# MOTORCAR PARTS AMERICA INC

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

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|---|---|
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| | TORRANCE, CA 90503 |
| Telephone | 3109724015 |
| CIK | 0000918251 |
| Symbol | MPAA |
| SIC Code | 3690 - Miscellaneous Electrical Machinery, Equipment, |
| Industry | Auto & Truck Parts |
| Sector | Consumer Cyclical |
| Fiscal Year | 03/31 |

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR - ENDED MARCH 31, 2001.

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

*Commission File No. 0-23538*

# MOTORCAR PARTS & ACCESSORIES, INC.

(Exact name of registrant as specified in its charter)

| NEW YORK | 11-2153962 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 2929 CALIFORNIA STREET, TORRANCE, CALIFORNIA | 90503 |
| (Address of principal executive offices) | Zip Code |

| | |
|---|---|
| Registrant's telephone number, including area code: | (310) 212-7910 |
| Securities registered under Section 12(b) of the Act: | NONE |
| Securities registered under Section 12(g) of the Act: | COMMON STOCK, $.01 PAR VALUE |

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 X

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

Issuer's revenues for its most recent fiscal year: $160,699,000

The aggregate market value, calculated on the basis of the average bid and asked prices of such stock on the National Association of Securities Automated Quotation System, of Common Stock held by non-affiliates of the Registrant as of June 15, 2001 was approximately $8,398,592.

There were 6,460,455 shares of Common Stock outstanding at March 31, 2001.

## PART I

### ITEM 1. BUSINESS

### GENERAL

The Company is a leading remanufacturer of replacement alternators and starters for imported and domestic cars and light trucks in the United States and Canada. The Company's full line of alternators and starters are remanufactured for vehicles imported from Japan, Germany, Sweden, England, France, Italy and Korea and, more recently, for domestic vehicles. The imported vehicles for which the Company remanufactures alternators and starters also include vehicles produced by General Motors, Chrysler and Ford that are originally equipped with components produced by foreign manufacturers, and "transplants", which are manufactured in the United States by Toyota, Nissan, Honda, Mazda and other foreign manufacturers. The Company also assembles and distributes ignition wire sets for imported and domestic cars and light trucks.

The Company's products are sold throughout the United States to many of the nation's largest chains of retail automotive stores, including AutoZone, CSK Automotive, The Pep Boys, O'Reilly Automotive, and throughout Canada to that country's largest chain of automotive stores, Canadian Tire. The Company also supplies remanufactured alternators and starters to General Motors packaged in General Motors private label, AC Delco. During the last several years, the Company's marketing and sales efforts have been principally geared toward the retail automotive chains, which the Company believes is the fastest growing segment of the automotive after-market industry, and General Motors. During fiscal 2001 and 2000, approximately 97% and 89% respectively, of the Company's sales were to retail automotive chains comprised of approximately 6,000 stores and General Motors. The balances of sales went primarily to large warehouse distributors and smaller retail chains.

### THE AUTOMOTIVE AFTER-MARKET INDUSTRY

The automotive after-market for alternators and starters has grown in recent years. The Company believes that this growth has resulted from, among other trends, (I) the increased number of vehicles in use, (II) the increased number of miles driven each year and (III) the growth in the number of vehicles at their prime repair age of four years and older. Based upon market information it has reviewed, the Company believes the average age of vehicles in operation in the United States and Canada has grown to 11.7 years - up from 9.6 years just 5 years ago.

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

The increasing complexity of cars and light trucks and the number of different makes and models of these vehicles have resulted in a significant increase in the number of different alternators and starters required to service imported and domestic cars and light trucks. To respond to this market development, the Company has had to increase the number of inventory items it maintains in stock. The technology used in alternators and starters has become more advanced in response to the installation in vehicles of an increasing number of electrical components such as cellular telephones, electrically powered

windows, air conditioning equipment, radio and stereo systems and audio/visual equipment. Consequently, per unit sale prices have increased for such alternators and starters.

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

**COMPANY PRODUCTS**

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

The Company's alternators and starters are produced to meet or exceed automobile manufacturer specifications. The Company remanufactures a broad assortment of alternators and starters in order to accommodate the numerous and increasing varieties of these products currently in use. The Company currently provides a full line of approximately 1,165 different alternators and 744 different starters. The Company's alternators and starters are provided for virtually all foreign and domestic manufacturers.

**CUSTOMERS AND CUSTOMER CONCENTRATION**

The Company's products are marketed throughout the United States and Canada. The Company's customers consist of many of the largest chains of retail automotive stores and automotive warehouse distributors in the United States. The Company also sells its products to Canada's largest chain of retail automotive stores, Canadian Tire. The Company services automotive retail chain store accounts representing approximately 6,000 retail outlets.

Many of the largest chains of retail automotive stores in the United States obtain their imported car alternators and starters from the Company. Consequently, a significant percentage of the Company's sales have been concentrated among a relatively small number of customers. The Company's three largest customers accounted for approximately 53%, 11% and 5%, respectively, of total net sales during fiscal 2001. Similarly, during fiscal 2000, the Company's three largest customers accounted for approximately 48%, 7% and 4%, respectively, of total net sales. During each of the last two fiscal years, AutoZone was the Company's largest customer and CSK Automotive was its second largest customer. There can be no assurance that this concentration of sales among customers will not continue or conversely will increase in the future. The loss of a significant customer or substantial decrease in sales to such a customer would have a material adverse effect on the Company's sales and operating results. In addition, customers may demand price concessions or product returns and allowances from the Company that could adversely affect profit margins. The Company's arrangements with most of its

customers are based principally on the receipt of purchase orders; any long-term, written contracts, generally may be terminated by customers upon short notice. As of May 1, 2001, the backlog that the Company believes to be firm was approximately $8,032,000.

**OPERATIONS OF THE COMPANY**

**CORES**

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

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

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

**PRODUCTION PROCESS**

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

After the cleaning process is complete, the component parts are inspected and tested as prescribed by the Company's rigorous and QS 9000 approved quality control program. (Note: QS 9000 is an internationally recognized automotive quality system certification.) This program, which is implemented throughout the operational process, is known as statistical process control. Upon passage of all tests, the components are placed on an automatic conveyor for assembly into the required units. The

assembly process is monitored by designated quality control personnel. Each fully assembled unit is then subjected to additional testing to ensure performance and quality. Finished products are then either stored in the Company's warehouse facility or packaged for immediate delivery. To maximize manufacturing efficiency, the Company stores component parts ready for assembly in its warehousing facilities. The Company's management information systems, including hardware and software, facilitate the remanufacturing process from cores to finished products. The complete remanufacturing process from receipt of a core, to core disassembly through final assembly and testing takes approximately four days.

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

The Company conducts business through two, wholly owned foreign subsidiaries, MVR Products Pte Limited ("MVR"), which operates a shipping and receiving warehouse, testing facility and maintains office space in Singapore and Unijoh Sdn, Bhd ("Unijoh"), which conducts remanufacturing operations in Malaysia, similar to those conducted by the Company at its remanufacturing facility in Torrance. These foreign operations are conducted with quality control standards and other internal controls similar to those currently implemented at the Company's remanufacturing facilities in Torrance. The facilities of MVR and Unijoh are located approximately one hour drive apart. The Company believes that the operations of its foreign subsidiaries are important because of the lower labor costs experienced by these entities in the same remanufacturing process. The foreign subsidiaries produced in fiscal year 2001 and 2000 approximately 197,000 and 208,000 units, respectively, or about 9% of the Company's total production for both years.

**PRODUCT WARRANTY**

The Company has a warranty policy that it believes is typical for the remanufactured automotive replacement parts industry. A manufacturer typically provides a product warranty that is honored whether or not the purchaser continues to do business with the manufacturer. The Company only accepts product warranties from on-going customers. If a customer ceases doing business with the Company, the Company recognizes no further obligations to that customer with respect to product warranties and no additional warranty returns would be accepted by the Company under industry practice. The customer would ordinarily send any returnable products to a new remanufacturer maintaining the same policy, which remanufacturer would accept the product warranty and grant appropriate credits regardless of whether the units were originally purchased from that new remanufacturer. The Company generally follows this industry practice and provides the same warranty and trade-in rights when it takes over businesses that had previously been supported by another remanufacturer.

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

**MARKETING AND DISTRIBUTION**

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

Approximately 97% of the Company's sales are to chains or retail stores, which the Company believes constitutes the dominant distribution channel in the Company's market and General Motors. Products are delivered directly by or on behalf of the Company to the chain's distribution centers which then deliver the merchandise directly to the retail stores for purchase by consumers or, in the case of General Motors, to its Service Parts Organization for distribution to its dealers. The Company believes that it

has obtained significant marketing and distribution, as well as manufacturing, efficiencies by focusing its sales efforts to chains of automotive retail stores.

The Company prepares and publishes a comprehensive catalog of its starters and alternators and a detailed technical glossary and explanation guide. The Company believes that it maintains one of its market's most extensive catalog and product identification systems, offering one of the widest varieties of alternators and starters available in that market. The Company further believes that certain of its customers' use of and reliance on the catalog and product identification system provide incentives to those customers to continue to purchase products from the Company.

**CHANGE IN ACCOUNTING FOR INVENTORY; STOCK ADJUSTMENTS**

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

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

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

**SEASONALITY OF BUSINESS**

Due to the nature and design as well as the current limits of technology, alternators and starters traditionally fail when operating in extreme conditions. That is, during summer months, when the temperature typically increases over a sustained period of time, alternators and starters are more apt to fail and thus, an increase in demand for the Company's products typically occurs. Similarly, during winter months, when the temperature is colder, alternators and starters tend to fail and require replacing

immediately, since these parts are mandatory for the operation of the vehicle. As such, summer months tend to show an increase in overall volume with a few spikes in the winter.

**COMPETITION**

The automotive after-market industry of remanufacturers and rebuilders of alternators and starters for imported and domestic cars and light trucks is highly competitive. The Company's competitors include two other large remanufacturers and a number of small regional rebuilders. In addition, one of the Company's competitors is a division of an entity also engaged in other businesses which has substantially greater resources than those of the Company.

Retailers of replacement automotive parts for sale are constrained to a finite amount of space in which to display and stock products. Consequently, the reputation for quality and customer service, which a supplier enjoys, is a significant factor in a purchaser's decision as to which product lines to carry in the limited space available. The Company believes that these factors favor the Company, which provides quality replacement automotive products, rapid and reliable delivery capabilities and promotional support. In this regard, there is increasing pressure from customers, particularly large ones, for the Company to provide "just-in-time" delivery, which allows delivery on an as-needed basis to promptly meet customer orders. The Company believes that its ability to provide "just-in-time" delivery distinguishes it from many of its competitors and provides a competitive advantage and may also represent a barrier to entry to current or future competitors.

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

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

**GOVERNMENTAL REGULATION**

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

**EMPLOYEES**

The Company has approximately 834 full-time employees. Of the Company's employees, 37 are considered administrative personnel and 9 are sales personnel. None of the Company's employees is a party to any collective bargaining agreement. The Company has not experienced any work stoppages and considers its employee relations to be satisfactory.

**ITEM 2. PROPERTIES**

The Company presently maintains facilities in Torrance, California, and Nashville, Tennessee. The Company is in the process of consolidating its Torrance, California operations into one building. Previously, the Company occupied space in two separate facilities in Torrance, containing an aggregate of approximately 350,000 square feet. When the consolidation is complete, the Company will occupy space in one building encompassing approximately 227,000 square feet. The lease on this 227,000 square foot building provides for monthly rent of $64,771 and expires on March 31, 2002 with two (2) exercisable five year extensions. The Company is actively pursuing other tenants to sublease the remaining term of its lease on the building being vacated, which runs through March 31, 2002 and provides for monthly rent of $47,601 per month. The Company believes that cost and efficiencies realized from being located in a single building were equally the reason for this consolidation. When the consolidation is complete, the Company believes that its facilities will be sufficient to satisfy its foreseeable production requirements.

In September 1998, the Company entered into a lease for a 59,000 square foot warehouse and distribution facility in Nashville, Tennessee to service the Company's East Coast and Southern markets. Due to changes in the way the Company conducts business with these customers, the Nashville facility is no longer necessary and is in the process of being closed down. All warehouse and distribution functions have ceased; only the assembly of spark plug wire sets continues, along with an office for support staff, in Nashville. The Company is attempting to find a tenant to sublease the remaining portion of its lease on the Nashville facility, which carries with it a monthly rental of $18,545 and expires on December 31, 2001. There can be no assurance that the Company will be able to release its California and Tennessee facilities before its leases expire.

In connection with the consolidation of the Company's operations described in the preceding paragraphs, the Company established a restructuring reserve of $914,000 at the end of fiscal 2001.

In addition, the Company has facilities at its subsidiary locations in Malaysia and Singapore. The Company is considering moving the assembly of spark plug wire sets to Malaysia during the second half of the current fiscal year.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is a defendant in a class action lawsuit pending in the United States District Court, Central District of California, Western Division. The complaint in the class action alleges that, over a three year period, the Company misstated earnings in violation of securities laws. The complaint seeks damages on behalf of all investors who purchased common stock of the Company from August 1, 1996 to July 30, 1999. The Company's directors and officers insurance carrier has also filed a claim against the Company and certain of its officers that seeks to rescind coverage for the claims made against the Company and certain of its officers in the class action lawsuit and the related insurance litigation. The Company, counsel for the class action plaintiffs and counsel for the insurance carrier have entered into a proposed settlement agreement. The terms of the proposed settlement, which is subject to court approval, include payment of $7,500,000 to the plaintiffs in the class action. Of this amount, $6,000,000 would be paid by the Company's directors and officers insurance carrier, and the balance would be paid by the Company. In connection with the payment by the insurance carrier, the Company's directors and officers insurance coverage would be cancelled. In addition, all parties would exchange releases.

To finance the Company's portion of the settlement plan, the Company and Mel Marks, the Company's founder and a board member, have entered into the stock purchase agreement. Under the terms of this agreement, Mr. Marks has agreed to purchase shares of the Company's common stock, and the total

purchase price for this stock would be $1,500,000. The price per share is $1.00. The valuation firm that the Company engaged to evaluate the fairness of the transaction concluded that this price per share is fair to the Company's shareholders, from a financial point of view. For purposes of this determination, the fairness of the transaction was evaluated as of November 30, 2000, the date that Mr. Marks agreed to provide $1,500,000 to the Company to finance a portion of the class action settlement. Mr. Marks has deposited the funds to purchase the common stock with the Company. If the settlement is not completed, these funds will be returned to Mel Marks, with interest. While management is hopeful that the settlement can be finalized, there can be no assurances that the settlement would be approved by the court. In the absence of final resolution of the litigation and in view of the position articulated by the directors and officers insurance carrier, continued litigation of the class action lawsuit could have a materially adverse effect on the Company.

On January 20, 2000, the Securities and Exchange Commission issued a formal order of investigation with respect to the Company. In this order, the SEC authorized an investigation into, among other things, the accuracy of the financial information previously filed with the Commission and potential deficiencies in the Company's records and system of internal control. The SEC investigation is proceeding. There can be no assurance with respect to the outcome of the SEC's investigation. In addition, the Company has not filed a number of periodic reports that it is obligated to file under the Securities Exchange Act of 1934. The SEC is aware of this failure and has reminded the Company that it has the authority to revoke or suspend the Company's registration under the Securities Exchange Act of 1934 as a result of this failure, which SEC action would prevent sales of the Company's common stock through broker/dealers.

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

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

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

| | FISCAL 2000 | | FISCAL 2001 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $ 12.75 | $ 5.25 | $ 2.00 | $ 0.87 |
| Second Quarter | 5.75 | 1.50 | 0.99 | 0.41 |
| Third Quarter | 2.75 | 0.87 | 3.00 | 0.52 |
| Fourth Quarter | 3.75 | 1.06 | 1.85 | 0.66 |

As of March 31, 2001, there were 6,460,455 shares of Common Stock outstanding held by 44 holders of record.

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

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

During the past three years, the Company has not made any sales of unregistered securities. As noted in the discussion under the caption "Item 3--Legal Proceedings", however, the Company has agreed to sell 1,500,000 shares of its common stock for $1,500,000 in cash to help finance the settlement of the pending class action lawsuit against the Company. These shares of common stock will be sold to Mr. Marks without registration under the Securities Act of 1933 in reliance upon an exemption from registration provided under Section 4(2) of the Securities Act of 1933 and Regulation D issued by the Securities and Exchange Commission.

### ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data has been derived from the Company's audited financial statements. The Income Statement Data relating to the fiscal years 2001 and 2000 and the Balance Sheet Data as of March 31, 2001 and 2000 should be read in conjunction with the Company's audited financial statements and notes thereto appearing elsewhere herein.

| | Fiscal Year Ended March 31, | |
|---|---|---|
| INCOME STATEMENT DATA: | 2001 | 2000 |
| Net Sales | $ 160,699,000 | $ 194,293,000 |
| Cost of Goods Sold | 148,731,000 | 188,097,000 |
| Gross Margin | 11,968,000 | 6,196,000 |
| Operating Expenses: | | |
| General and Administrative Expenses | 8,291,000 | 11,832,000 |
| Selling Expenses | 1,216,000 | 1,864,000 |
| Litigation Settlement | 1,500,000 | -- |
| Restructuring Expenses | 914,000 | -- |
| Research and Development | 472,000 | 714,000 |
| Provision for Doubtful Accounts | (36,000) | 321,000 |
| Total Operating Expenses | 12,357,000 | 14,731,000 |
| Operating Income (Loss) | (389,000) | (8,535,000) |
| Other Expense (Interest) | | |
| Interest Expense | 3,771,000 | 3,227,000 |
| Interest Income | (71,000) | (47,000) |
| Loss before Income Taxes and Cumulative Effect of Accounting Change | (4,089,000) | (11,715,000) |
| Income Tax (Expense) Benefit | (13,000) | 1,173,000 |
| Loss before Cumulative Effect of Accounting Change | (4,102,000) | (10,542,000) |
| Cumulative Effect of Accounting Change | -- | (17,702,000) |
| Net Loss | $ (4,102,000) | $ (28,244,000) |
| Basic and Diluted Loss per share before Cumulative Effect of Accounting Change | $ (.63) | $ (1.63) |
| Cumulative Effect of Accounting Change | -- | (2.74) |
| Basic and Diluted Income (Loss) per share | $ (.63) | $ (4.37) |
| Weighted Average Common Shares Outstanding | 6,460,455 | 6,460,455 |
| BALANCE SHEET DATA: | | |
| Total assets | $ 60,108,000 | $ 71,801,000 |
| Working capital | 1,836,000 | 2,996,000 |
| Long-term debt and capitalized lease obligations - less current Portions | 2,099,000 | 3,062,000 |
| Shareholders' equity | 13,298,000 | 17,393,000 |

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

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

**RESULTS OF OPERATIONS**

| | Fiscal Year Ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| Net Sales | 100.0% | 100.0% |
| Cost of Goods Sold | 92.6% | 96.8% |
| Gross Profit | 7.4% | 3.2% |
| General and Administrative Expenses | 5.2% | 6.1% |
| Selling Expenses | 0.8% | 0.9% |
| Litigation Settlement | 0.9% | - |
| Restructuring Expenses | 0.5% | - |
| Research and Development | 0.3% | 0.4% |
| Provision for Doubtful Accounts | (0.1%) | 0.2% |
| Operating Income (Loss) | (0.2%) | (4.4%) |
| Interest Expense, net of Interest Income | 2.3% | 1.6% |
| Income (Loss) before Income Taxes and Cumulative Effect of accounting change | (2.5%) | (6.0%) |
| Income Tax Benefit | - | 0.6% |
| Income (Loss) before Income Taxes and Cumulative Effect of accounting change | (2.5%) | (5.4%) |
| Cumulative Effect of Accounting Change | - | (9.1%) |
| Net Income (Loss) | (2.5%) | (14.5%) |

The following discussion includes references to certain operating results during the year ended March 31, 1999. While the Company believes these references are helpful for purposes of understanding the discussion of the Company's operating results, the Company has not included financial statements at the period ended March 31, 1999 in this Form 10-K because the Company has not restated these financial statements to give effect to the change in the Company's method of accounting for inventory or any adjustments that might result from an audit or review of these statements.

**FISCAL 2001 COMPARED TO FISCAL 2000**

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

Gross profit for fiscal year 2001 improved to 7.4% from a gross profit of 3.2% for fiscal year 2000. This improvement is attributed to the Company moving away from an unprofitable line of domestic business plus an increase in manufacturing efficiencies. The improvement in gross profit margin associated with the elimination of an unprofitable product line was partially offset by the recognition of $898,000 in stock adjustments during the third quarter of fiscal 2001, the establishment of a stock adjustment allowance beginning in the fourth quarter of fiscal 2001 and an adjustment of $617,000 to reflect inventory at the lower of cost or market that was recorded during the fourth quarter of fiscal 2001 as a result of fluctuations in core broker prices.

Under the terms of certain agreements with its customers and industry practice, the Company's customers from time to time are allowed stock adjustments when the inventory level of certain product lines exceeds the anticipated level of sales to end-user customers. These adjustments are made when the Company accepts into inventory these customers' overstocks, they do not come at any specific time during the year and they can have a distorting effect of the financial statements. Historically, the Company charged a portion of stock adjustment returns against net sales and expensed the balance as cost of goods sold when the returns were made. In the third quarter of fiscal 2001, based on an unprecedented large return from one customer, the Company recognized adjustments of $898,000. Due to current and expected changes in customer return practices, in the fourth quarter of fiscal 2001, the Company began to provide for a monthly $75,000 allowance to address the anticipated impact of stock adjustments. The adjustments recognized and the allowance that was established resulted in gross profit and net income decreasing by $1,123,000 during fiscal year 2001. Use of this estimating technique in fiscal 2000 would not have had a

significant impact on the Company's results of operations. The allowance policy will be reviewed quarterly looking back at a rolling 12 months to determine if the monthly accrual should be adjusted.

General and administrative expenses for fiscal 2001 were $8,291,000, a decrease over fiscal year 2000 of $3,541,000 or 29.9%. The key contributors to this decrease were: (i) a reduction in outside services related to implementation of a new computer system of $780,000, (ii) a one-time adjustment of $1,150,000 to fixed assets and accumulated depreciation based upon a review of the fixed assets register during the audit of the Company's fiscal 2000 financial statements and (iii) a reduction of legal and accounting costs of $1,350,000. The remaining decrease in general and administrative expenses of $261,000 consists of a number of other items including reductions in executive salaries, travel and insurance.

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

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

Research and development expenses decreased by $242,000 or 33.9% in fiscal 2001 over fiscal 2000. The key contributors to this decrease were reductions in wages, expendable tools and supplies, which the Company is closely monitoring.

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

**FISCAL 2000 COMPARED TO FISCAL 1999**

The 2000 Statement of Operations shows a net loss for the year of $28,244,000. Of this total net loss, $17,702,000 is attributable to the cumulative effect of a change in the Company's method of accounting for inventory. The Company adopted the change effective April 1, 1999. (The Company has not restated previously issued financial statements to give effect to this cumulative change on previously reported results of operation.) As explained in Note D to the audited financial statements included within this Form 10-K, in prior years, when the Company valued its inventory at the lower of cost or market, market was determined by the weighted average of the repurchase price of cores acquired from customers as trade-ins and the price paid for cores purchased from brokers. Under the new method, the Company determines market value based on comparisons to current core broker prices, which prices are normally less than the core values credited to customers' accounts when cores are returned to the Company as trade-ins. In addition, the Company reviews core inventory to identify excess quantities and maturing produce lines. An allowance for obsolescence is provided to reduce the carrying value (market value of inventory) to its estimated net realizable value. Because several of the Company's competitors

filed for bankruptcy protection in the late 1990s, the supply of cores has increased considerably. This has tended to drive down the carrying value of the Company's inventory. This change in the Company's method of accounting for inventory resulted in an adjustment to inventory values at March 31, 2000 of $31,052,000.

The Company's net sales of $194,293,000 for the year ended March 31, 2000 represents a significant increase over the historical level of net sales. This increase is attributable to new product lines sold to existing customers totaling approximately $31,000,000 during the year ended March 31, 2000 and increased purchases of existing product lines by its customers. The Company is substantially dependent upon sales to six customers, and any meaningful reduction in the level of sales to any of these customers could have a material adverse effect on the Company.

During the year ended March 31, 2000, cost of goods sold equaled $188,097,000, or 96.8% of net sales. Cost of goods sold for the year reflects the lower gross margins in an unprofitable product line and lower manufacturing efficiencies resulting from rapid growth. The Company discontinued the unprofitable line of business during the fiscal year ended March 31, 2000. Costs of goods sold for fiscal 2000 also represents a significant increase from the historically reported percentage that cost of goods sold represented of the Company's total sales. Downward pressure on prices in the marketplace and a corresponding change in the Company's product mix has contributed to this decrease in historical gross margins.

General and administrative expenses for the year ended March 31, 2000 totaled $11,832,000. This represents a significant increase over the Company's historical levels of general and administrative expenses, and is largely attributable to a one time marketing and advertising cost of $2,000,000 and an increase in professional fees related to the Company's change of accountants and method of accounting for inventory. In addition, the class action litigation, the SEC investigation and the implementation of an upgraded computer system contributed to this increase.

