proposals or nominations (other than Rule 14a-8 proposals or nominations) sought to be made at an annual meeting not less than 90 days nor more than 120 days prior to first anniversary of the preceding year's annual meeting, subject to specified conditions;
- require disclosure of material interests of shareholders making proposals or nominations or acting by written consent including, among other things, ownership interests, derivative positions, voting arrangements, hedged positions and other economic and voting interests, as well as any other agreements and arrangements between the shareholder making the proposal or nomination and any other persons regarding the proposal or nomination;
- require disclosure of certain information regarding any proposed director nominees including, among other things, all material interests of the proposed director nominees and any material relationships between the shareholder proponents and their affiliates on the one hand, and the proposed director nominees and their affiliates, on the other hand;
- require a reasonably detailed description of all agreements, arrangements and understandings between any shareholder proponents or between any shareholder proponent and any other person or entity in connection with any proposed business;
- require these disclosures to be updated and supplemented so as to be accurate as of the record date for a meeting and as of 10 business days prior to the meeting, or, for actions by written consent 5 business days prior to the date that the consent solicitation is commenced; and
- clarify that the requirements in the Amended and Restated By-Laws do not apply to shareholder proposals made pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (which provides certain different procedural requirements).

The foregoing summary of the Amended and Restated By-Laws does not purport to be complete and is qualified in its entirety by reference to the full text of the Amended and Restated By-Laws, a copy of which is attached as Exhibit 3.6 hereto and incorporated herein by reference.

On November 3, 2010, we entered into a Second Amendment to our Credit Agreement (the "Second Amendment") with Union Bank, N.A. and Branch Banking & Trust Company. The Second Amendment, among other things, (i) extended the term of the Credit Agreement from October 28, 2011 to October 29, 2012 and (ii) lowered the applicable margins used to determine the interest rates under our Revolving Loan and Term Loan so that they are determined as set forth below:

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Leverage Ratio	Applicable LIBOR Margin	Applicable Reference Rate Margin
Less than 1.0:1.0	250 basis points	125 basis points
Greater than or equal to 1.0:1.0, but less than 1.5:1.0	275 basis points	150 basis points
Greater than or equal to 1.5:1.0	300 basis points	175 basis points

The foregoing summary of the Second Amendment does not purport to be complete and is qualified in its entirety by the terms of the Second Amendment, which is attached as Exhibit 10.4 hereto and incorporated herein by reference.

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Item 6. Exhibits

(a) Exhibits:

Number	Description of Exhibit	Method of Filing
3.1	Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 declared effective on March 22, 1994 (the "1994 Registration Statement").
3.2	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-97498) declared effective on November 14, 1995.
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.
3.4	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1998 (the "1998 Form 10-K").
3.5	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit C to the Company's proxy statement on Schedule 14A filed with the SEC on November 25, 2003.
3.6	Amended and Restated By-Laws of Motorcar Parts of America, Inc.	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed on August 24, 2010.
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.
4.8	2003 Long Term Incentive Plan	Incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed with the SEC on April 2, 2004.
4.9	2004 Non-Employee Director Stock Option Plan	Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A for the 2004

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Number	Description of Exhibit	Method of Filing
		Annual Shareholders Meeting.
4.10	Registration Rights Agreement among the Company and the investors identified on the signature pages thereto, dated as of May 18, 2007	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on May 18, 2007.
4.11	Form of Warrant to be issued by the Company to investors in connection with the May 2007 Private Placement	Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed on May 18, 2007.
10.1	First Amendment to the Revolving Credit and Term Loan Agreement, dated as of May 12, 2010, between the Company and Union Bank, N.A. and Branch Banking & Trust Company	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 13, 2010.
10.2	Debenture, dated August 24, 2010, issued by Fenwick Automotive Products Limited to Motorcar Parts of America, Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on August 30, 2010.
10.3	Addendum to Unanimous Shareholders Agreement, dated August 24, 2010, between Motorcar Parts of America, Inc., Fenwick Enterprises Inc., Escal Holdings Inc., Fencity Holdings Inc., Jofen Holdings Inc., Gordon Fenwick, Paul Fenwick, Joel Fenwick, Stanley Fenwick, Karen Fenwick, Jack Shuster and FAPL Holdings Inc.	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on August 30, 2010.
10.4	Second Amendment to Revolving Credit and Term Loan Agreement, dated as of November 3, 2010, between the Company and Union Bank, N.A. and Branch Banking & Trust Company	Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
31.3	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	Filed herewith.
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Filed herewith.