Sales and marketing expenses for the year ended March 31, 2000 totaled $1,864,000, representing a decrease of the total selling expenses from historical periods. This decrease in sales and marketing expenses is primarily related to a reduction in sales personnel.

Research and development expenses decreased by approximately $211,000 during the fiscal year ended March 31, 2000 as compared to the prior fiscal year. This decrease was principally due to a reductions in labor and related expenses that were made as part of the Company's cost-cutting efforts.

Interest expense increased to $3,227,000 for the year ended March 31, 2000. This increase is attributable to higher average outstanding balances on the Company's line of credit during the most recent fiscal year together with generally higher interest rates.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company finances its operations with cash flow from operations and historically has utilized borrowings under its existing line of credit. Because of the Company's failure to meet certain financial covenants, including maintaining cash flow in excess of the Company's monthly interest and loan obligation or to keep monthly net operating income (loss) within 10% of its projections, the Company was in default under its April 20, 2000 credit agreement on several separate occasions during fiscal 2001. While the Company made net payments on its line of credit totaling $4,250,000 during the fiscal year 2001, in March 2001 the Company requested that the bank waive the requirement to make a $750,000 reduction in its line of credit (to $33 million) that was due to be made by March 31, 2001. The bank agreed to waive this requirement in connection with the March 2001 amendment to the Company's loan agreement discussed below.

In March 2001, the Company notified the bank that it was in default of several provisions of its credit agreement, including the failure to maintain monthly cash flow levels in December 2000 and January 2001 and to provide the bank with certain required financial information. In light of its projected cash flow needs associated with anticipated revenue growth, the Company requested that the bank waive the

requirement that the Company use the $1.2 million tax refund it received in February 2001 to make a permanent reduction in its credit facility and the requirement that it deposit $500,000 in a non-interest bearing account as security for the Company's letter of credit facility. The bank granted these waiver requests in connection with the March 2001 amendment to the Company's bank agreement discussed in the following paragraph.

In March 2001, the Company and the bank executed an amendment to the loan agreement. The amendment provided for an extension of the maturity date of the loan from March 31, 2001 to May 31, 2001 and the waiver of principal reductions referred to in the preceding paragraph. The amendment also provided for an increase in the effective rate of interest charged by the bank on credit advances to the Company.

On May 31, 2001 the Company and the bank executed the second amended and restated credit agreement. Under the new credit agreement, the maturity date on the advances made to the Company was extended to April 30, 2002 and the balance due of $33,750,000 was split into two separate credit facilities, a revolving line of credit facility of up to $24,750,000 and a $9,000,000 term loan. The amounts available under the line of credit facility are limited to 75% of Eligible Accounts Receivable and 80% of Appraised Net Recovery Value of inventory, in each case as such terms are defined in the May 31, 2001 amended and restated credit agreement. The line of credit facility and the term note provide for interest rates of 2.75% and 3.00%, respectively, above the bank's prime rate (7.0% at June 25, 2001). Each quarter, the spreads above the bank's prime rate can be reduced to 2.25% and 2.5%, respectively and increased to 3.0% and 3.25%, respectively, depending upon changes in the ratio of the Company's funded debt to cash flow. The spreads above the bank's prime rate have been reduced by .25% to take into account the Company's establishment and funding of an escrow account to fund the settlement of the class action litigation discussed under the caption "Item 3--Legal Proceedings", and will be reduced by an additional .25% when the class action lawsuit is settled.

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

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

As noted in the preceding discussion, to date, the bank has been willing to waive defaults by the Company with respect to its obligations under its credit agreement with the bank. There can be no assurance that the bank will be willing to waive any future defaults by the Company, and the refusal by the bank to do so in the future could have a material adverse impact on the Company.

**DISCLOSURE REGARDING PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report contains certain forward-looking statements with respect to the future performance of the Company that involve risks and uncertainties. Various factors could cause actual results to differ materially from those projected in such statements. These factors include, but are not limited to: concentration of sales to certain customers, changes in the Company's relationship with any of its

customers, the Company's failure to meet the financial covenants or the other obligations set forth in its bank credit agreement and the bank's refusal to waive any such defaults, the Company's ability to refinance its bank debt at maturity, the potential for changes in consumer spending, consumer preferences and general economic conditions, increased competition in the automotive parts remanufacturing industry, unforeseen increases in operating costs associated with and the anticipated savings from the Company's consolidation of facilities and other factors discusses herein and in the Company's other filings with the Securities and Exchange Commission.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

PRINCIPAL (NOTIONAL) AMOUNT BY EXPECTED MATURITY DATE

(AS OF MARCH 31, 2001)

| | FISCAL 2002 | FISCAL 2003 |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| LIABILITIES | | |
| Bank Debt, including current portion | | |
| Line of Credit Facility | $0 | $24,750 |
| Interest Rate | Prime+2.75%* | Prime+2.75%* |
| Term Loan | $0 | $ 9,000 |
| Interest Rate | Prime+3.00%* | Prime+3.00%* |

*As noted in the discussion under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources", the spread above the bank's prime rate can increase or decrease depending upon changes in the ratio of the Company's funded debt to cash flow, and such spreads will be reduced by .25% when the class action lawsuit is settled.

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this item is set forth in the Consolidated Financial Statements, commencing on page F-1 to F-26 included herein.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

| Name | Age | Position in Company | Directors Term |
|---|---|---|---|
| Selwyn Joffe* | 43 | Chairman of the Board | ** |
| Anthony Souza | 46 | President, Chief Executive Officer | ** |
| Mel Marks | 73 | Director | ** |
| Murray Rosenzweig* | 77 | Director/Chairman of Audit Committee | ** |
| Steven Kratz | 46 | Sr. Vice President-QA/Engineering | N/A |
| Charles Yeagley | 53 | Chief Financial Officer / Secretary | N/A |

* MEMBER OF AUDIT AND COMPENSATION COMMITTEES

** All directors are elected for a term of one-year. Commencement date is the date of the annual shareholders meeting. The Company has not held an annual meeting of shareholders since September 9, 1998. The Company intends to hold the next annual meeting of shareholders during the second quarter of fiscal 2002.

### INFORMATION ABOUT DIRECTORS

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

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

SELWYN JOFFE has served as a director of the Company since June 1994, and as a consultant to the Company from September 1995 through October 1999. In November 1999, Mr. Joffe was elected to his current position as Chairman of the Board of Directors and serves as a member of the Company's audit and compensation committees from June 1994 to present. Currently, Mr. Joffe is President and CEO of NetLock Technologies specializing in securing data in motion. Mr. Joffe served as founder, President and COO of Palace Entertainment which is a successful roll-up of amusement parks. Prior to his founding of Palace Entertainment, Mr. Joffe was President and CEO of Wolfgang Puck Food Company from 1989 to 1996. Mr. Joffe is a graduate of Emory University in Atlanta with degrees in both Business and Law and is a member of the Georgia State Bar as well as a Certified Public Accountant.

ANTHONY SOUZA served as a consultant to the Company from September 1999 through November 1999. In December 1999, Mr. Souza was elected to his current position as President and Chief Executive Officer of the Company responsible for the overall direction of all Company activities relating to Finance, Sales, Marketing, Engineering, and Production Operations as well as their corresponding support functions. From January 1980 to December 1995 Mr. Souza served as the President of TELACU Industries. This entity consisted of numerous subsidiary companies - among them a Thrift and Loan with branch offices, an affordable housing corporation, a commercial real estate development company, a building material company, and an underground utility company. Annual sales for these companies were in excess of $200 million. From January 1996 through August 1999, Mr. Souza was involved in commercial and residential real estate development as well as serving as President of a start-up company in business to sell an innovative potentially life-saving police firearms device. Mr. Souza is a

graduate of the University of Southern California and is a Certified Public Accountant.

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

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

**INFORMATION ABOUT NON-DIRECTIVE EXECUTIVE OFFICERS**

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

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

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than ten percent of the Company's Common Stock, to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company during the fiscal year ended March 31, 2001, there were no late or delinquent filings.

**ITEM 11. DIRECTORS COMPENSATION AND EXECUTIVE OFFICERS**

The following table sets forth information concerning the annual compensation of the Company's Chief Executive Officer and the other most highly compensated executive officers, whose salary and bonus exceeded $100,000 for the 2001 fiscal year, for services in all capacities to the Company during the Company's 2001, 2000 and 1999 fiscal years.

| Name & Position in Company | Year | Salary | Bonus | Other Annual Compensation | Shares Underlying Options | All Other Compensation |
|---|---|---|---|---|---|---|
| Selwyn Joffe - Chairman of the Board (1) | | | | | | |
| | 2001 | - | - | $160,220 | 1,500 | - |
| | 2000 | - | - | $83,667 | 41,500 | - |
| | 1999 | - | - | $22,000 | - | - |
| Anthony Souza - President & Chief Executive Officer | | | | | | |
| | 2001 | $301,985 | $25,000 | - | - | $8,332(5) |
| | 2000 (2) | $121,154 | - | - | 60,000 | $24,996(5) |
| | 1999 | - | - | - | - | - |
| Mel Marks - Director | | | | | | |
| | 2001 | $57,692 | - | $105,000 | - | $11,481(6) |
| | 2000 | $269,231 | - | - | - | $19,336(6) |
| | 1999 | $300,000 | - | - | - | $19,336(6) |
| Steven Kratz - Sr. Vice President - Operations | | | | | | |
| | 2001 | $250,000 | $10,000 | - | - | $5,406(6) |
| | 2000 | $250,000 | - | $526,423 (4) | - | $5,406(6) |
| | 1999 | $225,000 | - | $8,505 (4) | - | - |
| Charles Yeagley - Chief Financial Officer | | | | | | |
| | 2001 (3) | $109,644 | $10,000 | - | 25,000 | $18,747(5) |
| | 2000 | - | - | - | - | - |
| | 1900 | - | - | - | - | - |
| Richard Marks - Advisor to the Board and the Chief Executive Officer | | | | | | |
| | 2001 | $298,783 | $25,000 | - | - | - |
| | 2000 | $391,692 | - | $276,474 (4) | - | $13,904(6) |
| | 1999 | $400,000 | - | $15,120 (4) | 75,000 | $18,178(6) |

(1) Includes payments to Protea Group Inc., a Company wholly-owned by Mr. Joffe
(2) Employment commenced December 1, 1999
(3) Employment commenced June 26, 2000
(4) Represents deferred compensation distribution
(5) Represents reimbursement for health insurance premiums paid by employee
(6) Represents value of car allowance

**COMPENSATION OF DIRECTORS**

Two of the Company's Board members have supplemental compensatory arrangements with the Company. In August 2000, the Company's Board of Directors agreed to engage Mr. Mel Marks to provide consulting services to the Company. In recognition of his understanding of the Company and relationships with key participants in the industry, the Board agreed to pay Mr. Marks a consulting fee of $180,000 per year. The Company can terminate this arrangement at any time.

The Company has entered into a consulting agreement with Mr. Selwyn Joffe pursuant to which he is retained as a consultant of the Company. Mr. Joffe is currently serving as the Chairman of the Board. The original agreement, entered into as of December 1, 1999, was scheduled to expire on June 1, 2001. It has been extended by mutual agreement through June 1, 2003 and provides for an annual consulting fee of $160,000. As additional consideration for consulting services to be rendered to the Company, Mr. Joffe was granted, for a period of ten (10) years from the date of grant an option to purchase 40,000 shares of the Company's Stock pursuant to the Company's 1994 Stock Option Plan, of which 20,000 options shall be exerciseable on the date of grant and the remaining options shall fully vest on the first anniversary of the date of grant.

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

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

Common Stock to be covered by each option, to set the exercise price or period within which the options may be exercised or to alter other terms and conditions specified in such plan.

In addition, the Company's 1994 Stock Option Plan (the "1994 Stock Option Plan") provides that each non-employee director of the Company receive formula grants of stock options as described below. Each person who served as a non-employee director of the Company during all or part of a fiscal year (the "Fiscal Year") of the Company, including March 31 of that Fiscal Year, will receive on the immediately following April 30 (the "Award Date"), as compensation for services rendered in that Fiscal Year, an award under the 1994 Stock Option Plan of immediately exercisable ten-year options to purchase 1,500 shares of Common Stock on the Award Date. Each non-employee director who served during less than all of the Fiscal Year is awarded one-twelfth of a Full Award for each month or portion thereof that he or she served as a non-employee director of the Company. As formula grants under the 1994 Stock Option Plan, the foregoing grants of options to directors are not subject to the determinations of the Board of Directors or the Compensation Committee.

**COMPENSATION COMMITTEE; INTERLOCKS AND INSIDER PARTICIPATION**

The members of the Compensation Committee during Fiscal 2001 were Mssrs. Joffe, Moskowitz and Rosenzweig. (Mr. Moskowitz resigned from the Board in June 2001.) The Compensation Committee is responsible for developing and making recommendations to the Board with respect to the Company's executive compensation policies. The Compensation Committee is also responsible for evaluating the performance of the Company's chief executive officer and other senior Company officers and to make recommendations concerning the salary, bonuses and stock options to be awarded to these Company officers. For a discussion of the contractual rights that certain Company officers have to bonuses and options grants, see "Employment Agreements" below. Although several key officers were not entitled to a bonus under the terms of their respective employment agreements, during the year ended March 31, 2001, the Compensation Committee decided to provide bonuses to key members of management, including the chief executive officer, in order to retain these employees.

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

**PERFORMANCE GRAPH**

The following graph compares the cumulative return to holders of Common Stock for the five fiscal years ended March 31, 1997, 1998, 1999, 2000 and 2001 with the National Association of Securities Dealers Automated Quotation ("NASDAQ") Market Index and a peer group index of five competing companies for the same periods. The comparison assumes $100 was invested at the close of business on March 31, 1996 in the Common Stock and in each of the comparison groups, and assumes reinvestment of dividends.

**TOTAL SHAREHOLDER RETURNS**

**[GRAPH]**

| | | Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| | Base Period 31-Mar-96 | 1997 | 1998 | 1999 | 2000 | 2001 |
| Motorcar Parts & Accessories, Inc. | 100.0 | 89.68 | 113.10 | 71.03 | 12.06 | 8.57 |
| Peer Group | 100.0 | 97.07 | 167.51 | 112.10 | 89.45 | 61.68 |
| NASDAQ Index Composite | 100.0 | 110.92 | 166.67 | 223.48 | 415.18 | 167.08 |

**TOTAL SHAREHOLDER RETURNS - DIVIDENDS REINVESTED**

**ANNUAL RETURN PERCENTAGE**

| | Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| COMPANY/INDEX | 1997 | 1998 | 1999 | 2000 | 2001 |
| Motorcar Parts & Accessories, Inc. ..... | -10.32% | 26.11% | -37.19% | -83.02% | -28.95% |
| Peer Group ..... | -2.93% | 72.57% | -33.08% | -20.21% | -31.09% |
| NASDAQ..... | 10.92% | 50.26% | 34.09% | 85.78% | -59.76% |

**INDEXED RETURNS**

| | Base Period | Year Ended March 31, | | | | |
|---|---|---|---|---|---|---|
| COMPANY/INDEX | March 31, 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| Motorcar Parts & Accessories, Inc. ..... | 100.0 | 89.68 | 113.10 | 71.03 | 12.06 | 8.57 |
| Peer Group ..... | 100.0 | 97.07 | 167.51 | 112.10 | 89.45 | 67.68 |
| NASDAQ..... | 100.0 | 110.92 | 166.67 | 223.48 | 415.18 | 167.08 |

**PEER GROUP POPULATION**

Champion Parts Incorporated Dana Corporation
Hastings Manufacturing
Standard Motor Productions Company Superior Industries International, Inc.

**OPTION GRANTS IN THE LAST FISCAL YEAR**

The following table provides summary information regarding stock options granted during the year ended March 31, 2001 to each of the Company's named executive officers. The potential realizable value is calculated assuming that the fair market value of the Company's Common Stock appreciates at the indicated annual rate compounded annually for the entire term of the option, and that the option is exercised and sold on the last day of its term for the appreciated stock price. The assumed rates of appreciation are mandated by the rules of the SEC and do not represent the Company's estimate of the future prices or market value of the Company's Common Stock.

OPTION GRANTS IN THE LAST FISCAL YEAR

| NAME | NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1) | PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE PRICE | EXPIRATION | POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF PRICE APPRECIATION FOR OPTION TERM | |
|---|---|---|---|---|---|---|
| | | | | | 5% | 10% |
| Charles Yeagley..... | 25,000 | 100% | $.931 | 6/26/10 | $14,650 | $37,094 |

(1) The options are currently exercisable with respect to 12,500 shares and will become exercisable with respect to the other 12,500 shares commencing June 26, 2001.

**AGGREGATED FISCAL YEAR-END OPTION VALUES**

No options were exercised during fiscal 2001. The following table sets forth the number and value of exercisable and unexercisable options held as of March 31, 2001 by each of the named executive officers.

FISCAL YEAR-END OPTION VALUES

| | NUMBER OF SECURITIES UNDERLYING UNEXERCISED | VALUE OF UNEXERCISED |
|---|---|---|

| NAME | OPTIONS AT MARCH 31, 2001(#) | | IN-THE-MONEY OPTIONS AT MARCH 31, 2001($) | |
|---|---|---|---|---|
| | EXERCISABLE | UNEXERCISABLE | EXERCISABLE | UNEXERCISABLE |
| Charles Yeagley..... | 12,500 | 12,500 | $ 5,875 | $ 5,875 |

.....

**EMPLOYMENT AGREEMENTS**

The Company has entered into an employment agreement with Mr. Anthony Souza pursuant to which he is employed full-time as the Company's President and Chief Executive Officer. The original agreement, entered into on December 1, 1999, which was scheduled to expire on June 1, 2001, has been extended through mutual consent to June 1, 2003 and provides for an annual base salary of $300,000. As additional consideration for services to be rendered, Mr. Souza was granted, for a period of ten years from date of grant (January 31, 2000), an option to purchase 60,000 shares of the Company's Common Stock, pursuant to the terms of the Company's 1994 Stock Option Plan. Mr. Souza also is entitled to receive an incentive bonus ("Bonus") equal to six and two-thirds percent (6 2/3%) of the pre-tax income earned by the Company in each fiscal year. Mr. Souza will not be entitled to a bonus in any fiscal year in which the Company's pre-tax incomes does not exceed $1,500,000. The Company's Board of Directors may also grant supplemental bonuses or increase the base salary payable to Mr. Souza. In addition to his cash compensation, Mr. Souza receives an automobile allowance and other benefits, including those generally provided to other employees of the Company.

The Company has entered into an employment agreement with Mr. Richard Marks pursuant to which he is employed full-time and reports directly to the Board of Directors and Chief Executive Officer of the Company. This agreement was entered into on January 1, 2000 is scheduled to expire on January 1, 2004 and provides for an annual base salary of $300,000. As an incentive, Mr. Marks shall be paid a bonus ("Bonus") equal to five percent (5%) of the pre-tax income earned by the Company in each fiscal year. Mr. Marks will not be entitled to a bonus in any fiscal year in which the Company's pre-tax incomes does not exceed $2,000,000. The Company's Board of Directors may also grant supplemental bonuses or increase the base salary payable to Mr. Marks. In addition to his cash compensation, Mr. Marks receives an automobile allowance and other benefits, including those generally provided to other employees of the Company as well as an allowance for the purpose of obtaining life insurance on Mr. Marks' life and that of his spouse. The agreement further provides, under certain circumstances, that the Company, as liquidated damages or severance pay or both, shall pay Mr. Marks (I) salary through the termination date at the annual rate in effect immediately prior to the termination date and (II) three times the amount of such annual rate.

The Company has entered into an employment agreement with Mr. Charles Yeagley pursuant to which he is employed full-time as the Company's Chief Financial Officer. The agreement, entered into on June 26, 2000 is scheduled to expire on December 1, 2001 and provides for an annual base salary of $175,000. As additional consideration for services to be rendered, Mr. Yeagley was granted, for a period of ten years from date of said grant, an option to purchase 25,000 shares of the Company's Common Stock, pursuant to the terms of the Company's 1994 Stock Option Plan. Furthermore, Mr. Yeagley shall be paid an incentive bonus ("Bonus") equal to one percent (1%) of the pre-tax income (without giving effect to any tax on such income, whether actual or offset by loss carryovers) earned by the Company in each fiscal year. Mr. Yeagley will not be entitled to a bonus in any fiscal year in which the Company's pre-tax incomes does not exceed $2,000,000. The Company's Board of Directors may also grant supplemental bonuses or increase the base salary payable to Mr. Yeagley. In addition to his cash compensation, Mr. Yeagley receives an automobile

allowance and other benefits, including those generally provided to other employees of the Company.

The Company has entered into a three year employment agreement dated February 23, 2000 with Mr. Steven Kratz pursuant to which he is employed full-time as the Company's Senior Vice President - QA/Engineering. The agreement expires on February 23, 2003 and provides for an annual base salary of $250,000 and a one year severance agreement which guarantees $300,000 to be paid within 60 days of termination. The Company's Board of Directors may also grant bonuses or increase the base salary payable to Mr. Kratz. In addition to his cash compensation, Mr. Kratz has exclusive use of a Company-owned automobile and he receives additional benefits, including those that are generally provided to other employees of the Company. Pursuant to the agreement, Mr. Kratz also has been granted options under the 1994 Stock Option Plan to purchase (I) 65,000 shares of Common Stock at an exercise price of $7.75 per share, 56,400 of which have been exercised and the remainder of which are fully vested and (II) 55,000 shares of Common Stock at an exercise price of $10.63 per share, all of which are fully vested.

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

**EXECUTIVE AND KEY EMPLOYEE INCENTIVE BONUS PLAN**

In August 1995, the Board of Directors approved the adoption of the Company's Executive and Key Employee Bonus Plan (the "Bonus Plan"). The purpose of the Bonus Plan is to provide an incentive for (I) each officer of the Company elected by the Board of Directors and not excluded by the Compensation Committee, including the executive officers named in the Summary Compensation Table, and (II) each key employee expressly included by the Compensation Committee (collectively, the "Participants") to achieve substantial increases in the profitability of the Company in comparison to the Company's performance in the previous fiscal year by providing bonus compensation tied to such increases in profitability.

The Bonus Plan is administered by the Compensation Committee, which has the power and authority to take all actions and make determinations which it deems necessary or desirable to administer the Bonus Plan, including the power and authority to extend, amend, modify or terminate the Bonus Plan at any time and to change award periods and determine the time or times for payment of bonuses. The Compensation Committee establishes the bonus targets and performance goals and establishes any other measures as may be necessary to meet the objectives of the Bonus Plan.

No bonuses will be awarded under the Bonus Plan unless the earnings before interest and taxes, exclusive of extraordinary items, of a fiscal year exceed such earnings for the prior fiscal year by at least 20%. Under the Bonus Plan, Participants are grouped into four classes, with each class having a different range of bonus payments for achieving specified targets of such earnings. The maximum

bonus payments, payable in the event that such earnings for a fiscal year exceed such earnings for the prior fiscal year by 40%, range among the groups from 27% to 50% of base salary.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.**

The following table sets forth, as of June 15, 2001, certain information as to the Common Stock ownership of each of the Company's directors and nominees for director, each of the officers included in the Summary Compensation Table below, all executive officers and directors as a group and all persons known by the Company to be the beneficial owners of more than five percent of the Company's Common Stock.

| Name and Address of Beneficial Shareholder | Amount and Nature of Beneficial Ownership (1) | | Percent of Class |
|---|---|---|---|
| Mel Marks<br>c/o Motorcar Parts & Accessories, Inc.<br>2929 California Street<br>Torrance, CA 90503 | 2,149,431 | (2) | 27.0% |
| Richard Marks<br>c/o Motorcar Parts & Accessories, Inc.<br>2929 California Street<br>Torrance, CA 90503 | 513,566 | (3) | 7.8% |
| Anthony Souza<br>c/o Motorcar Parts & Accessories, Inc.<br>2929 California Street<br>Torrance, CA 90503 | 120,000 | (4) | 1.8% |
| Steven Kratz<br>c/o Motorcar Parts & Accessories, Inc.<br>2929 California Street<br>Torrance, CA 90503 | 63,600 | (5) | (12) |
| Selwyn Joffe<br>c/o Motorcar Parts & Accessories, Inc.<br>2929 California Street<br>Torrance, CA 90503 | 85,250 | (6) | 1.3% |
| Murray Rosenzweig<br>c/o Linden Maintenance Corp.<br>134-02 33rd Avenue<br>Flushing, NY 11354 | 35,500 | (7) | (12) |
| Charles Yeagley<br>c/o Motorcar Parts & Accessories, Inc.<br>2929 California Street<br>Torrance, CA 90503 | 25,000 | (8) | (12) |

| Name and Address of Beneficial Shareholder | Amount and Nature of Beneficial Ownership (1) | | Percent of Class |
|---|---|---|---|
| Dimensional Fund Advisors, Inc.<br>1299 Ocean Avenue<br>Santa Monica, CA 90401 | 341,700 | (9) | 5.3% |
| Wells Fargo Bank<br>333 S. Grand Avenue, Suite 940<br>Los Angeles, CA 90071 | 400,000 | (10) | 6.2% |
| Directors and executive officers as a group<br>(6 persons) | 2,478,781 | (11) | 27.7% |

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

2. Includes 1,500,000 shares of common stock to be issued to Mr. Marks upon the completion of the settlement of the class action lawsuit. For additional information, see the discussion under the caption "Item 3--Legal Proceedings".

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

4. Includes 90,000 shares issuable upon exercise of currently exercisable options under the 1994 Stock Option Plan as amended.

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

6. Represents 15,000 shares issuable upon exercise of currently exercisable options granted under the Company's 1996 Stock Option Plan (the "1996 Stock Option Plan") and 68,750 shares issuable upon exercise of currently exercisable options granted under the Non-Employee Director Plan.

7. Includes 34,000 shares issuable upon exercise of currently exercisable options granted under the non-Employee Director Plan.

(8) Represents 25,000 shares issuable upon exercise of options currently exercisable or exercisable within one year which were granted under the Company's 1996 Stock Option Plan.

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

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

11. Includes 166,100 shares issuable upon exercise of currently exercisable options granted under the 1994 Stock Option Plan; 15,000 shares issuable upon exercise of currently exercisable options granted under the 1996 Stock Option Plan; 102,750 shares issuable upon exercisable options granted under the Non-Employee Director Plan; and 1,500,000 shares of new common stock to be issued upon the completion of the settlement of the class action lawsuit.

12. Less than 1%.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

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

In connection with the proposed settlement of certain class action litigation, the Company has agreed to sell Mel Marks 1,500,000 shares of its Common Stock for a total cash price of $1,500,000. For additional information, see the discussion the caption "Item 3--Legal Proceedings."

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

a. DOCUMENTS FILED AS PART OF THIS REPORT:

(1) INDEX TO CONSOLIDATED FINANCIAL STATEMENTS:



(2) SCHEDULES.



(3) EXHIBITS:

| NUMBER | DESCRIPTION OF EXHIBIT | METHOD OF FILING |
|---|---|---|
| 3.1 | Certificate of Incorporation of the Company. | Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 (No. 33-74528) declared effective on March 22, 1994 (the "1994 Registration Statement."). |
| 3.2 | Amendment to Certificate of Incorporation of the Company. | Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-97498) declared effective on November 14, 1995 (the "1995 Registration Statement"). |
| 3.3 | Amendment to Certificate of Incorporation of the Company. | Incorporated by reference to Exhibit 3.3 to the Company' s Annual Report on Form 10-K for the fiscal year ended March 31, 1997 (the "1997 Form 10-K"). |
| 3.4 | Amendment to Certificate of Incorporation of the Company. | Incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1998 (the "1998 Form 10-k"). |
| 3.5 | By-Laws of the Company. | Incorporated by reference to Exhibit 3.2 to the 1994 Registration Statement. |

| NUMBER | DESCRIPTION OF EXHIBIT | METHOD OF FILING |
|---|---|---|
| 4.1 | Specimen Certificate of the Company's Common Stock | Incorporated by reference to Exhibit 4.1 to the 1994 Registration Statement. |
| 4.2 | Form of Underwriter's Common Stock Purchase Warrant. | Incorporated by reference to Exhibit 4.2 to the 1994 Registration Statement. |
| 4.3 | 1994 Stock Option Plan | Incorporated by reference to Exhibit 4.3 to the 1994 Registration Statement. |
| 4.4 | Form of Incentive Stock Option Agreement | Incorporated by reference to Exhibit 4.4. to the 1994 Registration Statement. |
| 4.5 | 1994 Non-Employee Director Stock Option Plan. | Incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995. |
| 4.6 | 1996 Stock Option Plan. | Incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-2 (No. 333-37977) declared effective on November 18, 1997 (the "1997 Registration Statement"). |
| 4.7 | Executive and Key Employee Incentive Bonus Plan. | Incorporated by reference to Exhibit 4.6 to the 1995 Registration Statement. |
| 4.8 | Rights Agreement, dated as of February 24, 1998, by and between the Company and Continental Stock Transfer and Trust Company, as rights agent. | Incorporated by reference to Exhibit 4.8 to 1998 Registration Statement. |
| 10.1 | Credit Agreement, dated as of June 1, 1996, by and between the Company and Wells Fargo Bank, N.A. | Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 (the "December 31, 1996 Form 10-Q") |
| 10.2 | First Amendment to Credit Agreement, dated as of November 1, 1996, by and between the Company and Wells Fargo Bank, N.A. | Incorporated by reference to Exhibit 10.2 to the 1997 Form 10-K. |
| 10.3 | Second Amendment to Credit Agreement, dated as of August 8, 1997, by and between the Company and Wells Fargo Bank, N.A. | Incorporated by reference to Exhibit 10.3 to the 1997 Registration Statement. |

| NUMBER | DESCRIPTION OF EXHIBIT | METHOD OF FILING |
|---|---|---|
| 10.4 | Third Amendment to Credit Agreement, dated as of February 10, 1998, by and between the Company and Wells Fargo Bank, N.A. | Incorporated by reference to Exhibit 10.5 to the 1998 Registration Statement. |
| 10.5 | Lease Agreement, dated March 9, 1993, by and between the Company and Maricopa Enterprises, Ltd., relating to the Company's initial facility located in Torrance, California. | Incorporated by reference to Exhibit 10.3 to the 1994 Registration Statement. |
| 10.6 | Second Amendment to Lease, dated October 1, 1996, by and between the Company and Maricopa Enterprises, Ltd., relating to the Company's initial facility located in Torrance, California | Incorporated by reference to Exhibit 10.5 to the 1997 Form 10-K. |
| 10.7 | Amendment to Lease, dated October 3, 1996, by and between the Company and Golkar Enterprises, Ltd. relating to additional property in Torrance, California. | Incorporated by reference to Exhibit 10.17 to the December 31, 1996 Form 10-Q. |
| 10.8 | Amended and Restated Employment Agreement, dated as of September 1, 1995, by and between the Company and Mel Marks. | Incorporated by reference to Exhibit 10.7 to the 1995 Registration Statement. |
| 10.9 | First Amendment to Amended and Restated Employment Agreement, dated as of April 1, 1997, by and between the Company and Mel Marks. | Incorporated by reference to Exhibit 10.8 to the 1997 Form 10-K. |
| 10.10 | Amended and Restated Employment Agreement, dated as of September 1, 1995, by and between the Company and Richard Marks. | Incorporated by reference to Exhibit 10.8 to the 1995 Registration Statement. |
| 10.11 | First Amendment to Amended and Restated Employment Agreement, dated as of April 1, 1997, by and between the Company and Richard Marks. | Incorporated by reference to Exhibit 10.10 to the 1997 Form 10-K. |
| 10.12 | Employment Agreement, dated as of February 1, 1994, by and between the Company and Steven Kratz. | Incorporated by reference to Exhibit 10.7 to the 1994 Registration Statement. |
| 10.13 | First Amendment to Employment Agreement, dated as of September 1, 1995, by and between the Company and Steven Kratz. | Incorporated by reference to Exhibit 10.12 to the 1995 Registration Statement. |

| NUMBER | DESCRIPTION OF EXHIBIT | METHOD OF FILING |
|---|---|---|
| 10.14 | Second Amendment to Employment Agreement, dated as of April 1, 1997, by and between the Company and Steven Kratz. | Incorporated by reference to Exhibit 10.13 to the 1997 Form 10-K. |
| 10.15 | Employment Agreement, dated as of March 1, 1994, by and between the Company and Peter Bromberg. | Incorporated by reference to Exhibit 10.12 to the 1994 Registration Statement. |
| 10.16 | First Amendment to Employment Agreement, dated as of September 1, 1995, by and between the Company and Peter Bromberg. | Incorporated by reference to Exhibit 10.12 to the 1995 Registration Statement. |
| 10.17 | Second Amendment to Employment Agreement, dated as of April 1, 1997, by and between the Company and Peter Bromberg. | Incorporated by reference to Exhibit 10.16 to the 1997 Form 10-K. |
| 10.18 | Employment Agreement, dated as of September 1, 1995, be and between the Company and Eli Makowitz. | Incorporated by reference to Exhibit 10.13 to the 1995 Registration Statement. |
| 10.19 | Employment Agreement, dated as of April 1, 1997, by and among MVR, Unijoh and Vincent Quek. | Incorporated by reference to Exhibit 10.18 to the 1997 Form 10-K. |
| 10.20 | Form of Consulting Agreement, dated as of September 1, 1995, by and between the Company and Selwyn Joffe. | Incorporated by reference to Exhibit 10.14 to the 1995 Registration Statement. |
| 10.21 | Form of Employment Agreement, dated as of October 1, 1997, by and between the Company and Karen Brenner. | Incorporated by reference to Exhibit 10.20 to the 1997 Registration Statement. |
| 10.22 | Lease Agreement, dated March 28, 1995, by and between the Company and Equitable Life Assurance Society of the United States, relating to the Company's facility located in Nashville, Tennessee. | Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995. |
| 10.23 | Lease Agreement, dated September 19, 1995, by and between Golkar Enterprises, Ltd. and the Company relating to the Company's facility located in Nashville, Tennessee. | Incorporated by reference to Exhibit 10.18 to the 1995 Registration Statement. |

| NUMBER | DESCRIPTION OF EXHIBIT | METHOD OF FILING |
|---|---|---|
| 10.24 | Agreement and Plan of Reorganization, dated as of April 1, 1997, by and among the Company, Mel Marks, Richard Marks and Vincent Quek relating to the acquisition of MVR and Unijoh. | Incorporated by reference to Exhibit 10.22 to the 1997 Form 10-K. |
| 10.25 | Form of Indemnification Agreement for officers and directors. | Incorporated by reference to Exhibit 10.25 to the 1997 Registration Statement. |
| 10.26 | Employment Agreement, dated December 1, 1999, by and between the Company and Anthony Souza. | Filed herewith. |
| 10.27 | Consulting Agreement, dated December 1, 1999, by and between the Company and Selwyn Joffe. | Filed herewith. |
| 10.28 | Employment Agreement, dated January 1, 2000, by and between the Company and Richard Marks. | Filed herewith. |
| 10.29 | Warrant to Purchase Common Stock, dated April 20, 2000, by and between the Company and Wells Fargo Bank, National Association. | Filed herewith. |
| 10.30 | Amendment No. 1 to Warrant, dated May 31, 2001, by and between the Company and Wells Fargo Bank, National Association. | Filed herewith. |
| 10.31 | Investor Rights Agreement, dated April 20, 2000, by and between the Company and Wells Fargo Bank, National Association. | Filed herewith. |
| 10.32 | Second Amended and Restated Credit Agreement, dated May 31, 2001, by and between the Company and Wells Fargo Bank, National Association. | Filed herewith. |
| 10.33 | Term Note, dated May 31, 2001, by and between the Company and Wells Fargo Bank, National Association. | Filed herewith. |
| 10.34 | Revolving Line of Credit Note, dated May 31, 2001, by and between Wells Fargo Bank, National Association. | Filed herewith. |
| 10.35 | Memorandum of Employment Contract, dated March 23, 2000 by and between the Company and Steven Kratz | Filed herewith. |
| 10.36 | Employment Contract, dated June 26, 2000 by and between the Company and Charles Yeagley | Filed herewith. |
| 18.1 | Preferability Letter to the Company from Grant Thornton LLP. | Filed herewith. |

| NUMBER | DESCRIPTION OF EXHIBIT | METHOD OF FILING |
|---|---|---|
| 21.1 | List of Subsidiaries. | Incorporated by reference to Exhibit 21.1 to the 1998 Registration Statement. |

B. REPORTS ON FORM 8-K:

Current Report on Form S-K, dated October 12, 2000 reporting on matters covered in Item 5 and including consolidated statement of financial position dated March 31, 2000.

Current Report on Form 8-K, dated January 17, 2001 reporting on matters covered in Item 5 and including (i) consolidated financial statements and report of independent certified accountants, March 31, 2000 and 1999, (ii) interim financial information at and for the period ended June 30, 2000 and (iii) interim financial information at and for the period ended September 30, 2000.

Current Report on Form 8-K, dated March 28, 2001 reporting on matters covered in Item 5 and including interim financial information at and for the period ended December 31, 2000.

Consolidated Financial Statements and Report of Independent Certified Public Accountants

**MOTORCAR PARTS & ACCESSORIES, INC.**
**AND SUBSIDIARIES**

March 31, 2001 and 2000

**C O N T E N T S**

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Motorcar Parts & Accessories, Inc. and Subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Motorcar Parts & Accessories, Inc. and Subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Los Angeles, California
June 14, 2001

**Motorcar Parts & Accessories, Inc. and Subsidiaries**

**CONSOLIDATED BALANCE SHEETS**

March 31,

| ASSETS | 2001 | 2000 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 164,000 | $ 1,123,000 |
| Short term investments | 191,000 | 224,000 |
| Accounts receivables, net of allowance for doubtful accounts and core/warranty returns of $6,088,000 and $6,717,000 in 2001 and 2000, respectively | 7,324,000 | 15,263,000 |
| Inventory | 35,209,000 | 36,246,000 |
| Restricted deposit | 1,500,000 | - |
| Income tax refund receivable | - | 1,173,000 |
| Prepaid expenses and other current assets | 659,000 | 313,000 |
| Total current assets | 45,047,000 | 54,342,000 |
| PLANT AND EQUIPMENT, net | 9,087,000 | 11,375,000 |
| DEFERRED TAX ASSET | 3,250,000 | 3,250,000 |
| INCOME TAX REFUND RECEIVABLE | 2,445,000 | 2,486,000 |
| OTHER ASSETS | 279,000 | 348,000 |
| | $ 60,108,000 | $ 71,801,000 |

The accompanying notes are an integral part of these statements.

**Motorcar Parts & Accessories, Inc. and Subsidiaries**

**CONSOLIDATED BALANCE SHEETS - CONTINUED**

March 31,

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 2001 | 2000 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 7,216,000 | $ 9,502,000 |
| Accrued liabilities | 4,151,000 | 3,843,000 |
| Line of credit | 28,950,000 | 36,661,000 |
| Accrued litigation settlement | 1,500,000 | - |
| Deferred compensation | 197,000 | 234,000 |
| Current portion of capital lease obligations | 1,197,000 | 1,106,000 |
| Total current liabilities | 43,211,000 | 51,346,000 |
| CAPITALIZED LEASE OBLIGATIONS, less current portion | 2,099,000 | 3,062,000 |
| DEPOSIT FROM SHAREHOLDER | 1,500,000 | - |
| COMMITMENTS AND CONTINGENCIES | - | - |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued | - | - |
| Series A Junior Participating Preferred Stock; no par value, 20,000 shares authorized; none issued | - | - |
| Common Stock; par value $.01 per share, 20,000,000 shares authorized; 6,460,455 shares issued and outstanding | 65,000 | 65,000 |
| Additional paid-in capital | 51,281,000 | 51,281,000 |
| Accumulated other comprehensive loss | (88,000) | (95,000) |
| Accumulated deficit | (37,960,000) | (33,858,000) |
| Total shareholders' equity | 13,298,000 | 17,393,000 |
| | $ 60,108,000 | $ 71,801,000 |

The accompanying notes are an integral part of these statements.

**Motorcar Parts & Accessories, Inc. and Subsidiaries**

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| NET SALES | $ 160,699,000 | $ 194,293,000 |
| COST OF GOODS SOLD | 148,731,000 | 188,097,000 |
| Gross margin | 11,968,000 | 6,196,000 |
| OPERATING EXPENSES | | |
| General and administrative expenses | 8,291,000 | 11,832,000 |
| Sales and marketing | 1,216,000 | 1,864,000 |
| Litigation settlement | 1,500,000 | - |
| Restructuring expenses | 914,000 | - |
| Research and development | 472,000 | 714,000 |
| Provision for doubtful accounts | (36,000) | 321,000 |
| Total operating expenses | 12,357,000 | 14,731,000 |
| OPERATING LOSS | (389,000) | (8,535,000) |
| OTHER EXPENSE (INCOME) | | |
| Interest expense | 3,771,000 | 3,227,000 |
| Interest income | (71,000) | (47,000) |
| | 3,700,000 | 3,180,000 |
| LOSS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE | (4,089,000) | (11,715,000) |
| Income tax (expense) benefit | (13,000) | 1,173,000 |
| LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE | (4,102,000) | (10,542,000) |
| Cumulative effect of accounting change | - | (17,702,000) |
| NET LOSS | $ (4,102,000) | $ (28,244,000) |
| Basic and diluted loss per share before cumulative effect of accounting change | $ (0.63) | $ (1.63) |
| Cumulative effect of accounting change | - | (2.74) |
| Basic and diluted loss per share | $ (0.63) | $ (4.37) |
| Weighted average common shares outstanding | 6,460,455 | 6,460,455 |

The accompanying notes are an integral part of these statements.

**Motorcar Parts & Accessories, Inc. and Subsidiaries**

## CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

For the years ended March 31, 2001 and 2000

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total | Comprehensive Loss |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balance at April 1, 1999 | 6,460,455 | $ 65,000 | $ 51,281,000 | $ (72,000) | $ (5,614,000) | $ 45,660,000 | |
| Foreign currency translation | - | - | - | 2,000 | - | 2,000 | $ 2,000 |
| Unrealized loss on investments | - | - | - | (25,000) | - | (25,000) | (25,000) |
| Net loss | - | - | - | - | (28,244,000) | (28,244,000) | (28,244,000) |
| Comprenhensive loss | | | | | | | $ (28,267,000) |
| Balance at March 31, 2000 | 6,460,455 | 65,000 | 51,281,000 | (95,000) | (33,858,000) | 17,393,000 | |
| Foreign currency translation | - | - | - | 2,000 | - | 2,000 | $ 2,000 |
| Unrealized gain on investments | - | - | - | 5,000 | - | 5,000 | 5,000 |
| Net loss | - | - | - | - | (4,102,000) | (4,102,000) | (4,102,000) |
| Comprenhensive loss | | | | | | | $ (4,095,000) |
| Balance at March 31, 2001 | 6,460,455 | $ 65,000 | $ 51,281,000 | $ (88,000) | $ (37,960,000) | $ 13,298,000 | |

The accompanying notes are an integral part of these statements.

**Motorcar Parts & Accessories, Inc. and Subsidiaries**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (4,102,000) | $ (28,244,000) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amoritization | 2,971,000 | 3,011,000 |
| Provision for doubtful accounts | (36,000) | 321,000 |
| Cumulative effect of accounting change | - | 17,702,000 |
| Provision for litigation settlement | 1,500,000 | |
| Loss on disposal of assets | 176,000 | - |
| Changes in: | | |
| Accounts receivable | 7,975,000 | (3,964,000) |
| Inventory | 1,037,000 | 14,389,000 |
| Income tax refund receivable | 1,214,000 | 768,000 |
| Restricted deposit | (1,500,000) | - |
| Prepaid expenses and other current assets | (346,000) | 137,000 |
| Other assets | 69,000 | 657,000 |
| Accounts payable | (2,286,000) | (8,743,000) |
| Accrued liabilites | 308,000 | (851,000) |
| Deferred compensation obligation | (37,000) | (843,000) |
| Net cash provided by (used in) operating activities | 6,943,000 | (5,660,000) |
| CASH FLOWS FROM INVESTING ACTIVITES | | |
| Purchases of property, plant and equipment | (726,000) | (1,184,000) |
| Liquidation of investments | 38,000 | 721,000 |
| Net cash used in investing activities | (688,000) | (463,000) |

The accompanying notes are an integral part of these statements.

**Motorcar Parts & Accessories, Inc. and Subsidiaries**

## CONSOLIDATED STATEMENTS OF CASH FLOWS--CONTINUED

| | Year ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings under the line of credit | $ 44,050,000 | $ 54,385,000 |
| Payments under the line of credit | (51,761,000) | (46,947,000) |
| Advance from major shareholder | 1,500,000 | - |
| Payment on capital lease obligations | (1,005,000) | (1,139,000) |
| Net cash (used in) provided by financing activities | (7,216,000) | 6,299,000 |
| EFFECT OF TRANSLATION ADJUSTMENT ON CASH | 2,000 | 2,000 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (959,000) | 178,000 |
| Cash and cash equivalents--beginning of year | 1,123,000 | 945,000 |
| CASH AND CASH EQUIVALENTS--END OF YEAR | $ 164,000 | $ 1,123,000 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Interest | $ 3,490,000 | $ 3,081,000 |
| Income taxes | $ 800 | $ 500 |
| Noncash investing and financing activities | | |
| Property acquired under capital lease | $ 133,000 | $ 767,000 |

The accompanying notes are an integral part of these statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
March 31, 2001 and 2000

## NOTE A--COMPANY BACKGROUND

Motorcar Parts & Accessories, Inc. and its subsidiaries (the "Company") remanufactures and distributes alternators and starters and assembles and distributes spark plug wire sets for the automotive aftermarket industry (replacement parts sold for use on vehicles after initial purchase). These automotive parts are sold to automotive retail chains and warehouse distributors throughout the United States.

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

## NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation

The accompanying consolidated balance sheet includes the accounts of Motorcar Parts & Accessories, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

2. Cash Equivalents

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

3. Inventory

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

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

4. Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" which requires the use of the liability method of accounting for income taxes. The liability method measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax bases of assets and liabilities and their reported amounts in the financial statement. The resulting asset or liability is adjusted to reflect changes in the tax laws as they occur. A valuation allowance is provided against deferred tax assets when their estimated realization is uncertain.

5. Depreciation and Amortization

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

Accelerated depreciation methods are used for tax purposes. A provision for deferred income taxes relating to depreciation temporary differences has been recognized.

6. Foreign Currency Translation

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

7. Revenue Recognition

The Company recognizes revenue when performance by the Company is complete. For products shipped free-on-board ("FOB") shipping point, revenue is recognized on the date of shipment. For products shipped FOB destination, revenues are recognized two days after date of shipment. Revenue is recognized for the "unit value", representing the remanufactured value-added portion, plus the "core value", representing the assigned value of the core if no warranty or return is obtained.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

7. Revenue Recognition (continued)

Trade-ins are recorded and a credit is issued upon receipt of cores from customers. An accrual for trade-ins authorized but not received is recorded at the balance sheet date. The difference in the amount of credit provided to the customer and the value of the returned core is charged to cost of goods sold.

8. Earnings Per Share

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

9. Use of Estimates

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

**10.Financial Instruments**

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

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**11.Stock-Based Compensation**

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

**12.Credit Risk**

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

13. Deferred Compensation Plan

The Company has a deferred compensation plan for certain management. The plan allows participants to defer salary, bonuses and commission. The assets of the plan are held in a trust and are subject to the claims of the Company's general creditors under federal and state laws in the event of insolvency. Consequently, the trust qualifies as a Rabbi trust for income tax purposes.

The plan's assets consist primarily of mutual funds. The investments are classified as "available for sale" and are recorded at market value with any unrealized gain or loss recorded as a component of shareholders' equity. Adjustments to the deferred compensation obligation are recorded in operating expenses.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

14. Comprehensive Loss

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

**NOTE C - REALIZATION OF ASSETS**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has significant pending litigation and investigations (see Note N).

Recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company. This in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations.

Management has taken steps to revise its operations and financial requirements, which it believes are sufficient to provide the Company with the ability to continue in existence, maintain its financing and return to profitability. These plans include the consolidation of operations and reduction of costs. Management believes that these changes will allow the Company to reduce its inventory levels, reduce manufacturing labor and overhead costs and eliminate low margin products.

Management is actively pursuing resolution of the pending litigation and investigations. Although there can be assurance as to the financial impact from these matters, management believes that it will be able to conclude these matters in a reasonable period.

**NOTE D - INVENTORY**

Effective April 1, 1999, management adopted a new methodology for accounting for inventory. Management believes that the new methodology better reflects the economics of its business while providing a better measurement under generally accepted accounting principles. Under the Company's new accounting methodology, in recording core inventory at the lower of cost or market, the Company determines the market value based on consideration of current core broker prices. Such values are normally less than the core value credited to customers' accounts when cores are returned to the Company as trade-ins. An allowance for obsolescence is provided to reduce the carrying value of inventory to its estimated market value. During the fourth quarter of fiscal year ended 2001, as a result of fluctuations in core broker prices, the Company recorded an adjustment of $617,000 to reflect inventory at the lower of cost or market.