SIGNATURES

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

	MOTORCAR PARTS OF AMERICA, INC
Dated: November 8, 2010	By: /s/ David Lee David Lee Chief Financial Officer
Dated: November 8, 2010	By: /s/ Kevin Daly Kevin Daly Chief Accounting Officer

Exhibit 10.4

SECOND AMENDMENT
TO REVOLVING CREDIT AND TERM LOAN AGREEMENT

THIS SECOND AMENDMENT TO REVOLVING CREDIT AND TERM LOAN AGREEMENT ("Second Amendment"), dated as of November 3, 2010, is made and entered into by and among **MOTORCAR PARTS OF AMERICA, INC.**, a New York corporation ("Borrower"), **UNION BANK**, **N.A.**, a national banking association, in its capacity as Administrative Agent ("Administrative Agent"), **UNION BANK, N.A.**, a national banking association, in its capacity as a Lender ("Union Bank"), and **BRANCH BANKING & TRUST COMPANY**, a North Carolina banking corporation, in its capacity as a Lender ("BB&T") (Union Bank and BB&T herein called "Lenders").

RECITALS:

A. Borrower, Administrative Agent and Lenders are parties to that certain Revolving Credit and Term Loan Agreement dated as of October 28, 2009, as amended by (i) that certain First Amendment dated as of April 26, 2010 and (ii) that certain consent letter dated October 26, 2010 (as so amended, the "Agreement"), pursuant to which each Lender severally agreed to extend credit to Borrower in the amounts provided for therein.

B. Borrower has requested, by notice to Administrative Agent, that Lenders extend the Revolving Loans Maturity Date (as such term is defined in the Agreement) from October 28, 2011 to October 29, 2012. Lenders have agreed to such request, subject, however, to the terms and conditions of this Second Amendment.

AGREEMENT:

In consideration of the above recitals and of the mutual covenants and conditions contained herein, Borrower, Administrative Agent and Lenders agree as follows:

1. **Defined Terms**. Initially capitalized terms used herein which are not otherwise defined shall have the meanings assigned thereto in the Agreement.

2. **Amendments To The Agreement**.

(a) The definition of "Applicable Base Lending Rate Margin" appearing in Section 1.1 of the Agreement is hereby amended to read in full as follows:

"'Applicable Base Lending Rate Margin' means, with respect to all Loans, as applicable, the margin set forth below opposite the applicable Leverage Ratio disclosed in the latest Compliance Certificate delivered pursuant to Section 6.3(b) or (e), as applicable:

Level	Leverage Ratio	Applicable Base Lending Rate Margin For All Loans
I	Greater than or equal to 1.5:1.0	175 basis points
II	Greater than or equal to 1.0:1.0, but less than 1.5:1.0	150 basis points
III	Less than 1.0:1.0	125 basis points”

(b) The definition of “Applicable LIBOR Lending Rate Margin” appearing in Section 1.1 of the Agreement is hereby amended to read in full as follows:

“’Applicable LIBOR Lending Rate Margin’ means, with respect to all Loans, as applicable, the margin set forth below opposite the applicable Leverage Ratio disclosed in the latest Compliance Certificate delivered pursuant to Section 6.3(b) or (e), as applicable:

Level	Leverage Ratio	Applicable LIBOR Lending Rate Margin For All Loans
I	Greater than or equal to 1.5:1.0	300 basis points
II	Greater than or equal to 1.0:1.0, but less than 1.5:1.0	275 basis points
III	Less than 1.0:1.0	250 basis points”

(c) The definition of “Revolving Loans Maturity Date” appearing in Section 1.1 of the Agreement is hereby amended to read in full as follows:

“’Revolving Loans Maturity Date’ means October 29, 2012, subject to any extension thereof pursuant to Section 2.19.”