Inventory is comprised of the following:

| | Year ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| Raw materials and cores | $ 23,619,000 | $ 24,393,000 |
| Work-in-process | 1,195,000 | 1,758,000 |
| Finished goods | 14,648,000 | 15,351,000 |
| | 39,462,000 | 41,502,000 |
| Less - allowance for excess and obsolete inventory | (4,253,000) | (5,256,000) |
| | $ 35,209,000 | $ 36,246,000 |

**NOTE E - PLANT AND EQUIPMENT**

Plant and equipment, at cost, are summarized as follows:

| | Year ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| Machinery and equipment | $ 11,703,000 | $ 11,959,000 |
| Office equipment and fixtures | 4,697,000 | 4,452,000 |
| Leasehold improvements | 2,630,000 | 2,373,000 |
| | 19,030,000 | 18,784,000 |
| Less - accumulated depreciation and amortization | (9,943,000) | (7,409,000) |
| | $ 9,087,000 | $ 11,375,000 |

## NOTE F--CAPITAL LEASE OBLIGATIONS

The Company leases various machinery and computer equipment under agreements accounted for as capital leases. The cost and accumulated amortization of capital lease assets included in plant and equipment was $5,877,000 and $2,597,000 respectively, at March 31, 2001 and $5,744,000 and $1,731,000 respectively, at March 31, 2000.

Future minimum lease payments at March 31, 2001 for the capital leases are as follows:

| YEAR ENDING MARCH 31, | |
|---|---|
| 2002 | $ 1,409,000 |
| 2003 | 1,358,000 |
| 2004 | 699,000 |
| 2005 | 43,000 |
| 2006 | 21,000 |
| Total minimum lease payments | 3,530,000 |
| Less amount representing interest | 234,000 |
| Present value of future minimum lease payment | 3,296,000 |
| Less current portion | 1,197,000 |
| | $ 2,099,000 |

## NOTE G--LINE OF CREDIT

Pursuant to an agreement dated August 1, 1998, as amended and restated, the Company has a revolving line of credit with a bank for a credit facility in an aggregate principal amount not exceeding $36.25 million. The maximum credit facility is reduced to $33 million as of March 31, 2001. Additional permanent reductions shall be made for 100 percent of the net proceeds from (i) the sale of assets outside the ordinary course of business, (ii) the issuance of any debt or equity issued by the Company,
(iii) any insurance payments received (exclusive of Director's and Officers' insurance) in connection with that certain litigation pending against the company identified as JOSEPH L. SHALANT, IRA ON BEHALF OF HIMSELF AND OTHERS SIMILARLY SITUATED, PLAINTIFF VS. MOTORCAR PARTS AND ACCESSORIES, INC. ET AL, DEFENDANTS, and (iv) all local, state and federal tax refunds received. The agreement is collateralized by a lien on substantially all of the Company's assets. An annual commitment fee of .5% is due monthly on the unused portion of the line of credit. Thee agreement allows the Company to obtain from the bank letters of credit and banker's acceptances in an aggregate amount not exceeding $1,000,000.

**NOTE G--LINE OF CREDIT--Continued**

While the Company has made net payments on its line of credit totaling $4,250,000 during the year ended March 31, 2001, the Company requested that the bank waive the requirements that the Company make the permanent reduction in its credit facility of $750,000 (to $33 million) that was due to be made by March 31, 2001. The Company has also requested that the bank waive the requirements that the Company use the $1.2 million tax refund it received in February 2001 to make a permanent reduction in the credit facility and the requirement that it deposit $500,000 in a non-interest bearing account as security for the Company's letter of credit facility.

In March 2001, the Company and the bank executed an amendment to the loan agreement. The amendment provided for an extension of the maturity date of the loan from March 31, 2001 to May 31, 2001 and the waiver of principal reductions referred to in the preceding paragraph. The amendment also provided for an increase in the effective rate of interest charged by the bank on credit advances to the Company. Until the escrow account required as part of the proposed settlement of the class action litigation (see Note N) has been established and fully funded, the interest rate increases from the bank's prime rate plus 1% to prime plus 2.5%. Once the escrow account has been established and funded, the interest rate decreases to prime plus 2.25%. The rate decreases to prime plus 2% when the class action lawsuit has been finally settled. If the loan is not paid in full at maturity, the interest rate would increase to the prime rate plus 4%.

On May 31, 2001 the Company and the bank executed the second amended and restated credit agreement. Under the new credit agreement, the maturity date on the advances made to the Company was extended to April 30, 2002 and the balance due of $33,750,000 was split into two separate credit facilities, a revolving line of credit facility of up to $24,750,000 and a $9,000,000 term loan. The amounts available under the line of credit facility are limited to 75% of Eligible Accounts Receivable and 80% of Appraised Net Recovery Value of inventory, in each case as such terms are defined in the May 31, 2001 amended and restated credit agreement. The line of credit facility and the term note provide for interest rates of 2.75% and 3.00%, respectively, above the bank's prime rate (7.0% at June 25, 2001). Each quarter, the spreads above the bank's prime rate can be reduced to 2.25% and 2.5%, respectively and increased to 3.0% and 3.25%, respectively, depending upon changes in the ratio of the Company's funded debt to cash flow. The spreads above the bank's prime rate have been reduced by .25% to take into account the Company's establishment and funding of an escrow account to fund the settlement of the class action litigation discussed under the caption "Item 3--Legal Proceedings", and will be reduced by an additional .25% when the class action lawsuit is settled.

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

## NOTE H--STOCK ADJUSTMENTS

Stock adjustments are allowed under the terms of certain Company agreements. Customers request stock adjustments when the inventory level of certain product lines exceeds their anticipated sales level to their end-user customers. Some customers perform regular reviews of their inventory and request stock adjustments while others seldom exercise their rights. Historically, the Company charged a portion of these stock adjustments against net revenues at the time of return and expensed the balance as cost of sales when received.

In December 2000, because of an unprecedented large return from one customer the Company granted significant stock adjustments, resulting in a reduction of (sales or costs) and net income by $898,000. There was no significant impact on prior periods.

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

## NOTE I--ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive income consists of the following components:

| | Year ended March 31, | |
|---|---|---|
| | 2001 | 2001 |
| Foreign currency translation | $ (68,000) | $ (70,000) |
| Unrealized losses on investments | (20,000) | (25,000) |
| | $ (88,000) | $ (95,000) |

## NOTE J--EMPLOYMENT AGREEMENTS AND BONUS PLAN

The Company has employment agreements with key employees, expiring at various dates through January 1, 2004. The employment agreements provide for annual base salaries aggregating $775,000. In addition, some of these employees were granted options pursuant to the Company's stock option plans for the purchase of 210,000 shares of common stock at exercise prices ranging from $0.93 to $14.69 per share.

**NOTE J--EMPLOYMENT AGREEMENTS AND BONUS PLAN--Continued**

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

The Company has established a bonus plan for the benefit of executives and certain key employees. The bonus is calculated as a percentage ranging from 14% to 50% of the base salary. The bonus percentage varies according to the percentage increase in earnings before income taxes and other predetermined parameters. The bonus for the year March 31, 2001 and 2000 was $168,000 and $0, respectively.

**NOTE K--COMMITMENTS**

The Company leases office and warehouse facilities in California and Tennessee under operating leases expiring through 2002. Certain leases contain escalation clauses for real estate taxes and operating expenses. At March 31, 2001, the remaining future minimum rental payments under the above operating leases are $1,497,000 for the year ended March 31, 2002.

**NOTE L--MAJOR CUSTOMERS**

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

| Customer | % of Accounts Receivable | | % of Net Sales | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| A | 38% | 36% | 53% | 48% |
| B | 24% | 24% | 5% | 4% |
| C | 11% | 16% | 11% | 7% |
| | 73% | 76% | 69% | 59% |

**NOTE M--INCOME TAXES**

Deferred income taxes consist of the following at March 31:

| | 2001 | 2000 |
|---|---|---|
| Assets | | |
| Net operating loss carryforwards | $ 4,675,000 | $ 3,513,000 |
| Inventory | 13,426,000 | 14,106,000 |
| Allowance for bad debts | 527,000 | 634,000 |
| Inventory capitalization | 61,000 | 195,000 |
| Vacation pay | 218,000 | 180,000 |
| Deferred compensation | 82,000 | - |
| Accrued professional fees | 870,000 | 241,000 |
| Other | 79,000 | 28,000 |
| | 19,938,000 | 18,897,000 |
| Liabilities | | |
| State taxes | (1,139,000) | (1,085,000) |
| Accelerated depreciation | (1,329,000) | (1,033,000) |
| Net deferred tax asset | 17,470,000 | 16,779,000 |
| Less--valuation allowance | (14,220,000) | (13,529,000) |
| | $ 3,250,000 | $ 3,250,000 |

The Company has federal and state net operating loss carryforwards of approximately $12,634,000 and $10,625,000, respectively, which expire in varying amounts through 2020. The valuation allowance increased by $691,000 in 2001.

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

| | 2001 | 2000 |
|---|---|---|
| Statutory federal income tax rate | (34%) | (34%) |
| State income tax rate | (5%) | (5%) |
| Foreign tax | 0.3% | - |
| Valuation allowance | 39% | 29% |
| | 0.3% | (10)% |

## NOTE M--STOCKHOLDERS' EQUITY

### SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

In a Rights Agreement dated February 24, 1998, between the Company and Continental Stock Transfer & Trust, the Company authorized 20,000 shares of Series A Junior Participating Preferred Stock. The Series A Junior Participating Preferred Stock has preferential voting, dividend and liquidation rights over the Common Stock.

On February 24, 1998, the Company declared a dividend distribution to the holders of record at the close of business on March 12, 1998 of one Right on each share of Common Stock.

Each Right, when exercisable, entitles the registered holder thereof to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock at a price of $65 per one one-thousandth of a share (subject to adjustment).

The Rights will not be exercisable or transferable apart from the Common Stock until an Acquiring Person, as defined in the Rights Agreement, without the prior consent of the Company's Board of Directors, acquires 20% or more of the outstanding shares of the Common Stock or announces a tender offer that would result in 20% ownership. The Company is entitled to redeem the Rights, at $.001 per Right, any time until ten days after a 20% position has been acquired. Under certain circumstances, including the acquisition of 20% of the Common Stock, each Right now owned by a potential Acquiring Person will entitle its holder to received, upon exercise, shares of Common Stock having a value equal to twice the exercise price of the Right.

Holders of a Right will be entitled to buy stock of an Acquiring Person at a similar discount if, after the acquisition of 20% or more of the Company's outstanding shares of Common Stock, the Company is involved in a merger or other business combination transaction with another person in which it is not the surviving company, its common shares are changed or converted, or the Company sells 50% or more of its assets or earning power to another person. The Rights expire on March 12, 2008 unless earlier redeemed by the Company.

### STOCK OPTIONS

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

**NOTE M--STOCKHOLDERS' EQUITY**

**STOCK OPTIONS (Continued)**

In June 1998, the 1994 Plan was amended to increase the authorized number of shares issued to 960,000. As of March 31, 2001, there were 653,875 options outstanding under the 1994 Plan and 306,125 options were available for grant.

In August 1995, the Company adopted the Nonemployee Director Stock Option Plan (the "Directors Plan") which provides for the granting of options to directors to purchase a total of 15,000 shares of the Company's common stock. Options to purchase 7,500 shares have been granted under the Directors Plan as of March 31, 2001.

In September 1997, the Company adopted the 1996 Stock Option Plan (the "1996 Plan"), under which it is authorized to issue non-qualified stock options and incentive stock options to key employees, consultants and directors to purchase a total of 30,000 shares of the company's common stock. The term and vesting period of options granted is determined by a committee of the Board of Directors with a term not to exceed ten years. Options to purchase 15,000 shares have been granted under the 1996 Plan as of March 31, 2001.

Summary of stock option transactions (exclusive of nonemployee director stock option plan) is as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at 3/31/99 | 587,750 | $ 12.16 |
| Granted | 185,000 | $ 3.13 |
| Exercised | - | $ - |
| Forfeited | (88,500) | $ 12.18 |
| Outstanding at 3/31/00 | 684,750 | $ 9.71 |
| Granted | 31,000 | $ 0.99 |
| Exercised | - | - |
| Forfeited | (61,875) | $ 11.41 |
| Outstanding at 3/31/01 | 653,875 | $ 9.16 |

The stock options granted during fiscal year 2001 and 2000 have $0.99 and $3.13 per share weighted average fair value on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 5.5%, an expected life of 5 years and volatility of 35%.

**NOTE M--STOCKHOLDERS' EQUITY--Continued**

**STOCK OPTIONS (Continued)**

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net loss for the year ended March 31, 2001 would have been increased to the pro forma amounts indicated below:

| Net Loss: | 2001 | 2000 |
|---|---|---|
| As reported | $(4,102,000) | $(28,244,000) |
| Pro forma | (4,152,000) | (28,703,000) |
| Loss per Share - As Reported | (.63) | (4.37) |
| Loss per Share - Pro forma | (.64) | (4.44) |

Under SFAS No. 123, compensation cost for options granted is recognized over the four year vesting period. The compensation cost included in the pro forma net loss above represents the cost associated with options granted during 1996 through 2001 which vested during 2001.

The following table summaries information about the options outstanding at March 31, 2001:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares | Weighted Average Exercise Price | Weighted Average Remaining Life in years | Shares | Weighted Average Exercise Price |
| $ .931 to $ 1.21 | 31,000 | $ 0.99 | 9.21 | 28,049 | $ 0.99 |
| $ 2.50 to $ 2.88 | 150,000 | $ 2.63 | 8.84 | 142,519 | $ 2.63 |
| $ 6.00 to $ 9.00 | 67,600 | $ 7.89 | 3.13 | 67,600 | $ 7.89 |
| $10.63 to $15.63 | 366,900 | $ 11.80 | 6.30 | 343,136 | $ 11.83 |
| $17.32 to $19.13 | 38,375 | $ 18.28 | 6.49 | 38,375 | $ 18.28 |
| | 653,875 | | | 619,679 | |

**NOTE N--LITIGATION**

The Company is a defendant in a class action lawsuit pending in the United States District Court, Central District of California, Western Division. The complaint in the class action alleges that, over a three year period, the Company misstated earnings in violation of securities laws. The complaint seeks damages on behalf of all investors who purchased common stock of the Company from August 1, 1996 to July 30, 1999. The Company's Directors and Officers insurance carrier has also filed a claim against the Company and certain of its officers that seeks to rescind coverage for the claims made against the Company and certain of its officers in the class action lawsuit and the related insurance litigation. The Company, counsel for the class action plaintiffs and counsel for the insurance carrier are currently engaged in discussions to determine whether the class action lawsuit can be settled. The terms of a tentative settlement that is currently under discussion include the payment of $7,500,000 to the plaintiffs in the class action. Of this amount, $6,000,000 would be paid by the Company's Directors and Officers insurance carrier, and the balance would be paid by the Company. In connection with the payment by the insurance carrier, the Company's Directors and Officers insurance would be cancelled. In addition, all parties would exchange releases.

To finance the Company's portion of the settlement plan, the Company and Mel Marks, the Company's founder and a board member, have entered into the stock purchase agreement. Under the terms of this agreement, Mr. Marks is expected to purchase shares of the Company common stock, and the total purchase price for this stock would be $1,500,000. The price per share is $1.00. The valuation firm that the Company engaged to evaluate the fairness of the transaction concluded that this price per share is fair to the Company's shareholders, from a financial point of view. For purposes of this determination, the fairness of the transaction was evaluated as of November 30, 2000, the date that Mr. Marks agreed to provide $1,500,000 to the Company to finance a portion of the class action settlement. Mr. Marks has deposited the funds to purchase the common stock with the Company. If the settlement is not completed, these funds will be returned to Mr. Marks with interest.

The Company has accrued $1.5 million at March 31, 2001 for the settlement. Additionally, the Company has recorded $1.5 million as Restricted Cash and Deposit from Shareholder (a liability) for amounts paid by Mr. Mel Marks into an escrow toward the purchase of additional shares. The deposit from shareholder will be transferred to Shareholders' Equity upon issuance of the shares.

While management is hopeful that the tentative settlement can be finalized, there can be no assurances that settlement will be finalized or that such a settlement would be approved by the court. In the absence of final resolution of the litigation and in view of the position articulated by the Directors and Officers insurance carrier, continued litigation of the class action lawsuit could have a material adverse effect on the Company.

**NOTE N--LITIGATION--Continued**

The Company is subject to an investigation by the Securities and Exchange Commission (SEC) relating to the same issues involved in the above-mentioned lawsuit. The outcome of these investigations cannot presently be determined.

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

**NOTE O--RESTRUCTURING EXPENSES AND RELATED ASSET IMPAIRMENT**

During the fiscal year the company restructured its business operations. The Company consolidated the two locations in Torrance California and downsized the operations in Nashville, Tennessee. As a result the company recorded expenses and related asset impairment charges of $914,000. The expenses included:

o Approximately $738,000 of future lease expense for which the company will receive no benefit.

o Approximately $176,000 for impairment of fixed assets for which the company will receive no future benefit.

**NOTE P - UNAUDITED QUARTERLY FINANCIAL DATA**

| FY 2001 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
|---|---|---|---|---|
| NET SALES | $41,401,000 | $43,964,000 | $38,969,000 | $36,365,000 |
| COST OF GOODS SOLD | 37,569,000 | 40,263,000 | 35,365,000 | 35,534,000 |
| Gross margin | 3,832,000 | 3,701,000 | 3,604,000 | 831,000 |
| OPERATING EXPENSES | | | | |
| General and administrative expenses | 2,086,000 | 1,724,000 | 3,804,000 | 677,000 |
| Sales and marketing | 318,000 | 276,000 | 270,000 | 352,000 |
| Litigation settlement | - | - | - | 1,500,000 |
| Restructuring expenses | - | - | - | 914,000 |
| Research and development | 148,000 | 118,000 | 97,000 | 109,000 |
| Provision for doubtful accounts | - | - | - | (36,000) |
| Total operating expenses | 2,552,000 | 2,118,000 | 4,171,000 | 3,516,000 |
| OPERATING INCOME / (LOSS) | 1,280,000 | 1,583,000 | (567,000) | (2,685,000) |
| Interest expense - net of interest income | 1,002,000 | 10,170,000 | 957,000 | 7,240,000 |
| INCOME/(LOSS) BEFORE INCOME TAXES AND CUMULATIVE | 278,000 | (8,587,000) | (1,524,000) | (3,409,000) |
| Income tax (expense) benefit | - | - | - | (13,000) |
| NET INCOME | $ 278,000 | $(8,587,000) | $(1,524,000) | $(3,422,000) |
| Basic and diluted loss per share | $ 0.04 | $ 0.09 | $ (0.24) | $ (0.53) |

**SCHEDULE II-- VALUATION AND QUALIFYING ACCOUNTS**

## ACCOUNTS RECEIVABLE

| FOR THE YEAR ENDED MARCH 31 | DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | CHARGED TO (RECOVERY) BAD DEBTS EXPENSE | NET WARRANTY AND CORE RETURNS(1) | ACCOUNTS WRITTEN OFF | BALANCE AT END OF PERIOD |
|---|---|---|---|---|---|---|
| 2001 | Accounts receivable allowance | 6,717,000 | (36,000) | (459,000) | 134,000 | 6,088,000 |
| 2000 | Accounts receivable allowance | 17,180,000 | 321,000 | (9,965,000) | 819,000 | 6,717,000 |

(1) Represents a net reduction in return goods authorized but not received

## INVENTORY

| | | BALANCE AT BEGINNING OF PERIOD | RESERVE CHARGED TO INCOME | INVENTORY WRITTEN OFF | BALANCE AT END OF PERIOD |
|---|---|---|---|---|---|
| 2001 | Allowance for obsolescence | 5,256,000 | 315,668 | 1,318,668 | 4,253,000 |
| 2000 | Allowance for obsolescence | 17,064,000 | (11,325,376) | 482,624 | 5,256,000 |

**SIGNATURES**

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

**MOTORCAR PARTS & ACCESSORIES, INC.**

*Dated: June 28, 2001*

*By: /s/ Charles W. Yeagley*
*Charles W. Yeagley*
*Chief Financial Officer,*
*Vice President and Secretary*

**POWER OF ATTORNEY**

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

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

| | | |
|---|---|---|
| /s/ Anthony Souza<br>Anthony Souza | Chief Executive Officer and Director (Principal Executive Officer) | June 28, 2001 |
| /s/ Charles Yeagley<br>Charles Yeagley | Chief Financial Officer (Principal Financial and Accounting Officer) | June 28, 2001 |
| /s/ Selwyn Joffe<br>Selwyn Joffe | Director | June 28, 2001 |
| /s/ Mel Marks<br>Mel Marks | Director | June 28, 2001 |
| /s/ Murray Rosenzweig<br>Murray Rosenzweig | Director | June 28, 2001 |

**EXHIBIT 10.26**

# EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT dated as of December 1, 1999, between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation currently having an address at 2727 Maricopa Street, Torrance, California 90503 (the "COMPANY"), and ANTHONY SOUZA, an individual residing at 16051 Avenida San Miguel, La Mirada, CA 90638 ("EMPLOYEE").

**W I T N E S S E T H:**

WHEREAS, the Company desires to employ Employee as its President and chief executive officer and Employee desires to be employed by the Company all upon the terms and subject to the conditions contained herein.

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

1. EMPLOYMENT. Subject to and upon the terms and conditions contained in this Agreement, the Company hereby agrees to employ Employee and Employee agrees to enter the employ of the Company, for the period set forth in Paragraph 2 hereof, to render the services to the Company, its affiliates and/or subsidiaries described in Paragraph 3 hereof.

2. TERM. Employee's term of employment under this Agreement shall commence on the date hereof (the "COMMENCEMENT DATE") and shall continue for a period through and including the eighteen-month anniversary of the Commencement Date (the "EMPLOYMENT TERM") unless extended in writing by both parties or earlier terminated pursuant to the terms and conditions set forth herein; provided that this Agreement automatically shall be renewed for successive one-year Employment Terms unless either the Company or Employee elects not to so renew by providing written notice of such election to the other party within 90 days prior to the end of the then-current Employment Term.

3. DUTIES.

(a) Subject to the authority of the Board of Directors of the Company, Employee shall be employed as the Company's President and chief executive officer and shall report to the Board of Directors. It is agreed that Employee shall perform his services in the Company's Torrance, California facilities, or any other facilities mutually agreeable to the parties.

(b) Employee agrees to abide by all By-laws and applicable policies of the Company promulgated from time to time by the Board of Directors of the Company.

4. EXCLUSIVE SERVICES AND BEST EFFORTS. Employee shall devote substantially all of his entire working time, attention, best efforts and ability during regular business hours exclusively to the service of the Company, its affiliates and subsidiaries during the term of this Agreement; provided that the Company acknowledges that Employee may devote some time during such hours to personal investments and may serve on the boards of directors of other entities, but only so long as such devotion of time or service on any board does not interfere with Employee's duties and responsibilities hereunder or violate any other provision hereof, including in particular Paragraph 10.

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

(a) BASE SALARY. The Company shall pay Employee a minimum base salary ("Salary") of Three Hundred Thousand Dollars ($300,000) per year. The Salary shall be subject to review and adjustment on an annual basis beginning January 1, 2001 (if this contract is then in effect) or, at the Company's discretion, on such earlier date as the Company may designate; PROVIDED, HOWEVER, that in no event shall Employee's Salary be adjusted below the Salary designated herein.

(b) STOCK OPTIONS. As additional consideration for the services to be performed by Employee hereunder, the Company agrees, not later than January 31, 2000, to grant Employee an option to purchase, for a period of ten years from such date of grant, Sixty Thousand (60,000) shares of the Company's common stock, par value $.01 per share (the "Common Stock"), pursuant to the terms of the Company's 1994 Stock Option Plan, as amended to date (the "Plan"), and any related stock option agreement(s) required to be executed in connection therewith. Such option shall become exercisable on the date of grant with respect to one-half of such shares of Common Stock and on the first anniversary thereof with respect to the remaining such shares.

(c) BONUS. Employee shall be paid an incentive bonus ("Bonus") equal to six and two-thirds percent (6 2/3%) of the pre-tax income (without giving effect to any tax on such income, whether actual or offset by loss carryovers) earned by the Company in each fiscal year; provided that no bonus shall be payable for any such year unless and until the amount of such pre-tax income in such year shall be at least $1.5 million, without carryover from year to year. The foregoing bonus shall be paid by the Company within 30 days after completion of the audited financial results of the Company for the applicable fiscal year, which bonus shall be prorated (as reasonably determined by the Board of Directors) for any part-year service by the Employee.

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

perform his duties under this Agreement in accordance with policies established from time to time by the Company.

7. EMPLOYEE BENEFITS.

(a) During the Employment Term, Employee shall be entitled to such insurance, disability and health and medical benefits (or, at the one-time election of Employee to be made not later than February 29, 2000, in lieu of such health and medical benefits an annual cash amount equal to the annual incremental cost to the Company of providing such benefits to Employee) and be entitled to participate in such retirement plans or programs as generally made available to executive officers of the Company pursuant to the policies of the Company; PROVIDED THAT Employee shall be required to comply with the conditions attendant to coverage by such plans and shall comply with and be entitled to benefits only in accordance with the terms and conditions of such plans. Employee shall be entitled to three weeks paid vacation each year during the Employment Term at such times as does not, in the opinion of the Board of Directors, interfere with Employee's performance of his duties hereunder. The Company may withhold from any benefits payable to Employee all federal, state, local and other taxes and amounts as shall be permitted or required pursuant to law, rule or regulation. All of the benefits to which Employee may be entitled may be changed from time to time or withdrawn at any time in the sole discretion of the Company.

(b) Employee shall be entitled to receive the sum of Eight Hundred Dollars ($800) per month as an automobile allowance provided at the expense of the Company from the Commencement Date and during the Employment Term, which allowance shall be exclusive of all expenses related to insurance, repairs, maintenance, fuel and oil for such automobile, which expenses also shall be the responsibility of the Company. Notwithstanding the foregoing, the Company may, at its option, elect to provide Employee an automobile of the make, model and year mutually agreeable to the Company and Employee, all costs of which associated with insurance, fuel, oil, repairs, maintenance and other expenses shall be the responsibility of the Company, in lieu of the above described automobile allowances, all as may be mutually agreed between Employee and the Company. Employee acknowledges that some or all of the foregoing may be deemed compensation to him.

8. DEATH AND DISABILITY.

(a) The Employment Term shall terminate on the date of Employee's death, in which event Employee's accrued Salary and Bonus, reimbursable expenses and benefits owing to Employee through the date of Employee's death shall be paid to his estate. Employee's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 8(a).

(b) If, during the Employment Term, in the opinion of a duly licensed physician selected by Employee and reasonably acceptable to the Company, Employee, because

of physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this Agreement for a period of six consecutive months the Company may, upon at least twenty (20) days' prior written notice given at any time after the expiration of such six-month period to Employee of its intention to do so, terminate this Agreement as of such date as may be set forth in the notice. In case of such termination, Employee shall be entitled to receive his accrued Salary and Bonus, reimbursable expenses and benefits owing to Employee through the date of termination. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 8(b).

9. TERMINATION FOR CAUSE.

(a) The Company may terminate the employment of Employee for Cause (as hereinafter defined) and Employee may terminate the employment of Employee at any time for any reason. Upon any such termination, the Company shall be released from any and all further obligations under this Agreement except that the Company shall be obligated to pay Employee his Salary, reimbursable expenses and benefits owing to Employee through the day on which Employee is terminated. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(a).

(b) As used herein, the term "CAUSE" shall mean: (i) the willful failure of Employee to perform his duties pursuant to Paragraph 3 hereof, which failure is not cured by Employee within 20 days following notice thereof from the Company; (ii) any other material breach of this Agreement by Employee, including any of the material representations or warranties made by Employee;
(iii) any act, or failure to act, by Employee in bad faith or to the detriment of the Company; (iv) the commission by Employee of an act involving moral turpitude, dishonesty, theft, unethical business conduct, or any other conduct which significantly impairs the reputation of, or harms, the Company, its subsidiaries or affiliates; (v) any misrepresentation, concealment or omission by Employee of any material fact in seeking employment hereunder; or (vi) any other occurrence or circumstance generally recognized a "cause" for employment termination under applicable law.

(c) In the event that the Company terminates the employment of Employee without Cause, Employee shall be entitled to all of his rights hereunder, including without limitation accrued Salary and Bonus through the date of such termination; provided that in no event shall the amount of Salary to which Employee shall be entitled for such termination be less than six-months Salary.

10. DISCLOSURE OF INFORMATION AND RESTRICTIVE COVENANT. Employee acknowledges that, by his employment, he has been and will be in a confidential relationship with the Company and will have access to confidential information and trade secrets of the Company, its subsidiaries and affiliates. Confidential information and trade secrets include, but are not limited to, customer, supplier and client lists, price lists, marketing, distribution and sales strategies and procedures, operational and equipment techniques, business plans and systems, quality control

procedures and systems, special projects and technological research, including projects, research and reports for any entity or client or any project, research, report or the like concerning sales or manufacturing or new technology, employee compensation plans and any other information relating thereto, and any other records, files, drawings, inventions, discoveries, applications, processes, data and information concerning the business of the Company which are not in the public domain. Employee agrees that in consideration of the execution of this Agreement by the Company, except in any way with respect to foreign affiliates of the Company as of the date hereof:

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

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

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

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

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

11. COMPANY PROPERTY.

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

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

12. REMEDY. It is mutually understood and agreed that Employee's services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this Agreement by Employee, including, but not limited to, the breach of the non-disclosure, non-solicitation and non-compete clauses under Paragraph 10 hereof, the Company shall be entitled to equitable relief by way of injunction or otherwise in addition to damages the Company may be entitled to recover. In addition, the Company shall be entitled to reimbursement from Employee, upon request, of any and all reasonable attorneys' fees and expenses incurred by it in enforcing any term or provision of this Agreement.

13. REPRESENTATIONS AND WARRANTIES OF EMPLOYEES.

(a) In order to induce the Company to enter into this Agreement, Employee hereby represents and warrants to the Company as follows: (i) Employee has the legal capacity and unrestricted right to execute and deliver this Agreement and to perform all of his obligations hereunder; (ii) the execution and delivery of this Agreement by Employee and the performance of his obligations hereunder will not violate or be in conflict with any fiduciary or other duty, instrument, agreement, document, arrangement or other understanding to which Employee is a party or by which he is or may be bound or subject; and (iii) Employee is not a party to any instrument, agreement, document, arrangement or other understanding with any person (other than the Company) requiring or restricting the use or disclosure of any confidential information or the provision of any employment, consulting or other services, except one confidentiality agreement unrelated to the Company's industry and having no relationship or impact of any kind whatsoever with respect to this Agreement and the transactions contemplated hereby.

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

14. NOTICES. All notices given hereunder shall be in writing and shall be deemed effectively given when mailed, if sent by registered or certified mail, return receipt requested, addressed to Employee at his address set forth on the first page of this Agreement and to the Company at its address set forth on the first page of this Agreement, Attention: Chairman of the Board, with a copy to Parker Chapin Flattau & Klimpl, LLP, 1211 Avenue of the Americas, New York, New York 10036, Attention: Gary J. Simon, Esq., or at such address as such party shall have designated by a notice given in accordance with this Paragraph 14, or when actually received by the party for whom intended, if sent by any other means.

15. BOARD SEAT. Employee shall be considered by the Board of Directors to fill a vacancy on the Board of Directors at its first meeting following April 30, 2000, and shall be included on management's slate of directors submitted to the shareholders of the Company for election at the next regular annual meeting of shareholders.

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

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

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

19. ASSIGNMENT. Neither this Agreement nor any of Employee's rights, powers, duties or obligations hereunder, may be assigned by Employee. This Agreement shall be binding upon and inure to the benefit of Employee and his heirs and legal representatives and the Company and its successors and assigns. Successors of the Company include without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company, whether by merger, consolidation, purchase, lease or otherwise, and such successor shall thereafter be deemed "the Company" for the purpose hereof.

20. APPLICABLE LAW. This Agreement shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of California and shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law rules thereof. Nothing contained in this Agreement shall be construed so as to require the commission of any act contrary to law, and whenever there is any conflict between any provision of this Agreement and any statute, law, ordinance, order or regulation, contrary to which the parties hereto have no legal right to contract, the latter shall prevail, but in such event any provision of this Agreement so affected shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

21. JURISDICTION AND VENUE. It is hereby irrevocably agreed that all disputes or controversies between the Company and Employee arising out of, in connection with or relating to this Agreement shall be exclusively heard, settled and determined by arbitration to be held in the City of Los Angeles, County of Los Angeles, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The parties also agree that judgment may be entered on the arbitrator's award by any court having jurisdiction thereof and the parties consent to the jurisdiction of any court located in the City of Los Angeles, County of Los Angeles, for this purpose.

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

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

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

**MOTORCAR PARTS & ACCESSORIES, INC.**

By:

Name: Selwyn Joffe Title: Board Member

**Anthony Souza**

**EXHIBIT 10.27**

# CONSULTING AGREEMENT

This CONSULTING AGREEMENT dated as of December 1, 1999, between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation currently having an address at 2727 Maricopa Street, Torrance, California 90503 (the "COMPANY"), and SELWYN JOFFE, an individual residing at 2687 Cordelia Road, Los Angeles, California 90049 ("CONSULTANT").

**W I T N E S S E T H:**

WHEREAS, Consultant is the [title] of [Employer] ("Employer"), which is engaged in the [amusement, entertainment and restaurant businesses], and is a Director of the Company, and

WHEREAS, the Company has experienced an immediate need for certain oversight, management, strategic and other advisory services in light of recent executive officer changes at the Company and other circumstances and requirements, and

WHEREAS, the Company desires to obtain the services of Consultant upon the terms and conditions stated herein, and

WHEREAS, Consultant desires to be retained by the Company upon the terms and conditions stated herein.

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

1. CONSULTING TERM. The Company hereby agrees to retain Consultant and Consultant agrees to be retained by the Company on the terms and conditions set forth below for a term commencing on the date hereof (the "COMMENCEMENT DATE") and continuing for a period through and including the eighteen-month anniversary of the Commencement Date (the "CONSULTING TERM"), unless extended in writing by both parties or earlier terminated pursuant to the terms and conditions set forth herein.

2. DUTIES. Consultant shall report to the Board of Directors. Consultant shall make himself available to render these advisory or consultative services to the Company as reasonably appropriate or necessary from time to time and shall provide oversight, management, strategic and other advisory services to the Company, in light of its recent executive officer changes and other circumstances and requirements, including without limitation the Company's arrangements with its bank and auditors and operations, employees and long-term business plan, among other things. In addition, Consultant's duties shall include apprising the board of Directors with respect to the foregoing and other matters.

3. OTHER BUSINESS. The Company acknowledges that Consultant is a full-time employee of Employer. In addition to serving in such capacity, the parties hereto agree that Consultant may engage in any other business that Consultant desires during the term of this Agreement; provided that in the event that such business shall (in the reasonable judgment of the Company) in any way interfere with the performance of Consultant's duties hereunder, then this Agreement may be terminated at any time pursuant to the terms of Paragraph 7 hereof. The foregoing shall not prevent the purchase, ownership or sale by Consultant of investments or securities of publicly held companies and any other business which is not competitive and does not have any other business relations with the Company or any subsidiary of the Company, provided such purchase, ownership or sale by Consultant does not interfere with the performance of his duties hereunder.

4. COMPENSATION. For the performance of the duties and services to be performed by Consultant hereunder, the Company agrees (i) to pay Consultant a consulting fee of One Hundred and Sixty Thousand Dollars ($160,000) per year (the "CONSULTING FEE") and (ii) to grant to Consultant, not later than January _, 2000, an option to purchase, for a period of ten (10) years from the date of grant, Forty Thousand (40,000) shares of the Company's Common Stock pursuant to the terms of Company's 1994 Stock Option Plan (the "Plan"), at an exercise price per share to be determined by the Board of Directors on such date and subject to the terms of the Plan, a copy of which Plan shall be delivered to Consultant contemporaneously with the execution of this Agreement, and any related stock option agreements required to be executed by Consultant in connection therewith. Such options shall become exercisable as to Twenty Thousand (20,000) shares on each of the date of grant and the first anniversary thereof.

5. CONSULTING BENEFITS. Consultant shall receive no retirement, profit sharing, insurance or similar benefits which may at any time be payable to employees of the Company pursuant to any plan or policy of the Company relating to such benefits. Consultant shall, for all purposes, be deemed an independent contractor and not an employee of the Company.

6. DEATH AND DISABILITY.

(a) The Consulting Term shall terminate on the date of Consultant's death, in which event Consultant's estate shall be entitled to receive such portion of the Consulting Fee that has been granted through the date of death. Consultant's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 6(a).

(b) If, during the Consulting Term, Consultant, because of physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this Agreement for a period of 30 consecutive days or 60 days in the aggregate during any six-month period the Company may, upon at least ten (10) days' prior written notice given at any time after the expiration of such 30 or 60-day period, as the case may be, to Consultant of its intention to do so, terminate this Agreement as of such date which is the date 30 days after the date of such notice. In case of such termination, Consultant shall be

entitled to receive such portion of the Consulting Fee that has already been granted through the date of termination. Consultant will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 6(b). In the event of any dispute regarding the existence of Consultant's substantial inability to perform the duties and services required of him hereunder, the matter will be resolved by the determination of a majority of three physicians qualified to practice medicine in California, one to be selected by each of Consultant and the Company and the third to be selected by the two designated physicians. For this purpose, Consultant will submit to appropriate medical examinations.

7. TERMINATION. (a) The Company may terminate the relationship with Consultant for Cause (as hereinafter defined) and Consultant may resign without cause. Upon such termination, the Company shall be released from any and all further obligations under this Agreement, except that the Company shall be obligated to provide Consultant with such portion of the Consulting Fee that has already been granted through the date of such termination. Consultant will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 7(a).

(b) As used herein, the term "CAUSE" shall mean: (i) the willful failure of Consultant to perform his duties pursuant to Paragraph 2 hereof, which failure is not cured by Consultant within 20 days following written demand for substantial performance from the Company, which demand identifies the manner in which the Company believes that Consultant has not performed such duties and the steps required to cure such failure to perform; (ii) any other material breach of this Agreement by Consultant, including any of the material representations or warranties made by Consultant, and including engaging in any interfering other business as described in Paragraph 3 hereof, which breach has not ceased within 20 days after written notice thereof has been delivered to Consultant by the Company, which notice identifies in reasonable detail the manner in which the Company believes that Consultant has breached this Agreement and the steps required to cure such breach, if applicable; (iii) Consultant shall intentionally and willfully engage in misconduct toward the Company which is materially injurious to the Company, monetarily or otherwise; or (iv) the conviction of Consultant of, or the entering of a plea of nolo contendere by Consultant with respect to, a felony.

8. DISCLOSURE OF INFORMATION AND RESTRICTIVE COVENANT. Consultant acknowledges that, he has been and will be in a confidential relationship with the Company and will have access to confidential information and trade secrets of the Company, its subsidiaries and affiliates. Confidential information and trade secrets include, but are not limited to, customer, supplier and client lists, price lists, marketing, distribution and sales strategies and procedures, operational and equipment techniques, business plans and systems, quality control procedures and systems, special projects and technological research, including projects, research and reports for any entity or client or any project, research, report or the like concerning sales or manufacturing or new technology, employee compensation plans and any other information relating thereto, and any other records, files, drawings, inventions, discoveries, applications, processes, data and information concerning the business of the Company other than such of the

foregoing which (i) is in the public domain or known in the industry of the Company, (ii) is disclosed to Consultant by a third party who, to Consultant's knowledge, was not prohibited by any fiduciary, legal, contractual or other duty from disclosing such information, or (iii) was known to Consultant before its disclosure by the Company. Consultant agrees that in consideration of the execution of this Agreement by the Company, except in any way with respect to foreign affiliates of the Company as of the date hereof:

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

(b) This Paragraph 8 and Paragraphs 9 and 10 hereof shall survive the expiration or termination of this Agreement for any reason.

(c) It is expressly agreed by Consultant that the nature and scope of each of the provisions set forth above in this Paragraph 8 are reasonable and necessary. If, for any reason, any aspect of the above provisions as it applies to Consultant is determined by a court of competent jurisdiction to be unreasonable or unenforceable, the provisions shall only be modified to the minimum extent required to make the provisions reasonable and/or enforceable, as the case may be. Consultant acknowledges and agrees that his services are of a unique character and expressly grants to the Company or any subsidiary, successor or assignee of the Company, the right to enforce the provisions above through the use of all remedies available at law or in equity, including, but not limited to, injunctive relief.

9. REMEDY. It is mutually understood and agreed that Consultant's services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this Agreement by Consultant, including, but not limited to, the breach of the non-disclosure clauses under Paragraph 8 hereof the Company shall be entitled to equitable relief by way of injunction or otherwise, in addition to damages the Company may be entitled to recover. If any action at law or equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which that party may be entitled.

10. REPRESENTATIONS AND WARRANTIES OF CONSULTANT. In order to induce the Company to enter into this Agreement, Consultant hereby represents and warrants to the Company that

(i) Consultant has the legal capacity and right to execute and deliver this Agreement and to perform all of his obligations hereunder, and (ii) Consultant has received the express consent of the Employer to this Agreement.

11. NOTICES. All notices given hereunder shall be in writing and shall be deemed effectively given five days after being mailed, if sent by registered or certified mail, return receipt requested, or on the next business day if sent by overnight courier, and in each case addressed to Consultant at his address set forth on the first page of this Agreement or to any other address that Consultant may designate in writing to the Company and to the Company at its address set forth on the first page of this Agreement, Attention: Chief Executive Officer, with a copy to Parker Chapin Flattau & Klimpl, 1211 Avenue of the Americas, New York, New York 10036, Attention: Gary J. Simon, Esq., or at such address as such party shall have designated by a notice given in accordance with this Paragraph 12, or when actually received by the party for whom intended, if sent by any other means.

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

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

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

15. ASSIGNMENT. Neither this Agreement, nor any of Consultant's rights, powers, duties or obligations hereunder, may be assigned by Consultant. This Agreement shall be binding upon and inure to the benefit of Consultant and his heirs and legal representatives and the Company and its successors and assigns. Successors of the Company shall include, without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company, whether by merger, consolidation, purchase, lease or otherwise, and such successor shall thereafter be deemed "the Company" for the purpose hereof.

16. APPLICABLE LAW. This Agreement shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of New York and shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflicts of law rules thereof. Nothing contained in this Agreement shall be construed so as to require the commission of any act contrary to law, and whenever there is any conflict between any provision of this Agreement and any statute, law,

ordinance, order or regulation, contrary to which the parties hereto have no legal right to contract, the latter shall prevail, but in such event any provision of this Agreement so affected shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

17. JURISDICTION AND VENUE. It is hereby irrevocably agreed that all disputes or controversies between the Company and Consultant arising out of, in connection with or relating to this Agreement shall be exclusively heard, settled and determined by arbitration to be held in the City of New York, County of New York, or in the City of Los Angeles, County of Los Angeles, in accordance with the Commercial Arbitration Rules of the American Arbitration Association to be conducted before a single arbitrator, who shall be either an attorney or retired judge licensed to practice law in the State of New York or California, as applicable. The parties also agree that judgment may be entered on the arbitrator's award by any court having jurisdiction thereof and the parties consent to the jurisdiction of any court located in the City of New York, County of New York, or in the City of Los Angeles, County of Los Angeles for this purpose.

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

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

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

**MOTORCAR PARTS & ACCESSORIES, INC.**

By:

Name:

Title:

**SELWYN JOFFE**

**EXHIBIT 10.28**

# EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT dated as of January 1, 2000, between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation currently having an address at 2727 Maricopa Street, Torrance, California 90503 (the "COMPANY"), and RICHARD MARKS, an individual residing at 13484 Bayliss Road, Los Angeles, California 90049 ("EMPLOYEE").

**W I T N E S S E T H:**

WHEREAS, Employee is the former President of Company and Employee has significant knowledge regarding the Company's business and industry and maintains primary relationships with the Company's principal customers (upon which the Company is substantially dependent); and

WHEREAS, the Company desires to employ Employee upon the terms and conditions stated herein; and

WHEREAS, Employee desires to be employed by the Company upon the terms and conditions stated herein.

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

1. EMPLOYMENT. Subject to and upon the terms and conditions contained in this Agreement, the Company hereby agrees to employ Employee and Employee agrees to enter the employ of the Company, for the period set forth in Paragraph 2 hereof, to render the services to the Company, its affiliates and/or subsidiaries described in Paragraph 3 hereof.

2. TERM. Employee's term of employment under this Agreement shall commence on the date hereof (the "COMMENCEMENT DATE") and shall continue for a period through and including the fourth anniversary of the Commencement Date (the "EMPLOYMENT TERM") unless extended in writing by both parties or earlier terminated pursuant to the terms and conditions set forth herein.

3. DUTIES.

(a) Employee shall report to the Board of Directors and Chief Executive Officer of the Company. Employee shall devote all of his working time, attention, best efforts and abilities during regular business hours exclusively to the service of the Company, its affiliates and subsidiaries during the term of this Agreement. Employee's duties and responsibilities hereunder shall include developing and maintaining the Company's relationships with existing and future customers, advising and assisting the Company in strategic and

operational planning with respect to the Company's business and its industry and, to the extent commensurate with his duties described above, advising, participating in and supporting the Company in any capacity requested by the Board of Directors or the Chief Executive Officer of the Company; provided that, although Employee shall have no authority or responsibilities relating to financial or accounting records or matters of the Company, he shall not be in breach hereof by reason of his use of and advice regarding financial information in the context of his duties described above. It is agreed that Employee shall perform his services in the Company's Torrance, California facilities, or any other facilities mutually agreeable to the parties; provided that he shall travel on behalf of and as reasonably required by the Company to the extent consistent with past practice, unless mutually agreed otherwise by the parties.

(b) Employee agrees to abide by all By-laws and applicable policies of the Company promulgated from time to time by the Board of Directors of the Company.

4. COMPENSATION. For the performance of the duties and services to be performed by Employee hereunder, the Company agrees to pay Employee (i) a salary ("Salary") of Three Hundred Thousand Dollars ($300,000) per year and (ii) a quarterly bonus ("Bonus") in accordance with Schedule 4 attached hereto.

5. BUSINESS EXPENSES. Employee shall be reimbursed for, and entitled to advances (subject to repayment to the Company if not actually incurred by Employee) with respect to, only those business expenses incurred by him which are reasonable and necessary for Employee to perform his duties under this Agreement in accordance with policies established from time to time by the Company.

6. BENEFITS.

(a) During the Employment Term, Employee shall be entitled to such disability, health and medical benefits and be entitled to participate in such retirement plans or programs as generally made available to him and all senior employees of the Company as of December 1, 1999 pursuant to the policies of the Company; PROVIDED THAT (i) the foregoing shall only apply to the extent that Employee is eligible for such benefits or participation pursuant to the applicable benefit plans or program without additional expense to the Company beyond that customarily incurred on behalf of other participants in the respective plans or programs and (ii) Employee shall be required to comply with the conditions attendant to coverage by such plans or programs. Employee shall be entitled to three weeks paid vacation each year during the Employment Term at such times as do not, in the opinion of the Board of Directors, interfere with Employee's performance of his duties hereunder. The Company may withhold from any benefits payable to Employee all federal, state, local and other taxes and amounts as shall be permitted or required pursuant to law, rule or regulation. All of the benefits to which employees of the Company generally may be entitled may be changed from time to time or withdrawn at any time in the sole discretion of the Company.

(b) Employee shall be entitled to receive the sum of One Thousand Five Hundred Dollars ($1,500) per month as an automobile allowance provided at the expense of the Company from the Commencement Date and during the Employment Term. Notwithstanding the foregoing, the Company may, at its option, elect to provide Employee an automobile of the make, model and year mutually agreeable to the Company and Employee, all costs of which associated with insurance, fuel, oil, repairs, maintenance and other expenses shall be the responsibility of the Company, in lieu of the above described automobile allowances, all as may be mutually agreed between Employee and the Company.

(c) Employee shall be entitled to receive the sum of Twelve Thousand Five Hundred Dollars ($12,500) per year as an allowance for the purpose of obtaining life insurance on the lives of Employee and his spouse, which insurance shall be in lieu of the existing split dollar life insurance policy on the lives of such persons, which existing policy shall be terminated and any cash value thereof returned to the Company.

7. DEATH AND DISABILITY.

(a) The Employment Term shall terminate on the date of Employee's death, in which event Employee's estate shall be entitled to receive Employee's Salary, Bonus and reimbursable expenses that have been accrued through the date of death. Employee's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this Section 7(a).

(b) If, during the Employment Term, Employee, because of physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this Agreement for a period of 90 consecutive days or 120 days in the aggregate during any one-year period the Company may, upon at least ten (10) days' prior written notice given at any time after the expiration of such 90 or 120-day period, as the case may be, to Employee of its intention to do go, terminate this Agreement as of such date which is the date 30 days after the date of such notice. In case of such termination, Employee shall be entitled to receive Employee's Salary, Bonus and reimburseable expenses that have been accrued through the date of termination. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 7(b). In the event of any dispute regarding the existence of Employee's substantial inability to perform the duties and services required of him hereunder, the matter will be resolved by the determination of a majority of three physicians qualified to practice medicine in California, one to be selected by each of Employee and the Company and the third to be selected by the two designated physicians. For this purpose, Employee will submit to appropriate medical examinations.

8. TERMINATION.

(a) The Company may terminate this Agreement for Cause (as hereinafter defined) and Employee may resign without cause. Upon such termination, the Company shall be

released from any and all further obligations under this Agreement, except that the Company shall be obligated to provide Employee with Employee's Salary and reimbursable expenses that have been accrued through the date of such termination. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 8(a).

(b) As used herein, the term, "CAUSE" shall mean: (i) the willful failure of Employee to perform his duties pursuant to Paragraph 3 hereof, which failure is not cured by Employee within 20 days following written demand for substantial performance from the Company, which demand identifies the manner in which the Company believes that Employee has not performed such duties and the steps required to cure such failure to perform; (ii) any other material breach of this Agreement by Employee, including any of the material representations or warranties made by Employee, which breach has not ceased within 20 days after written notice thereof has been delivered to Employee by the Company, which notice identifies in reasonable detail the manner in which the Company believes that Employee has breached this Agreement and the steps required to cure such breach, if applicable; (iii) Employee shall intentionally and willfully engage in misconduct toward the Company which is materially injurious to the Company; or (iv) the conviction of Employee of, or the entering of a plea of nolo contendere by Employee with respect to, a felony.