3. **Renewal Fee**. On the effective date of this Second Amendment, Borrower shall pay to Administrative Agent, for the ratable account of the Revolving Loan Lenders, a renewal fee in an amount equal to one-tenth of one percent (1/10 of 1%) of the Revolving Credit Commitments, or Thirty-Five Thousand Dollars ($35,000), which renewal fee shall be non-refundable.

4. **Effectiveness Of This Second Amendment**. This Second Amendment shall become effective as of the date hereof when, and only when, Administrative Agent shall have received all of the following, in form and substance satisfactory to Administrative Agent:

(a) A counterpart of this Second Amendment, duly executed by Borrower;

(b) A reasonable legal documentation fee, for the sole account of the Administrative Agent, which reasonable legal documentation fee shall be non-refundable; and

(c) Such other documents, instruments or agreements as Administrative Agent may reasonably deem necessary in order to effect fully this Second Amendment.

5. **Ratification**.

(a) Except as specifically amended hereinabove, the Agreement shall remain in full force and effect and is hereby ratified and confirmed; and

(b) Upon the effectiveness of this Second Amendment, each reference in the Agreement to "this Agreement", "hereunder", "herein", "hereof" or words of like import referring to the Agreement shall mean and be a reference to the Agreement as amended by this Second Amendment.

6. **Representations and Warranties**. Borrower represents and warrants as follows:

(a) Each of the representations and warranties contained in Article V of the Agreement, as amended hereby, is hereby reaffirmed as of the date hereof, each as if set forth herein;

(b) The execution, delivery and performance of this Second Amendment are within Borrower's corporate powers, have been duly authorized by all necessary corporate action, have received all necessary approvals, if any, and do not contravene any law or any contractual restriction binding on Borrower; and

(c) No event has occurred and is continuing or would result from this Second Amendment which constitutes an Event of Default under the Agreement, or would constitute an Event of Default under the Agreement, but for the requirement that notice be given or time elapse or both.

7. **Governing Law**. This Second Amendment shall be deemed a contract under and subject to, and shall be construed for all purposes and in accordance with, the laws of the State of California.

8. **Counterparts**. This Second Amendment may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment as of the date and year first above written.

MOTORCAR PARTS OF AMERICA, INC.,
as Borrower

By: /s/ Selwyn Joffe
Selwyn Joffe
Chief Executive Officer

UNION BANK, N.A.,
in its capacity as Administrative Agent and as a Lender

By: /s/ Cary L. Moore
Cary L. Moore
Senior Vice President

BRANCH BANKING & TRUST COMPANY,
in its capacity as a Lender

By: /s/ Kenneth M. Blackwell
Kenneth M. Blackwell
Senior Vice President

Exhibit 31.1

CERTIFICATIONS

I, Selwyn Joffe, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant' most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2010

/s/ Selwyn Joffe
Selwyn Joffe
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, David Lee, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2010

/s/ David Lee
David Lee
Chief Financial Officer

Exhibit 31.3

CERTIFICATIONS

I, Kevin Daly, certify that:

1. I have reviewed this report on Form 10-Q of Motorcar Parts of America, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b. Designed such internal control over financial reporting, or caused, such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2010

/s/ Kevin Daly
Kevin Daly
Chief Accounting Officer

Exhibit 32.1

CERTIFICATE OF CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND CHIEF ACCOUNTING OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), I, Selwyn Joffe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Quarterly 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 Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Selwyn Joffe
Selwyn Joffe
Chief Executive Officer
November 8, 2010

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), I, David Lee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Quarterly 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 Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Lee
David Lee
Chief Financial Officer
November 8, 2010

In connection with the Quarterly Report of Motorcar Parts of America, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), I, Kevin Daly, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Quarterly 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 Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin Daly
Kevin Daly
Chief Accounting Officer
November 8, 2010

The foregoing certifications are being furnished to the Securities and Exchange Commission as part of the accompanying report on Form 10-Q. A signed original of each of these statements has been provided to Motorcar Parts of America, Inc. and will be retained by Motorcar Parts of America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.