(c) In the event that the Company terminates, constructively or otherwise, this Agreement without Cause, Employee shall not be required to mitigate the amount of any damages to which he would be entitled to recover as a result thereof by seeking employment otherwise, nor shall the amount of any such damages be reduced by any compensation earned by Employee as the result of consulting with or employment by another entity.

9. TERMINATION FOR GOOD REASON.

(a) Employee may voluntarily terminate this Agreement for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without Employee's express written consent, the occurrence after a Change in Control, as defined below, of the Company of any of the following circumstances, such circumstances are fully corrected prior to the Termination Date (as hereinafter defined) specified in the Notice of Termination given in respect thereof:

(i) the assignment to Employee of any duties substantially inconsistent with the duties set forth in Paragraph 3 hereof;

(ii) a reduction by the Company in Salary as in effect on the date hereof or as the same may be increased from time to time except for across-the-board salary reductions similarly affecting all key personnel of the Company and all key personnel of any person in control of the Company;

(iii) the relocation of the Company's offices at which Employee is principally engaged immediately prior to the date of the Change in Control of the Company to a

location more than 35 miles from such location, or the Company requiring Employee to be based anywhere other than the Company's offices at such location except for required travel on the Company's business to an extent substantially consistent with Employee's business travel obligations immediately prior to the Change in Control;

(iv) the failure by the Company to pay to Employee any portion of Employee's current compensation or to pay to Employee any portion of an installment of deferred compensation under any deferred compensation program of the Company, now or hereafter in existence, within seven (7) days of the date such compensation is due;

(v) the failure by the Company to continue to provide Employee with benefits substantially similar to those enjoyed by Employee under any of the Company's life insurance, medical, accident, disability or other benefit or plans, if any, in which Employee was participating at the time of the Change in Control of the Company, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits, unless such failure or taking of action similarly affects all key personnel of the Company; or

(vi) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Paragraph 19 hereof; or

(b) This Agreement will not be considered to have been terminated by the Company if the employment arrangement contemplated hereby is discontinued due to the sale of a facility of the Company in which Employee works if Employee is offered substantially equivalent duties by the purchaser of the facility (or an affiliated company of the purchaser) and the purchaser (or an affiliated company) agrees to assume the Company's responsibilities under this Agreement with respect to Employee as if the purchaser (or an affiliated company) were the Company hereunder and no such sale had occurred.

(c) Any termination by the Company or by Employee pursuant to this Agreement shall be communicated by written Notice of Termination to the other party hereto in accordance with Paragraph 14. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provisions so indicated.

(d) "Termination Date" shall mean, if Employee's employment is terminated pursuant to Subparagraph 9(a) hereof, the date specified in the Notice of Termination (which, in the case of a termination for Good Reason shall not be less than fifteen (15) nor more than sixty (60) days from the date such Notice of Termination is given); provided, however, that if within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Termination Date (as determined without regard to this proviso), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, then the

Termination Date shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); and provided, further, that the Termination Date shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, the Company will continue to pay the Salary and Bonus in effect when the notice giving rise to the dispute was given and continue Employee as a participant in all compensation, benefit and insurance plans in which Employee was participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Subsection.

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

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

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

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

10. COMPENSATION AND CERTAIN OTHER PROVISIONS IN THE EVENT OF TERMINATION OF EMPLOYMENT FOR GOOD REASON.

(a) If Employee shall voluntarily terminate this Agreement pursuant to the provisions of Subparagraph 9(a), then the Company, as liquidated damages or severance pay or both, shall pay Employee (i) Salary through the Termination Date at the annual rate in effect immediately prior to the Termination Date and
(ii) three times the amount of such annual rate (the "Termination Compensation"). For the purposes of the foregoing payments, the foregoing annual rate shall be the rate paid to Employee without regard to any purported reduction or attempted reduction of such rate by the Company. The amount specified in clauses (i) and (ii) shall be payable in a lump sum within ten (10) days after the Termination Date.

(b) In the event that, by reason of section 280G of the Internal Revenue Code of 1986 (the "Code"), any payment or benefit received or to be received by Employee in connection with a Change in Control of the Company or the termination of this Agreement (whether payable pursuant to the terms of this Agreement ("Contract Payments") or any other plan, arrangement or agreement with the Company, its successors, any person whose actions result in a Change in Control or any corporation ("Affiliate") affiliated (or which, as a result of the completion of the transactions causing a Change in Control will become affiliated) with the Company within the meaning of section 1504 of the Code (collectively with the Contract Payments, "Total Payments")), would not be deductible (in whole or in part) by the Company, an Affiliate or other person making such payment or providing such benefit, the Termination Compensation shall be reduced (and, if the Termination Compensation is reduced to zero, other Contract Payments shall first be reduced and other Total Payments shall thereafter be reduced) until no portion of the Total Payments is not deductible by reason of section 280G of the Code. For purposes of this limitation, (i) no portion of the Total Payments the receipt or enjoyment of which Employee shall have effectively waived in writing prior to the date of payment of the Termination Compensation shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which in the opinion of tax counsel selected by the Company's independent auditors and acceptable to Employee does not constitute a "parachute payment" within the meaning of section 280G(b)(2) of the Code (without regard to subsection (A)(ii) thereof), (iii) the Termination Compensation (and, thereafter, other Contract Payments and other Total Payments) shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in clause (i) and (ii)) in their entirety constitute reasonable compensation for services actually rendered within the meaning of section 280G(b)(4) of the Code, in the opinion of the tax counsel referred to in clause (ii), and (iv) the value of any noncash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Company's independent auditors in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(c) Employee shall not be required to mitigate the amount of any payment provided for in this Paragraph 10 by seeking employment or otherwise, nor shall the amount of any payment or benefit provided for in this Paragraph 10 be reduced by any compensation earned

by Employee as the result of consultancy with or employment by another entity, by retirement benefits, by offset against any amount claimed to be owed by Employee to the Company, or otherwise.

(d) Any reduction in Termination Compensation pursuant to Subparagraph 10(b) shall, in the event of any question, be determined jointly by the independent public accountants of the Company and a firm of independent public accountants selected by Employee, and in the event such accountants am unable to agree on a resolution of the question, such reduction shall be determined by a third firm of independent public accountants selected jointly by the foregoing two firms and shall be binding on Employee and the Company. The expense for any such determination shall be borne by the Company.

11. DISCLOSURE OF INFORMATION AND RESTRICTIVE COVENANT. Employee acknowledges that he has been and will be in a confidential relationship with the Company and will have access to confidential information and trade secrets of the Company, its subsidiaries and affiliates. Confidential information and trade secrets include, but are not limited to, customer, supplier and client lists, price lists, marketing, distribution and sales strategies and procedures, operational and equipment techniques, business plans and systems, quality control procedures and systems, special projects and technological research, including projects, research and reports for any entity or client or any project, research, report or the like concerning sales or manufacturing or new technology, employee compensation plans and any other information relating thereto, and any other records, files, drawings, inventions, discoveries, applications, processes, data and information concerning the business of the Company, other than such of the foregoing which (i) is in the public domain or known in the industry of the Company other than by any action on the part of Employee, (ii) is disclosed to Employee by a third party who, to Employee's knowledge, was not prohibited by any fiduciary, legal, contractual or other duty from disclosing such information, or (iii) was known to Employee before its disclosure by the Company. Employee agrees that in consideration of the execution of this Agreement by the Company, except in any way with respect to foreign affiliates of the Company as of the date hereof:

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

(b) Employee will not, during the term of this Agreement and for a period of two (2) years thereafter, directly or indirectly, under any circumstance other than at the direction and for the benefit of the Company, engage in or participate in any business activity, including,

but not limited to, acting as a director, officer, employee, agent, independent contractor, partner, Employee, licensor or licensee, franchisor or franchisee, proprietor, syndicate member, shareholder or creditor or with a person having any other relationship with any other business, company, firm occupation or business activity, in any geographic area within the United States that is, directly or indirectly, competitive with any business completed by the Company or any of its subsidiaries or affiliates during the term of this Agreement or thereafter. Should Employee own 5% or less of the issued and outstanding shares of a class of securities of a corporation the securities of which are traded on a national securities exchange or in the over-the-counter market, such ownership shall not cause Employee to be deemed a shareholder under this Subparagraph 11(b).

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

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

(e) It is expressly agreed by Employee that the nature and scope of each of the provisions set forth above in this Paragraph 11 are reasonable and necessary. If, for any reason, any aspect of the above provisions as it applies to Employee is determined by a court of competent jurisdiction to be unreasonable or unenforceable, the provisions shall only be modified to the minimum extent required to make the provisions reasonable and/or enforceable, as the case may be. Employee acknowledges and agrees that his services are of a unique character and expressly grants to the Company or any subsidiary, successor or assignee of the Company, the right to enforce the provisions above through the use of all remedies available at law or in equity, including, but not limited to, injunctive relief.

12. REMEDY. It is mutually understood and agreed that Employee's services we special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this Agreement by Employee, including, but not limited to, the breach of the provisions of Paragraph 11 hereof, the Company shall be entitled to equitable relief by way of injunction or otherwise, in addition to damages the Company may be entitled to recover. If any action at law or equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which that party may be entitled.

13. REPRESENTATIONS AND WARRANTIES OF EMPLOYEE. In order to induce the Company to enter into this Agreement, Employee hereby represents and warrants to the Company that

Employee has the legal capacity and right to execute and deliver this Agreement and to perform all of his obligations hereunder.

14. NOTICES. All notices given hereunder shall be in writing and shall be deemed effectively given five days after being mailed, if sent by registered or certified mail, return receipt requested, or on the next business day if sent by overnight courier, and in each case addressed to Employee at his address set forth on the first page of this Agreement or to any other address that Employee may designate in writing to the Company and to the Company at its address set forth on the first page of this Agreement, Attention: Chief Executive Officer, with a copy to Parker Chapin Flattau & Klimpl, 1211 Avenue of the Americas, New York, New York 10036, Attention:
Gary J. Simon, Esq., or at such address as such party shall have designated by a notice given in accordance with this Paragraph 14, or when actually received by the party for whom intended, if sent by any other means.

15. INDEMNIFICATION.

(a) CERTAIN TERMS DEFINED. As used in this Paragraph 15, the following terms shall have the following meanings:

(i) The term "Action" shall mean any action or proceeding, whether civil, criminal, administrative or investigative, and including one by or in the right of the Company or by or in the right of any other Entity which Employee served from and after the date hereof in any capacity at the request of the Company.

(ii) The term "Entity" shall mean any corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust employee benefit plan or other enterprise.

(b) RIGHT TO INDEMNIFICATION. Subject to the terms set forth in this Agreement the Company shall indemnify Employee if Employee is made, or is threatened to be made, a party to any Action by reason of the fact that Employee (or Employee's testator or interstate) is or was an employee of the Company hereunder, against judgments, fines, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred as a result of such Action or any appeal therein.

(c) LIMITATION ON INDEMNIFICATION. Employee shall not be entitled to indemnification under Subparagraph 15(b) if a judgment or other final adjudication adverse to Employee establishes that (i) Employee's acts were committed in bad faith or were the result of active and deliberate dishonesty and, in either case, were material to the cause of action so adjudicated, or
(ii) Employee personally gained in fact a financial profit or other advantage to which Employee was not legally entitled.

(d) ADVANCES OF EXPENSES.

(i) At the written request of Employee, the Company will advance to Employee the expenses (including attorneys' fees) incurred by Employee in defending any Action in advance of the final disposition of such Action.

(ii) Employee hereby agrees and undertakes to repay such advanced amounts (or appropriate portions thereof) as to which it ultimately is determined that Employee was not entitled.

(e) PAYMENT BY COMPANY. The Company shall pay the indemnification requested under Subparagraph 15(b) and advance the expenses requested under Subparagraph 15(d) promptly following receipt by the Company of Employee's written request therefor and, in any event, no later than thirty (30) days after such receipt (in the case of requested indemnification) or fifteen (15) days after such receipt (in the case of requested advanced expenses).

(f) NON-EXCLUSIVITY. Nothing contained in this Agreement shall limit the right to indemnification and advancement of expenses to which Employee would be entitled by law in the absence of this Agreement, or shall be doomed exclusive of any other rights to which Employee in seeking indemnification or advancement of expenses may have or hereafter be entitled under any law, provision of the Certificate of Incorporation, By-Law, agreement approved by or resolution of the Board, or resolution of shareholders of the Company.

(g) SUBROGATION.

(i) The Company shall not be liable under this Agreement to make any payment in connection with any claim made against Employee to the extent Employee has otherwise actually received payment (under any insurance policy, By-Law or otherwise) of the amounts otherwise subject to indemnification or expense advance under this Agreement.

(ii) In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Employee other than from the Company, and Employee shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

(h) NOTICE OF CLAIM. As a condition precedent to the right to be indemnified under this Agreement, Employee shall give the Company written notice as soon as practicable of any claim made against Employee for which indemnification or expense advances will or could be sought under this Agreement. In addition, Employee shall give the Company such information and cooperation as the Company reasonably may require.

(i) CONTINUITY OF RIGHTS.

(i) The right of Employee to indemnification and advancement of expenses under this Agreement shall (A) continue after Employee has ceased to serve in a capacity which would entitle Employee to indemnification or advancement of expenses pursuant to this Agreement with respect to acts or omissions occurring prior to such cessation, (B) inure to the benefit of the heirs, executors and administrators of Employee, (C) apply with respect to acts or omissions occurring prior to the execution and delivery of this Agreement to the fullest extent permitted by law and (D) survive any restrictive amendment or termination of this Agreement with respect to events occurring prior thereto.

(j) PROCEEDINGS INITIATED BY EMPLOYEE. Employee shall not be entitled to indemnification or advancement of expenses under this Agreement with respect to any Action initiated by Employee, but shall be entitled to indemnification and advancement of expenses with respect to any counterclaim or third-party claim in any such Action.

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

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

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

19. ASSIGNMENT. Neither this Agreement nor any of Employee's rights, powers, duties or obligations hereunder, may be assigned by Employee. This Agreement shall be binding upon and inure to the benefit of Employee and his heirs and legal representatives and the Company and its successors and assigns. Successors of the Company shall include, without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company, whether by merger, consolidation, purchase, lease or otherwise, and such successor shall thereafter be deemed "the Company" for the purpose hereof; provided, that, solely for purposes of this Agreement, one ouch successor shall have assumed and agreed to perform the obligations of the Company under this Agreement, whether expressly, implicitly or by operation of law, and shall have, at the time of such transaction, financial creditworthiness at least equal to that of the Company as determined in the reasonable judgment of the Board of Directors.

20. APPLICABLE LAW. This Agreement shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of California and shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law rules thereof. Nothing contained in this Agreement shall be construed so as to require the commission of any act contrary to law, and whenever there is any conflict between any provision of this Agreement and any statute, law, ordinance, order or regulation, contrary to which the parties hereto have no legal right to contract, the latter shall prevail, but in such event any provision of this Agreement so affected shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

21. JURISDICTION AND VENUE. It is hereby irrevocably agreed that all disputes or controversies between the Company and Employee arising out of, in connection with or relating to this Agreement shall be exclusively heard, settled and determined by arbitration to be held in the City of Los Angeles, County of Los Angeles, in accordance with the Commercial Arbitration Rules of the American Arbitration Association to be conducted before a single arbitrator, who shall be either an attorney or retired judge licensed to practice law in the State of California. The parties also agree that judgment may be entered on the arbitrator's award by any court having jurisdiction thereof and the parties consent to the jurisdiction of any court located in the City of Los Angeles, County of Los Angeles for this purpose.

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

23. ACCESS. Employee shall have access, upon reasonable notice, during normal business hours and subject to reasonable supervision, to documents (including computer generated documents) at the offices of the Company necessary for his defense of presently existing class action lawsuits or any inquiry or investigation by the United States Securities and Exchange Commission, or any related inquiry by state or other federal agencies, except such documents as may be subject to privilege of any kind and except where such access may, in the opinion of counsel to the Company, adversely affect the Company's defense to any such lawsuits, inquiries or investigations.

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

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

**MOTORCAR PARTS & ACCESSORIES, INC.**

By:

Name:

Title:

**RICHARD MARKS**

**SCHEDULE 4**

**INCENTIVE BONUS PLAN**

Employee shall be paid an incentive bonus equal to five percent of the pre-tax income (without giving effect to any tax on such income, whether actual or offset by loss carryovers) earned by the Company in each fiscal year; provided that no bonus shall be payable for any such year unless and until the amount of such pre-tax income in such year shall be at least $2 million, without carryover from year to year.

Incremental portions of the bonus would be paid on a quarterly basis in amounts such that 75% of the bonus (based on such pre-tax income reflected on the financial statements of each of the first three fiscal quarters as reviewed by the Company's independent auditors) would have been paid. Each quarterly payment would be paid within 30 days of the completion of the review of the applicable financial statements by the Company's auditors and the balance of the annual bonus would be paid within 30 days of the completion of the audit of the fiscal year-end financial statements by the auditors, with the year-end amount to be subject to repayment or off-set against any other amounts payable pursuant to this Agreement to the extent that such quarterly payments result in an overpayment of incentive bonus for such entire year.

Parties agree that this bonus plan will be reviewed after the completion of fiscal 2001 and may be modified as mutually agreed.

**Exhibit 10.29**

**WARRANT**

THE WARRANT EVIDENCED OR CONSTITUTED HEREBY, AND ALL SHARES OF COMMON STOCK ISSUABLE HEREUNDER, HAVE BEEN AND WILL BE ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE ACT") AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT REGISTRATION UNDER THE ACT UNLESS EITHER (i) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL, IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE COMPANY, TO THE EFFECT THAT REGISTRATION IS NOT REQUIRED IN CONNECTION WITH SUCH DISPOSITION OR (ii) THE SALE OF SUCH SECURITIES IS MADE PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 144.

**WARRANT TO PURCHASE COMMON STOCK**
**OF**
**MOTORCAR PARTS & ACCESSORIES, INC.**

(Subject to Adjustment)

NO. W-1

THIS CERTIFIES THAT, for value received, Wells Fargo Bank, N.A., or its permitted registered assigns ("HOLDER"), is entitled, subject to the terms and conditions of this Warrant, after April 20, 2000 (the "EFFECTIVE DATE"), and before 5:00 p.m. Pacific Time on April 20, 2010 (the "EXPIRATION DATE"), to purchase from Motorcar Parts & Accessories, Inc., a New York corporation (the "COMPANY"), Four Hundred Thousand (400,000) shares of Common Stork (the "WARRANT SHARES") of the Company at a price per share of $2.045 (the "PURCHASE PRICE"). Both the number of shares of Common Stock purchasable upon exercise of this Warrant and the Purchase Price are subject to adjustment and change as provided herein. This Warrant is issued pursuant to that certain Amended and Restated Credit Agreement (the "CREDIT AGREEMENT"), dated April 20, 2000, between the Company and Holder.

1. CERTAIN DEFINITIONS. As used in this Warrant the following terms shall have the following respective meanings:

"CALL PRICE" shall have the meaning set forth in Section 13.1.

"COMMON STOCK" shall mean the Common Stock of the Company and any other securities at any time receivable or issuable upon exercise of this Warrant.

"FAIR MARKET VALUE" of a share of Common Stock as of a particular date shall mean:

(a) If traded on a securities exchange or the Nasdaq National Market, the Fair Market Value shall be deemed to be the average of the closing prices of the Common Stock of the Company on such exchange or market over the 5 business days ending immediately prior to the applicable date of valuation; or

(b) If actively traded over-the-counter, the Fair Market Value shall be deemed to be the average of the closing bid prices over the 30-day period ending immediately prior to the applicable date of valuation.

"HSR ACT" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

"REGISTERED HOLDER" shall mean any Holder in whose name this Warrant is registered upon the books and records maintained by the Company.

"WARRANT" as used herein, shall include this Warrant and any warrant delivered in substitution or exchange therefor as provided herein.

2. EXERCISE OF WARRANT

2.1. PAYMENT. Subject to compliance with the terms and conditions of this Warrant and applicable securities laws, this Warrant may be exercised, in whole or in part, on or before the Expiration Date, by the delivery (including, without limitation, delivery by facsimile) of the form of Notice of Exercise attached hereto as Exhibit 1 (the "NOTICE OF EXERCISE"), duly executed by the Holder, at the principal office of the Company, and as soon as practicable after such date, surrendering

(a) this Warrant at the principal office of the Company, and

(b) payment, (i) in cash (by check) or by wire transfer, (ii) by cancellation by the Holder of indebtedness of the Company to the Holder; or (iii) by a combination of (i) and (ii), of an amount equal to the product obtained by multiplying the number of shares of Common Stock being purchased upon such exercise by the then effective Purchase Price (the "EXERCISE AMOUNT"), except that if Holder is subject to HSR Act Restrictions (as defined in Section 2.4 below), the Exercise Amount shall be paid to the Company within five (5) business days of the termination of all HSR Act Restrictions.

2.2 NET ISSUE EXERCISE. In lieu of the payment methods set forth in Section 2.1(b) above, if the Common Stock is registered under Section 12 of the Securities Exchange Act of 1934, as amended, the Holder may elect to exchange all or some of the Warrant for shares of Common Stock equal to the value of the amount of the Warrant being exchanged on the date of exchange. If Holder elects to exchange this Warrant as provided in this Section 2.2, Holder shall tender to the Company the Warrant for the amount being exchanged, along with written notice of Holder's election to exchange some or all of the Warrant, and the Company

shall issue to Holder the number of shares of the Common Stock computed using the following formula:

X = Y (A-B)

**A**

Where X = the number of shares of Common Stock to be issued to Holder.

Y = the number of shares of Common Stock purchasable under the amount of the Warrant being exchanged (as adjusted to the date of such calculation).

**A = the Fair Market Value of one share of the Company's Common Stock.**

**B = Purchase Price (as adjusted to the date of such calculation).**

All references herein to an "exercise" of the Warrant shall include an exchange pursuant to this Section 2.2.

2.3 "EASY SALE" EXERCISE. In lieu of the payment methods set forth in Section 2.1(b) above, when permitted by law and applicable regulations (including Nasdaq and NASD rules), the Holder may pay the Purchase Price through a "same day sale" commitment fromthe Holder (and if applicable a broker-dealer that is a member of the National Association of Securities Dealers (a "NASD DEALER")), whereby the Holder irrevocably elects to exercise this Warrant and to sell a portion of the Shares so purchased to pay for the Purchase Price and the Holder (or, if applicable, the NASD Dealer) commits upon sale (or, in the case of the NASD Dealer, upon receipt) of such Shares to forward the Purchase Price directly to the Company.

2.4 STOCK CERTIFICATES; FRACTIONAL SHARES. As soon as practicable on or after the date of exercise of this Warrant, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of whole shares of Common Stock issuable upon such exercise, together with cash in lieu of any fraction of a share equal to such fraction of the current Fair Market Value of one whole share of Common Stock as of the date of exercise of this Warrant. No fractional shares or scrip representing fractional shares shall be issued upon an exercise of this Warrant.

2.5 HSR ACT. The Company hereby acknowledges that exercise of this Warrant by Holder may subject the Company and/or the Holder to the filing requirements of the HSR Act and that Holder may be prevented from exercising this Warrant until the expiration or early termination of all waiting periods imposed by the HSR Act ("HSR ACT RESTRICTIONS"). If on or before the Expiration Date Holder has sent the Notice of Exercise to the Company and Holder has not been able to complete the exercise of this Warrant prior to the Expiration Date because of HSR Act Restrictions, the Holder shall be entitled to complete the process of exercising this

Warrant in accordance with the procedures contained herein notwithstanding the fact that completion of the exercise of this Warrant would take place after the Expiration Date.

2.6 PARTIAL EXERCISE; EFFECTIVE DATE OF EXERCISE. In case of any partial exercise of this Warrant, the Company shall cancel this Warrant upon surrender hereof and shall execute and deliver a new Warrant of like tenor and date for the balance of the shares of Common Stock purchasable hereunder. This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above. However, if Holder is subject to HSR Act filing requirements this Warrant shall be deemed to have been exercised on the date immediately following the date of the expiration of all HSR Act Restrictions. The person entitled to receive the shares of Common Stock issuable upon exercise of this Warrant shall be treated for all purposes as the holder of record of such shares as of the close of business on the date the Holder is deemed to have exercised this Warrant.

3. VALID ISSUANCE: TAXES. All shares of Common Stock issued upon the exercise of this Warrant shall be validly issued, fully paid and non-assessable, and the Company shall pay all taxes and other governmental charges that may be imposed in respect of the issue or delivery thereof. The Company shall not be required to pay any tax or other charge imposed in connection with any transfer involved in the issuance of any certificate for shares of Common Stock in any name other than that of the registered Holder of this Warrant, and in such case the Company shall not be required to issue or deliver any stock certificate or security until such tax or other charge has been paid, or it has been established to the Company's reasonable satisfaction that no tax or other charge is due.

4. ADJUSTMENT OF PURCHASE PRICE AND NUMBER OF SHARES. The number of shares of Common Stock issuable upon exercise of this Warrant (or any shares of stock or other securities or property receivable or issuable upon exercise of this Warrant) and the Purchase Price are subject to adjustment upon occurrence of the following events:

4.1. ADJUSTMENT FOR STOCK SPLITS, STOCK SUBDIVISIONS OR COMBINATIONS OF SHARES. The Purchase Price of this Warrant shall be proportionally decreased and the number of shares of Common Stock issuable upon exercise of this Warrant (or any shares of stock or other securities at the time issuable upon exercise of this Warrant) shall be proportionally increased to reflect any stock split or subdivision of the Company's Common Stock. The Purchase Price of this Warrant shall be proportionally increased and the number of shares of Common Stock issuable upon exercise of this Warrant (or any shares of stock or other securities at the time issuable upon exercise of this Warrant) shall be proportionally decreased to reflect any combination of the Company's Common Stock.

4.2. ADJUSTMENT FOR DIVIDENDS OR DISTRIBUTIONS OF STOCK OR OTHER SECURITIES OR PROPERTY. In case the Company shall make or issue, or shall fix a record date for the determination of eligible holders entitled to receive, a dividend or other distribution with respect to the Common Stock (or any shares of stock or other securities at the time issuable upon

exercise of the Warrant) payable in (a) securities of the Company or (b) assets (excluding cash dividends paid or payable solely out of retained earnings), then, in each such case, the Holder of this Warrant on exercise hereof at any time after the consummation, effective date or record date of such dividend or other distribution, shall receive, in addition to the shares of Common Stock (or such other stock or securities) issuable on such exercise prior to such date, and without the payment of additional consideration therefor, the securities or such other assets of the Company to which such Holder would have been entitled upon such date if such Holder had exercised this Warrant on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock available by it as aforesaid during such period giving effect to all adjustments called for by this Section 4.

4.3. ISSUANCE OF ADDITIONAL SHARES.

(a) If the Company shall, at any time after the date hereof issue Additional Shares of Common Stock (excluding Additional Shares of Common Stock issued as a stock split, dividend or distribution), without consideration or for a consideration per share less than the Purchase Price in effect immediately prior to such issue, then and in such event, such Purchase Price shall be reduced, concurrently with such issue to a price (calculated to the nearest cent) determined by multiplying such Purchase Price by a fraction, (a) the numerator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issue (or deemed issue) on a fully-diluted basis plus
(2) the number of shares of common Stock which the aggregate consideration received by the Company for the total number of Additional Shares of Common Stock so issued (or deemed issued) would purchase at such Purchase Price; and
(b) the denominator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issue (or deemed issue) on a fully-diluted basis plus (2) the number of such Additional Shares of Common Stock so issued (or deemed issued). The number of shares of Common Stock which the Holder shall be entitled to receive upon exercise hereof shall be determined by multiplying the number of shares of Common Stock which would otherwise (but for any application of the provisions of this Section 4) be issuable upon such exercise, by a fraction of which (A) the numerator is $2.045, and (B) the denominator is the Purchase Price in effect on the date of such exercise.

(b). Notwithstanding the foregoing, the applicable Purchase Price shall not be reduced if the amount of such reduction would be an amount less than One Cent ($.01), but any such amount shall be carried forward and reduction with respect thereto made at the time of and together with any subsequent reduction which, together with such amount and any other amount or amounts so carried forward, shall aggregate One Cent ($.01) or more.

(c). For purposes of this Section 4.3, the consideration deemed received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(i) CASH AND PROPERTY. Such consideration shall: (A) insofar as it consists of cash, be computed at the aggregate of cash received by the Company, excluding amounts paid or payable for accrued interest or accrued dividends; (B) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Company's Board of Directors; and (C) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Company's Board of Directors.

(ii) OPTIONS, RIGHTS AND CONVERTIBLE SECURITIES. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to Options, Rights and Convertible Securities shall be determined by dividing: (A) the total amount, if any, received or receivable by the Company as consideration for the issue of such Options, Rights or Convertible Securities (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent increase of such consideration) payable to the Company upon the exercise of such Options or Rights or the conversion or exchange of such Convertible Securities, by (B) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent reduction of such number) issuable upon the exercise of such Options or Rights or the conversion or exchange of such Convertible Securities.

(d). If the Company at any time or from time to time after the date hereof shall issue any Options or Convertible Securities or other Rights to Acquire Common Stock, then the maximum number of shares of Common tock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent reduction of such number) issuable upon the exercise of such Options, Rights or, in the case of Convertible Securities, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue, provided, that, in any such case:

(i) No further adjustment in the Purchase Price shall be made upon the subsequent issue of shares of Common Stock upon the exercise of such Rights or conversion or exchange of such Convertible Securities;

(ii) Upon the expiration or termination of any unexercised Option or Right, the Purchase Price shall be readjusted, and the Additional Shares of Common Stock deemed to be issued as a result of the original issue of such Option or Right shall not be deemed issued for the purposes of such readjustment or any subsequent adjustment of the Purchase Price; and

(iii) In the event of any change in the number of share of Common Stock issuable upon the exercise, conversion or exchange of any Option, Right or Convertible Security, including, but not limited to, a change resulting from the anti-dilution provisions

hereof, the Purchase Price then in effect shall forthwith be readjusted to such Purchase Price as would have obtained had the adjustment that was made upon the issuance of such Option, Right or Convertible Security not exercised or converted prior to such change been made upon the basis of such change, but no further adjustment shall be made for the actual issuance of Common Stock upon the exercise or conversion of any such Option, Right or Convertible Security.

(e). Definitions. For purposes of this Section 4.3 only, the following definitions shall apply:

(i) "ADDITIONAL SHARES OF COMMON STOCK" shall mean all shares of Common Stock issued (or deemed pursuant to Section 43(d) to be issued) by the Company after the date hereof, other than (A) pursuant to Options or Convertible Securities outstanding on the date hereof, or (B) by reason of a dividend, stock split, split-up or other distribution on shares excluded from the definition of Additional Shares of Common Stock by the foregoing clause (A).

(ii) "CONVERTIBLE SECURITIES" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock.

(iii) "OPTION" shall mean rights, options or warrants issued by the Company to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(iv) "RIGHTS TO ACQUIRE COMMON STOCK" (or "RIGHTS") shall mean all rights issued by the Company to acquire Common Stock, whether by exercise of a warrant, option or similar call or conversion of any existing instruments.

4.4. RECLASSIFICATION. If the Company, by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Purchase Price therefore shall be appropriately adjusted, all subject to further adjustment as provided in this Section 4. No adjustment shall be made pursuant to this Section 4.4 upon any conversion or redemption of the Common Stock which is the subject of Section 4.6.

4.5. ADJUSTMENT FOR CAPITAL REORGANIZATION, MERGER OR CONSOLIDATION. In case of any capital reorganization of the capital stock of the Company (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), or any merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all the assets of the Company then, and in each such case, as a part of such reorganization, merger, consolidation, sale or transfer, lawful provision shall be made so that the

Holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the Purchase Price then in effect, the number of shares of stock or other securities or property of the successor corporation resulting from such reorganization, merger, consolidation, sale or transfer that a holder of the shares deliverable upon exercise of this Warrant would have been entitled to receive in such reorganization, consolidation, merger, sale or transfer if this Warrant had been exercised immediately before such reorganization, merger, consolidation, sale or transfer, all subject to further adjustment as provided in this Section 4. The foregoing provisions of this Section 4.5 shall similarly apply to successive reorganizations, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of this Warrant. If the per-share consideration payable to the Holder hereof for shares in connection with any such transaction is in a form other than cash or marketable securities, then the value of such consideration shall be determined in good faith by the Company's Board of Directors. In all events, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the transaction, to the end that the provisions of this Warrant shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant.

4.6. CONVERSION OF COMMON STOCK. In case all or any portion of the authorized and outstanding shares of Common Stock of the Company are redeemed or converted or reclassified into other securities or property pursuant to the Company's Certificate of Incorporation or otherwise, or the Common Stock otherwise ceases to exist, then, in such case, the Holder of this Warrant, upon exercise hereof at any time after the date on which the Common Stock is so redeemed or converted, reclassified or ceases to exist (the "TERMINATION DATE"), shall receive, in lieu of the number of shares of Common Stock that would have been issuable upon such exercise immediately prior to the Termination Date, the securities or property that would have been received if this Warrant had been exercised in full and the Common Stock received thereupon had been simultaneously converted immediately prior to the Termination Date, all subject to further adjustment as provided in this Warrant. Additionally, the Purchase Price shall be immediately adjusted to equal the quotient obtained by dividing
(x) the aggregate Purchase Price of the maximum number of shares of Common Stock for which this Warrant was exercisable immediately prior to the Termination Date by (y) the number of shares of Common Stock of the Company for which this Warrant is exercisable immediately after the Termination Date, all subject to further adjustment as provided herein.

5. CERTIFICATE AS TO ADJUSTMENTS. In each case of any adjustment in the Purchase Price, or number or type of shares issuable upon exercise of this Warrant, the Chief Financial Officer of the Company shall compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment and showing in detail the facts upon which such adjustment is based, including a statement of the adjusted Purchase Price. The Company shall promptly send (by facsimile and by either first class mail, postage prepaid or overnight delivery) a copy of each such certificate to the Holder.

6. LOSS OR MUTILATION. Upon receipt of evidence reasonably satisfactory to the Company of the ownership of and the loss, theft, destruction or mutilation of this Warrant, and of indemnity reasonably satisfactory to it, and (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will execute and deliver in lieu thereof a new Warrant of like tenor as the lost, stolen, destroyed or mutilated Warrant.

7. RESERVATION OF COMMON STOCK. The Company hereby covenants that at all times there shall be reserved for issuance and delivery upon exercise of this Warrant such number of shares of Common Stock or other shares of capital stock of the Company as are from time to time issuable upon exercise of this Warrant and, from time to time, will take all steps necessary to amend its Certificate of Incorporation to provide sufficient reserves of shares of Common Stock issuable upon exercise of this Warrant (and shares of its Common Stock for issuance on conversion of such Common Stock). All such shares shall be duly authorized, and when issued upon such exercise, shall be validly issued, fully paid and non-assessable, free and clear of all liens, security interests, charges and other encumbrances or restrictions on sale and free and clear of all preemptive rights, except encumbrances or restrictions arising under federal or state securities laws. Issuance of this Warrant shall constitute full authority to the Company's officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock upon the exercise of this Warrant.

8. TRANSFER AND EXCHANGE. Subject to the terms and conditions of this Warrant and compliance with all applicable securities laws, this Warrant and all rights hereunder may be transferred, in whole or in part on the books of the Company maintained for such purpose at the principal office of the Company referred to above, by the registered Holder hereof in person, or by duly authorized attorney, upon surrender of this Warrant properly endorsed and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. Upon any permitted partial transfer, the Company will issue and deliver to the registered Holder a new Warrant or Warrants with respect to the shares of Common Stock not so transferred. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that when this Warrant shall have been so endorsed, the person in possession of this Warrant may be treated by the Company, and all other persons dealing with this Warrant, as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented hereby, any notice to the contrary notwithstanding; provided, however that until a transfer of this Warrant is duly registered on the books of the Company, the Company may treat the registered Holder hereof as the owner for all purposes.

9. RESTRICTIONS ON TRANSFER. The Holder, by acceptance hereof, agrees that, absent an effective registration statement filed with the SEC under the Securities Act of 1933, as amended (the "SECURITIES ACT"), covering the disposition or sale of this Warrant or the Common Stock issued or issuable upon exercise hereof or the Common Stock issuable upon conversion thereof, as the case may be, and registration or qualification under applicable state securities laws, such Holder will not sell, transfer, pledge, or hypothecate any or all such Warrants or Common Stock, as the case may be, unless either (i) the Company has received an opinion of

counsel, in form and substance reasonably satisfactory to the Company, to the effect that such registration is not required in connection with such disposition or (ii) the sale of such securities is made pursuant to SEC Rule 144.

10. COMPLIANCE WITH SECURITIES LAWS. By acceptance of this Warrant, the holder hereby represents, warrants and covenants that any shares of stock purchased upon exercise of this Warrant or acquired upon conversion thereof shall be acquired for investment only and not with a view to, or for sale in connection with, any distribution thereof; that the Holder has had such opportunity as such Holder has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Holder to evaluate the merits and risks of its investment in the company; that the Holder is able to bear the economic risk of holding such shares as may be acquired pursuant to the exercise of this Warrant for an indefinite period; that the Holder understands that the shares of stock acquired pursuant to the exercise of this Warrant or acquired upon conversion thereof will be "restricted securities" within the meaning of Rule 144 under the Securities Act and that the exemption from registration under Rule 144 will not be available for at least one year from the date of exercise of this Warrant, subject to any special treatment by the SEC for exercise of this Warrant pursuant to Section 2.2, and even then will not be available unless a public market then exists for the stock, adequate information concerning the Company is then available to the public, and other terms and conditions of Rule 144 are complied with; and that all stock certificates representing shares of stock issued to the Holder upon exercise of this Warrant or upon conversion of such shares may have affixed thereto a legend substantially in the form set forth below:

THE SHARES OF COMMON STOCK EVIDENCED BY THIS CERTIFICATE HAVE BEEN ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE ACT") AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT REGISTRATION UNDER THE ACT UNLESS EITHER (i) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL, IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE COMPANY, TO THE EFFECT THAT REGISTRATION IS NOT REQUIRED IN CONNECTION WITH SUCH DISPOSITION OR (ii) THE SALE OF SUCH SECURITIES IS MADE PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 144.

11. NO RIGHTS OR LIABILITIES AS STOCKHOLDERS. Except as set forth in the Investor Rights Agreement, this Warrant shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company. In the absence of affirmative action by such Holder to purchase Common Stock by exercise of this Warrant, no provisions of this Warrant, and no enumeration herein of the rights or privileges of the Holder hereof shall cause such Holder hereof to be a stockholder of the Company for any purpose.

12. REGISTRATION RIGHTS. All shares of Common Stock issuable upon exercise of this Warrant shall be "REGISTRABLE SECURITIES" under that certain Investor Rights Agreement, dated as of even date herewith, by and between the Company and the Holder.

13. CALL OPTION.

13.1. If prior to the time that the Holder delivers to the Company a notice of exercise, subject to the provisions of Section 13.2 below, the Company may require the Holder to sell the Warrant to the Company (the "CALL OPTION") at a price (the "CALL PRICE") equal to the greater of (a) $433,125 or (b) the product of (i) the total number of Warrant Shares divided by 2 and then multiplied by (ii) the amount equal to (A) the Fair Market Value of the Common Stock minus (B) the Purchase Price; provided, however, that the Call Option shall expire on October 1, 2000 (the "CALL EXPIRATION DATE").

13.2. If the Company desires to exercise its Call Option to purchase the Warrant pursuant to its rights under this Section 13, the Company shall, no less than twenty days prior to the Call Expiration Date, send written irrevocable notice of its intention to purchase the Warrant pursuant to this Section 13 and written irrevocable notice of its intent to repay in full all of the indebtedness (including all fees and other expenses) under the Credit Agreement on or before October 1, 2000. The closing of the Call Option and the repayment of all indebtedness under the Credit Agreement pursuant to the term and conditions thereof, which is a condition precedent to the exercise of the Call Option, shall take place at the principal offices of the Holder on the tenth day following the giving of such notice or as soon thereafter as practicable but in no event later than twenty days after the giving of such notice. The purchase price for the Warrant to be purchased by the Company pursuant to this Section 13 will be paid by the wire transfer of immediately available funds to an account designated in writing by the Holder in an amount equal to the Call Price against delivery of the Warrant so purchased, duly endorsed by the Holder.

13.3. The Company may not assign the Call Option (by operation of law or otherwise) without the prior written consent of the Holder, which consent may be withheld in the Holder's sole discretion. Any such assignment in violation of this Section 13.3 shall be null and void.

14. NOTICES. All notices and other communications from the Company to the Holder shall be given in accordance with the Credit Agreement.

15. HEADINGS. The headings in this Warrant are for purposes of convenience in reference only, and shall not be deemed to constitute a part hereof.

16. LAW GOVERNING. This Warrant shall be construed and enforced in accordance with, and governed by, the laws of the State of California.

17. NO IMPAIRMENT. The Company will not, by amendment of its Certificate of Incorporation or bylaws, or through reorganization, consolidation, merger, dissolution, issue or

sale of securities, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the registered Holder of this Warrant against impairment. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any shares of stock issuable upon the exercise of this Warrant above the amount payable therefor upon such exercise, and (b) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon exercise of this Warrant

18. NOTICES OF RECORD DATE. In case:

18.1. the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time receivable upon the exercise of this Warrant), for the purpose of entitling them to receive any dividend or other distribution, or any right to subscribe for or purchase any shares of stock of any class or any other securities or to receive any other right; or

18.2. of any consolidation or merger of the Company with or into another corporation, any capital reorganization of the Company, any reclassification of the capital stock of the Company, or any conveyance of all or substantially all of the assets of the Company to another corporation in which holders of the Company's stock are to receive stock, securities or property of another corporation; or

18.3. of any voluntary dissolution, liquidation or winding-up of the Company; or

18.4. of any redemption or conversion of all outstanding Common Stock;

then, and in each such case, the Company will mail or cause to be mailed to the registered Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, or (ii) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation, winding-up, redemption or conversion is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock or (such stock or securities as at the time are receivable upon the exercise of this Warrant), shall be entitled to exchange their shares of Common Stock (or such other stock or securities), for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up. Such notice shall be delivered at least thirty (30) days prior to the date therein specified.

19. SEVERABILITY. If any term, provision, covenant or restriction of this Warrant is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

20. COUNTERPARTS. For the convenience of the parties, any number of counterparts of this Warrant may be executed by the parties hereto and each such executed counterpart shall be, and shall be deemed to be, an original instrument.

21. SATURDAYS, SUNDAYS AND HOLIDAYS. If the Expiration Date falls on a Saturday, Sunday or legal holiday, the Expiration Date shall automatical1y be extended until 5:00 p.m. on the next business day.

IN WITNESS WHEREOF, the parties hereto have executed this Warrant as of the Effective Date.

**MOTORCAR PARTS & ACCESSORIES, INC.**

By: _____
Anthony Souza
President/Chief Operating Officer

By: _____
Michael Nelson
Chief Financial Officer
Assistant Secretary

**WELLS FARGO BANK, NA**

By: _____
Razia Damji
Vice President

**EXHIBIT 1**
**NOTICE OF EXERCISE**
(To be executed upon exercise of Warrant)

**MOTORCAR PARTS & ACCESSORIES, INC. WARRANT NO. W-1**

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Warrant Certificate for, and to purchase thereunder, the securities of Motorcar Parts & Accessories, Inc., as provided for therein, and (check the applicable box):

/ / Tenders herewith payment of the exercise price in full in the form of cash, check or wire transfer in same-day funds in the amount of $_____ for _____such securities.

/ / Elects the Net Issue Exercise option pursuant to Section 2.2 of the Warrant, and accordingly requests delivery of a net of _____ of such securities, according to the following calculation:

$$X = \frac{Y\,(A-B)}{A} \qquad (\quad) = \frac{(\quad)\ [(\quad) - (\quad)]}{(\_\_\_\_\_)}$$

Where X = the number of shares of Common Stock to be issued to Holder.

Y = the number of shares of Common Stock purchasable under the amount of the Warrant being exchanged (as adjusted to the date of such calculation).

A = the Fair Market Value of one share of the Company's Common Stock.

**B = Purchase Price (as adjusted to the date of such calculation).**

/ / Elects the Easy Sale Exercise option pursuant to Section 2.3 of the Warrant, and accordingly requests delivery of a net of _____ of such securities.

Please issue a certificate or certificates for such securities in the name of, and pay any cash for any fractional share to (please print name, address and social security number):

Name: _____

Title: _____

Address: _____

Signature: _____

If said number of shares shall not be all the shares purchasable under the within Warrant Certificate, a new Warrant Certificate is to be issued in the name of said undersigned for the balance remaining of the shares purchasable thereunder rounded up to the next higher whole number of shares.

**EXHIBIT 2**

**ASSIGNMENT**

(To be executed only upon assignment of Warrant Certificate) WARRANT NO. W-01

For value received, hereby sells, assigns and transfers unto_____ the within Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ attorney, to transfer said Warrant Certificate on the books of the within-named Company with respect to the number of Warrants set forth below, with full power of substitution in the premises:

| Name(s) of Assignee(s) | Address | # of Warrants |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

And if said number of Warrants shall not be all the Warrants represented by the Warrant Certificate, a new Warrant Certificate is to be issued in the name of said undersigned for the balance remaining of the Warrants registered by said Warrant Certificate.

Dated: _____

Signature: _____

Notice: Signature(s) must be guaranteed by an eligible guarantor institution (banks, stock brokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program) pursuant to Securities and Exchange Commission Rule 17Ad-15.

**Exhibit 10.30**

**AMENDMENT NO. 1 TO**

**WARRANT**

This Amendment No. 1 to Warrant (this "Amendment") between Motorcar Parts & Accessories, Inc., a New York corporation ("Company"), and Wells Fargo Bank, N.A. ("Holder") is made effective as of May 31, 2001.

**RECITALS**

A. Reference is made to that certain Warrant dated as of April 20, 2000 (as amended, the "Warrant") by and between Company and Holder. Capitalized terms used herein without definition have the meanings assigned thereto in the Warrant.

B. Concurrently with the execution and delivery of this Amendment, the Company and Holder are entering into that certain Second Amended and Restated Credit Agreement (the "Credit Agreement").

C. Execution and delivery of this Amendment by the Company is a condition precedent to the effectiveness of the Credit Agreement..-

D. On the terms and subject to the conditions set forth herein, the Company has agreed to reduce the Purchase Price of the Warrant Shares from $2.045 to $0.01 per share.

**AGREEMENT**

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

1. AMENDMENT TO WARRANT.

1.1 AMENDMENT TO PURCHASE PRICE. The definition of "Purchase Price" set forth in the first paragraph of the Warrant is amended to read as follows:

"a price per share of $0.01 (the "Purchase Price")"

1.2 AMENDMENT TO SECTION 4.3(a). For purposes of the calculation set forth in the last sentence of Section 4.3(a), clause (A) of such sentence is amended and restated to read in its entirety as follows:

"(A) the numerator is $0.01, and"

2. MISCELLANEOUS

2.1 GOVERNING LAW. THIS AMENDMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF CALIFORNIA.

2.2 COUNTERPARTS. For the convenience of the parties, any number of counterparts of this Amendment may be executed by the parties hereto and each such executed counterpart shall be, and shall be deemed to be, an original instrument.

2.3 NO OTHER AMENDMENT. Except as specifically amended by this Amendment, the Warrant shall remain unchanged and in full force and effect and is hereby ratified and confirmed. Each reference in the Warrant to "this Warrant", "hereunder", "hereof", "herein" or words of like import referring to the Warrant, and each reference to Warrant in any other agreement to which Company and Holder are party, shall mean and be a reference to the Warrant as amended by this Amendment.

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

| | |
|---|---|
| MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation | WELLS FARGO BANK, NATIONAL ASSOCIATION |
| By: _____ | By: _____ |
| Anthony P. Souza<br>Chief Executive Officer and President | Edith R. Lim<br>Vice President |
| By: _____ | |
| Charles W. Yeagley<br><br>Chief Financial Officer | |

**Exhibit 10.31**

# INVESTOR RIGHTS AGREEMENT

This INVESTOR RIGHTS AGREEMENT dated as of April 20, 2000 (this "AGREEMENT") between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation (the "COMPANY") and WELLS FARGO BANK, N.A. (the "HOLDER").

**W I T N E S S E T H:**

WHEREAS, the Company and Holder have entered into that certain Credit Agreement dated as of April 20, 2000, pursuant to which the Company agreed to issue a warrant (the "WARRANT") to purchase up to 400,000 shares of its common stock to Holder; and

WHEREAS, the Company wishes to grant certain registration rights to Holder with respect to the shares issued pursuant thereto.

NOW, THEREFORE, in consideration for the foregoing and of the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

SECTION 1. DEFINITIONS. As used herein, the following terms shall have the following meanings:

"ADVICE" has the meaning set forth in Section 5.

"AFFILIATE" means, with respect to any Person, (a) any Person or entity directly or indirectly controlling or controlled by or under direct or indirect common control with such Person, (b) any spouse or non-adult child (including by adoption) of any natural person described in clause (a) above, (c) any relative other than a spouse or non-adult child (including by adoption) who has the same principal residence of any natural person described in clause (a) above, (d) any trust in which any such Persons described in clause (a), (b) or (c) above has a beneficial interest and (e) any corporation, partnership, limited liability company or other organization of which any such Persons described in clause (a), (b) or (c) above collectively own more than fifty percent (50%) of the equity of such entity. For purposes of this definition, beneficial ownership of more than ten percent (10%) of the voting common equity of a Person shall be deemed to be control of such Person.

"AGREEMENT" means this Investor Rights Agreement dated as of April 20, 2000 between the Company and Holder.

"BUSINESS DAY" means any day other than a day on which banks are authorized or required to be closed in the State of New York.

"CERTIFICATE OF INCORPORATION" means the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of New York, as amended through and including the date hereof.

"COMMISSION" means the Securities and Exchange Commission or any other similar or successor agency of the Federal government administering the Securities Act and/or the Exchange Act from time to time.

"COMMON STOCK" means the common stock, no par value per share, of the Company.

"COMPANY" has the meaning set forth in the first paragraph hereof.

"CONTROLLING PERSONS" has the meaning set forth in Section 7(a).

"EFFECTIVE PERIOD" has the meaning set forth in Section 4(b).

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute, and the rules and regulations of the Commission promulgated thereunder.

"HOLDER" shall have the meaning set forth in the first paragraph hereof.

"INSPECTORS" has the meaning set forth in Section 4(j).

"MARKET VALUE" means the number of shares of Common Stock to be registered (or issuable upon the conversion or exchange of other securities to be registered) pursuant to the demand for registration provided in Section 2 below multiplied by the then Per Share Price of the Common Stock.

"NASD" means the National Association of Securities Dealers, Inc.

"PER SHARE PRICE" means the daily closing price of the Common Stock on the Nasdaq National Market (or other exchange or quotation system which the Common Stock is traded on) on the trading day before the Company receives the written demand for registration.

"PERSON" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

"PIGGY-BACK REGISTRATION" has the meaning set forth in Section 3(a).

"PROSPECTUS" means the prospectus included in any Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus

filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, including a prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by a shelf registration statement, and by all other amendments and supplements to the prospectus, including post-effective amendments, and in each case including all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

"RECORDS" has the meaning set forth in Section 4(m).

"REGISTRABLE SECURITIES" means the Shares unless such securities have been
(a) effectively registered under Section 5 of the Securities Act and disposed of pursuant to an effective Registration Statement, or (b) such securities have been transferred pursuant to Rule 144 under the Securities Act as amended from time to time or any successor rule such that, after any such transfer referred to in this clause (b), such securities may be freely transferred without restriction under the Securities Act.

"REGISTRATION STATEMENT" means any registration statement of the Company that covers any of the Registrable Securities pursuant to the provisions of this Agreement, and all amendments and supplements to any such registration statement, including post-effective amendments, in each case including the Prospectus, all exhibits, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement

"RESALE REGISTRATION STATEMENT" has the meaning set forth in Section 2(a).

"SECTION 7(a) INDEMNITEE" has the meaning set forth in Section 7(a).

"SECURITIES ACT" means the Securities Act of 1933, as amended from time to time, or any successor statute, and the rules and regulations of the Commission promulgated thereunder.

"SHARES" means the shares of Common Stock issuable or issued, as the case may be, to Holder upon exercise of the Warrant.

"SUSPENSION NOTICE" has the meaning set forth in Section 5(a).

"SUSPENSION PERIOD" means the period from the date on which Holder receive a Suspension Notice to the date on which Holder receives either the Advice or copies of the supplemented or amended Prospectus contemplated by Section 4(e).

"WARRANT" has the meaning set forth in the Recitals hereof.

SECTION 2. DEMAND REGISTRATION.

i. DEMAND FOR REGISTRATION. The Holder may, at its option, at any time, require the Company to use its best efforts to effect a registration of Registrable Securities under the Securities Act (the "Demand Registration"); PROVIDED, HOWEVER, that (i) the Company shall not be required to effect such Demand Registration unless the Company is requested to do so with respect to Registrable Securities having a Market Value of not less than $1,000,000; (ii) at its option, the Company shall not be required to effect such registration prior to six (6) months immediately following the date on which an underwritten public offering of equity securities (pursuant to an effective registration statement under the Securities Act) is commenced, if such public offering is commenced prior to the date of a request for the Demand Registration; PROVIDED, FURTHER that, if in the Company's opinion such registration, if not deferred, materially and adversely would affect its business or financial condition, the Company may defer such registration for a single period (specified in such notice) of not more than 180 days; and (iii) the Company shall not be required to use its best efforts to effect a registration of Registrable Securities under this Section 2 more than twice. At the election of Holder requesting a Demand Registration, such registration statement shall be filed under Rule 415 promulgated under the Securities Act (a "Resale Registration Statement"), and the Company shall use its best efforts to keep a Resale Registration Statement continuously effective until the earlier of two (2) years from the date of Holder's request and the date on which there are no more Registrable Securities remaining unsold thereunder. The Company shall cause a Resale Registration Statement to be amended to remove Holder's Registrable Securities upon notice to the Company from Holder. The Company shall not be required to file and effect more than one (1) Resale Registration Statements pursuant to this Section 2(a). If, after a Demand Registration becomes effective, the offering of securities thereunder is or becomes subject to any stop order, injunction or other order or requirement of the Commission that prevents or limits the sale of securities thereunder for a period of more than five (5) Business Days, then such Demand Registration shall be deemed not to have been effected for purposes of this
Section 2(a).

ii. UNDERWRITTEN OFFERINGS. If a Demand Registration is underwritten, the underwriter must be reasonably acceptable to the Company. In connection with any Demand Registration, in the event that such Demand Registration involves an underwritten offering and the managing underwriter or underwriters participating in such offering advise Holder in writing that the total number of Registrable Shares to be included in such offering exceeds the amount that can be sold in (or during the time of) such offering without delaying or jeopardizing the success of such offering (including the price per share of the Registrable Shares to be sold), then the amount of Registrable Shares to be offered for the account of Holder shall be reduced by an amount recommended by such underwriter.

SECTION 3. PIGGY-BACK REGISTRATION.

i. REQUEST FOR REGISTRATION. Subject to Section 5(b), each time the Company proposes to file a registration statement under the Securities Act with respect to an offering by the Company for its own account, (except,
(i) a registration statement on Form S-4 or S-8 (or any substitute form that is adopted by the Commission), (ii) a registration statement filed in connection with a dividend reinvestment plan, stock option plan or unit investment trusts, or (iii) a registration statement filed in connection with an exchange offer or offering of securities solely to the Company's existing security holders), and the form of registration statement to be used permits the registration of Registrable Securities, then the Company shall give written notice of such proposed filing to Holder as soon as reasonably practicable (but in no event less than 30 days before the anticipated filing date and no less than 40 days before the anticipated effective date), and such notice shall offer Holder the opportunity to register such Registrable Securities as Holder may request (which request shall specify the Registrable Securities intended to be disposed of by Holder and the intended method of distribution thereof) up to 20 days before the anticipated effective date (a "Piggy-Back Registration"). The Company shall cause the managing underwriter or underwriters of a proposed underwritten offering to permit the Registrable Securities requested to be included in a Piggy-Back Registration to be included on substantially the same terms and conditions as any similar securities of the Company or any other securityholder included therein and to permit the sale or other disposition of such Registrable Securities in accordance with the intended method of distribution thereof. Holder shall have the right to withdraw its request for inclusion of its Registrable Securities in any Registration Statement pursuant to this Section 3 by giving written notice to the Company of such withdrawal no later than 2 Business Days prior to the anticipated effective date. The Company may withdraw a Piggy-Back Registration at any time prior to the time it becomes effective, PROVIDED, THAT the Company shall give prompt notice of such withdrawal to Holder if requested to be included in such Piggy-Back Registration.

ii. REDUCTION OF OFFERING. If the managing underwriter or underwriters of an underwritten offering with respect to which Piggy-Back Registration has been requested as provided in Section 3(a) hereof shall have informed the Company, in writing, that in the opinion of such underwriter or underwriters the total number of shares which the Company, Holder and any other Persons participating in such registration intend to include in such offering is such as to materially and adversely affect the success of such offering (including without limitation any material decrease in the proposed public offering price), then the number of shares to be offered for the account of all Persons and Holder (other than the Company) participating in such registration shall be reduced or limited pro rata in proportion to the respective number of shares requested to be registered by such Persons to the extent necessary to reduce the total number of shares requested to be included in such offering to the number of shares, if any, recommended by such managing underwriter or underwriters; PROVIDED, HOWEVER, that the number of

shares to be offered for the account of the Holder shall in no case be reduced to a quantity less than 6 and 2/3% of the total number of shares to be offered for the account of all Persons and Holder (including the Company) participating in such registration.

iii. UNDERWRITING. In the case of a Piggy-Back Registration, if the Company has determined to enter into an underwriting agreement in connection therewith, all Registrable Securities to be included in such Registration Statement shall be subject to such underwriting agreement, and Holder may not participate in such Registration unless such Holder agrees to sell its Registrable Securities on the basis provided for in such underwriting arrangements approved by the Company and completes and/or executes all reasonable and customary questionnaires, powers of attorney, indemnities, underwriting agreements and other reasonable documents which must be executed under the terms of such underwriting arrangements.

SECTION 4. REGISTRATION PROCEDURES. In connection with the obligations of the Company to effect or cause the registration of any Registrable Securities pursuant to the terms and conditions of this Agreement, the Company shall use its best efforts to effect the registration and sale of such Registrable Securities in accordance with the terms of this Agreement as quickly as reasonably practicable, and in connection therewith:

i. Prior to filing a Registration Statement or Prospectus or any amendments or supplements thereto, excluding for purposes of this Section 4(a) documents incorporated by reference after the initial filing of the Registration Statement, the Company will furnish to Holder covered by such Registration Statement and the underwriters, if any, draft copies of all such documents proposed to be filed upon request.

ii. The Company shall prepare and file with the Commission such amendments and post-effective amendments to each Registration Statement as may be necessary to keep such Registration Statement effective for a period of not more than 60 days or (in the case of a Resale Registration Statement) up to the earlier of two (2) years after the date Holder requests such Resale Registration Statement and the date on which there are no Registrable Securities unsold thereunder (as applicable, the "Effective Period"); shall cause the Prospectus to be supplemented by any required Prospectus supplements, and, as so supplemented, to be filed pursuant to Rule 424 under the Securities Act; and shall comply with the provisions of the Securities Act applicable to it with respect to the disposition of all Registrable Securities covered by such Registration Statement during the Effective Period in accordance with the intended methods of disposition by Holder set forth in such Registration Statement or supplement to the Prospectus.

iii. The Company shall furnish to Holder and the underwriters, if any, without charge, a copy of each Registration Statement and any post-effective amendment thereto and such number of copies of the Prospectus (including each preliminary Prospectus) and

any amendments or supplements thereto and such other documents as such Holder or underwriter reasonably may request in order to facilitate the public sale or other disposition of the Registrable Securities being sold by Holder.

iv. The Company shall, (i) on or prior to the date on which a Registration Statement is declared effective, use its reasonable best efforts to cooperate with Holder's efforts to register or qualify the Registrable Securities covered by such Registration Statement under such other securities or "blue sky" laws of such states of the United States as Holder or underwriter reasonably requests; (ii) do any and all other acts and things which may be reasonably necessary to enable Holder to consummate the disposition of such Registrable Securities owned by Holder in accordance with the intended methods for distribution set forth therein; and (iii) use its reasonable best efforts to keep each such registration or qualification (or exemption therefrom) effective during the Effective Period; PROVIDED, HOWEVER, that the Company shall not be required (A) to qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify or (B) to file any general consent to service of process.

v. The Company shall notify Holder and any underwriter (i) when a Prospectus or any Prospectus supplement or post-effective amendment has been filed and, with respect to a Registration Statement or any post-effective amendment, when the same has become effective, (ii) of any request by the Commission or any state securities authority for amendments and supplements to a Registration Statement and Prospectus or for additional information after the Registration Statement has become effective, (iii) of the issuance by the Commission of any stop order suspending the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose, (iv) of the issuance by any state securities commission or other regulatory authority of any order suspending the qualification or exemption from qualification of any of the Registrable Securities under state securities or "blue sky" laws or the initiation of any proceedings for that purpose, and (v) of the happening of any event which makes any statement made in a Registration Statement or related Prospectus untrue or which requires the making of any changes in such Registration Statement or Prospectus so that they will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

vi. The Company shall use its reasonable best efforts to prevent the issuance of any order suspending the effectiveness of a Registration Statement, and in the event a stop order is issued, use its reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of a Registration Statement at the earliest possible moment.

vii. If requested by the managing underwriter or underwriters, if any, or Holder, the Company shall incorporate in a Prospectus supplement or post-effective amendment such information as such managing underwriter or underwriters or Holder

reasonably requests to be included therein, including, without limitation, with respect to the Registrable Securities being sold by Holder to such underwriter or underwriters, the purchase price being paid therefor by such underwriter or underwriters and with respect to any other terms of an underwritten offering of the Registrable Securities to be sold in such offering, and make all required filings of such Prospectus supplement or post-effective amendment.

viii. The Company shall cooperate with Holder and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates (which shall not bear any restrictive legends unless required under applicable law or agreement) representing securities sold under a Registration Statement, and enable such securities to be in such denominations and registered in such names as Holder and the managing underwriter or underwriters, if any, reasonably may request and keep available and make available to the Company's transfer agent prior to the effectiveness of such Registration Statement a supply of such certificates.

ix. The Company shall enter into such customary agreements (including, if applicable, an underwriting agreement in customary form) and take such other actions as Holder, or the underwriters retained by Holder participating in an underwritten public offering, if any, reasonably may request in order to expedite or facilitate the disposition of Registrable Securities.

x. The Company shall make available to Holder, any underwriter participating in any disposition pursuant to a Registration Statement, and any attorney, accountant or other agent or representative retained by Holder or underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Company (collectively, the "Records"), as shall be reasonably requested to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such Inspector in connection with such Registration Statement; PROVIDED THAT unless the disclosure of such Records is necessary to avoid or correct a misstatement or omission in such Registration Statement or the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction, the Company shall not be required to provide any information under this paragraph if (i) the Company believes, after consultation with counsel for the Company, that to do so would cause the Company to forfeit an attorney-client privilege that was applicable to such information or (ii) either (A) the Company has requested and been granted from the Commission confidential treatment of such information contained in any filing with the Commission or documents provided supplementally or otherwise or (B) the Company reasonably determines in good faith that such Records are confidential and so notifies the Inspectors unless, prior to furnishing any such information with respect to (A) or (B), Holder agrees to enter into a confidentiality agreement and, PROVIDED, FURTHER, that Holder agrees that it will, upon learning that disclosure of such

Records is sought in a court of competent jurisdiction, give notice to the Company and allow the Company, at its expense, to undertake appropriate action and to prevent disclosure of the Records deemed confidential.

xi. The Company shall cause the Registrable Securities to be authorized for quotation and/or listing, as applicable, on such exchange or quotation system as the Common Stock is listed or quoted.

xii. The Company shall provide a CUSIP number for all Registrable Securities covered by a Registration Statement not later than the effective date of such Registration Statement.

xiii. The Company shall cooperate with Holder and each underwriter participating in the disposition of Registrable Securities and their respective counsel in connection with any filings required to be made with the NASD or any "blue sky" laws.

xiv. The Company shall appoint a transfer agent and registrar for all the shares of Common Stock covered by a Registration Statement not later than the effective date of such Registration Statement.

The Company shall have no obligation to file a registration statement pursuant to this Agreement unless and until Holder shall have furnished the Company all information and statements about or pertaining to Holder in such reasonable detail and on such timely basis as is reasonably required by the Company in connection with the preparation of a Registration Statement.

SECTION 5. LIMITATIONS ON SALE.

i. SUSPENSION PERIOD. Holder, upon receipt of any notice (a "Suspension Notice") from the Company of the happening of any event of the kind described in Section 4(e)(v), forthwith shall discontinue disposition of the Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 4 (e) or until it is advised in writing (the "Advice") by the Company that the use of the Prospectus may be resumed and, if so directed by the Company, Holder will, or will request the managing underwriter or underwriters, if any, to deliver to the Company (at the Company's expense) all copies then in such Holder's or underwriter's possession, of the Prospectus covering such Registrable Securities current at the time of receipt of such notice. In the event that the Company shall give any Suspension Notice, (i) the Company shall use its reasonable best efforts and take such actions as are reasonably necessary to end the Suspension Period as promptly as practicable and (ii) immediately following expiration of the Suspension Period, the Company shall, to the extent it deems necessary, prepare and file with the Commission and furnish a supplement or amendment to such Prospectus so that, as thereafter deliverable to the Holders of such Registrable Securities,

such Prospectus will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

ii. LOCK-UP. If on any occasion of registration in which the Company proposes to file a Registration Statement under the Securities Act with respect to the proposed sale of Common Stock pursuant to a fully-underwritten public offering, and the managing underwriter or underwriters shall request an agreement by Holder not to sell any of the Registrable Securities so held by Holder for a period of 180 days after the date of the underwriting agreement in order to effect an orderly public distribution thereof, then Holder shall enter into and execute such an agreement with such managing underwriter or underwriters and the Company pertaining to a restriction on the transfer of any equity securities of the Company during such period. Holder further agrees, upon request of the managing underwriter or underwriters, to enter into and execute an agreement with such managing underwriter or underwriters and the Company pursuant to the terms of which Holder will agree not to transfer any securities of the Company during the seven-day period immediately preceding the effectiveness of such registration statement to the extent necessary to avoid violation of the Exchange Act.

SECTION 6. REGISTRATION EXPENSES. With respect to any Demand Registration, all expenses incurred in connection with registering the Registrable Securities hereunder including, without limitation, all registration and filing fees, fees and disbursements of counsel and independent public accountants for the Company, fees and expenses incurred in connection with complying with state securities or "blue sky" laws, few of the Nasdaq National Market or other exchange on which the Common Stock is listed, transfer taxes and fees of transfer agents and registrars, underwriting fees, discounts and commissions attributable to the sale or disposition or Registrable Securities, the fees and expenses of legal counsel and accountants retained by Holder shall be paid by the Company, and the Holder shall pay any underwriting discounts and commissions attributable to the sale or disposition of Registrable Securities. With respect to each Piggy-Back Registration, Holder shall pay all underwriting discounts and commissions attributable to the sale or disposition of Registrable Securities, and the Company shall pay all underwriting fees and all fees and expenses of legal counsel and accountants retained by Holder.

SECTION 7. INDEMNIFICATION AND CONTRIBUTION.

i. INDEMNIFICATION BY THE COMPANY. The Company agrees to indemnify and hold harmless, to the fullest extent permitted by law, Holder, its officers, directors, stockholders, employees, agents and underwriters (each a "Section 7(a) Indemnitee") and each Person who controls Holder within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, or is under common control with, or is controlled by, Holder, together with the partners, officers, directors, trustees, stockholders, employees and agents of such controlling Person (collectively, the "Controlling Persons"), from and against all losses, claims, damages, liabilities and

expenses (including without limitation any reasonable legal or other fees and expenses actually incurred in connection with defending or investigating any action or claim in respect thereof, PROVIDED, HOWEVER, that such legal fees shall be limited to those incurred by one individual counsel for all Section 7(a) (collectively, the "Damages")) to which such
Section 7(a) Indemnitee may become subject under the Securities Act, insofar as such Damages (or proceedings in respect thereof) arise out of any untrue or alleged untrue statement of material fact contained in any Registration Statement or Prospectus (or any amendment thereto) pursuant to which Registrable Securities were registered under the Securities Act or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein in light of the circumstances under which they were made not misleading, or caused by any untrue statement or alleged untrue statement of a material fact contained in such Prospectus (as amended or supplemented only if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein in light of the circumstances under which they were made not misleading; PROVIDED, HOWEVER, that the Company shall not be liable in any such case to the extent that Damages arise out of or are based upon any such untrue statement or omission based upon information relating to such
Section 7(a) Indemnitee furnished in writing to the Company by such Section
7(a) Indemnitee (or by a Person authorized to provide such information on behalf of such Section 7(a) Indemnitee) for use therein.

ii. INDEMNIFICATION BY HOLDER. Holder agrees to indemnify and hold harmless, to the fullest extent permitted by law the Company, its directors, officers, stockholders, employees, agents, attorneys, underwriters and investment advisers and each of their employees and agents, and each Person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, or is under common control with, or is controlled by, the Company, together with its Controlling Person, from and against all Damages to which the Company and any Controlling Persons may become subject under the Securities Act insofar as such Damages (or proceedings in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of material fact contained in any Registration Statement (or any amendment thereto) pursuant to which Registrable Securities were registered under the Securities Act, or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein in light of the circumstances under which they were made not misleading, or caused by any untrue statement or alleged untrue statement of a material fact contained in any Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein in light of the circumstances under which they were made not misleading, to the extent, but only if and to the extent that such Damages arise out of or are based upon any such untrue statement or alleged untrue statement or omission or alleged omission based upon information relating to Holder furnished in writing to the Company by Holder (or by a Person authorized to provide such

information on behalf of Holder) for inclusion therein; PROVIDED, HOWEVER, that Holder shall not be liable in any case to the extent that such Damages result from the failure of the Company to amend or take action to correct or supplement any such Registration Statement or Prospectus on the basis of corrected or supplemented information provided in writing by Holder to the Company expressly for such purpose.

iii. INDEMNIFICATION PROCEDURES. In case any proceeding (including any governmental investigation) shall be instituted involving any Person in respect of which indemnity may be sought pursuant to either paragraph (a) or (b) above, such Person (the "indemnified party") promptly shall notify the Person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceedings and shall pay the reasonable fees and disbursements of such counsel relating to such proceeding; PROVIDED, HOWEVER that (i) in the case of any proceeding in respect of which indemnity may be sought pursuant to both paragraphs (a) and (b) above, the Company shall not be required to assume the defense thereof and each party shall bear its own fees and expenses of such counsel and (ii) the Company shall not be obligated to pay the fees and expenses of more than one individual counsel (together with any appropriate or necessary local counsel, if any) for all indemnified parties, including the Company. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, or (ii) the indemnifying party fails promptly to assume the defense of such proceeding or fails to employ counsel reasonably satisfactory to such indemnified party or parties, or (iii) (A) the named parties to any such proceeding (including any impleaded parties) include both such indemnified party or parties and any indemnifying party or an Affiliate of such indemnified party or parties or of any indemnifying party, (B) there may be one or more legal defenses available to such indemnified party or parties or such Affiliate of such indemnified party or parties that are different from or additional to those available to any indemnifying party or such Affiliate of any indemnifying party and (C) such indemnified party or parties shall have been advised by such counsel that there may exist a legal conflict of interest between or among such indemnified party or parties or such Affiliate of such indemnified party or parties and any indemnifying party or such Affiliate of any indemnifying party, in which case, if such indemnified party or parties notifies the indemnifying party or parties in writing that it elects to employ separate counsel of its choice at the reasonable expense of the indemnifying parties, the indemnifying parties shall not have the right to assume the defense thereof and such counsel shall be at the reasonable expense of the indemnifying parties, it being understood, however, that unless there exists a conflict among indemnified parties, the indemnifying parties shall not, in connection with any one such proceeding or separate but substantially similar or related proceedings in the same jurisdiction, arising out of the same general allegations or circumstances, be liable for the

fees and expenses of more than one firm of attorneys at any time for such indemnified party or parties. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent (which will not be unreasonably withheld) but, if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party or parties from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent (which will not be unreasonably withheld) of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which such indemnified party is a party, and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

iv. CONTRIBUTION. To the extent that the indemnification provided for in paragraph (a) or (b) of this Section 7 is unavailable to an indemnified party or insufficient in respect of any Damages, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such Damages in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and Holder on the other hand in connection with the statements or omissions that resulted in such Damages, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of Holder on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or Holder and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

If indemnification is available under paragraph (a) or (b) of this Section 7, the indemnifying parties shall indemnify each indemnified party to the full extent provided in such paragraphs without regard to the relative fault of said indemnifying party or indemnified party or any other equitable consideration provided for in this Section 7(d).

The Company and Holder agree that it would not be just or equitable if contribution pursuant to this Section 7(d) were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the Damages referred to in this Section 7 shall be deemed to include, subject to the limitations set forth above, any reasonable legal or other expenses incurred (and not otherwise reimbursed) by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution or indemnification from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 7 are not exclusive and shall not

limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

v. SURVIVAL. The parties' indemnification and contribution obligations pursuant to this Section 7 shall survive the sale, transfer, assignment or other disposition of any Registrable Securities and shall survive any termination of this Agreement.

SECTION 8. FINANCIAL INFORMATION; VOTING RIGHTS.

i. The Company shall provide to Holder unaudited annual statements of income, statements of cash flows and changes in stockholders' equity, and an unaudited balance sheet, all prepared in accordance with generally accepted accounting principles ("GAAP") consistently applied, dated as of the fiscal year end within ninety (90) days after the end of the applicable fiscal year. The Company shall provide to Holder unaudited quarterly statements of income, statements of cash flows and changes in stockholders' equity, and unaudited balance sheets, all prepared in accordance with GAAP consistently applied, dated as of the fiscal quarter end within forty-five
(45) days after the end of the applicable fiscal quarter. The Company shall also timely provide to Holder any other interim financial statements or balance sheets prepared by or at the request of the Company.

ii. Until the earlier of (i) the expiration of the Warrant and (ii) the sale or disposition by the Holder and/or its Affiliates of 50% of the Registrable Shares, the Company shall not, without obtaining the prior written consent of the Holder, consolidate with or merge with or into, or convey or transfer or lease all or substantially all of its assets to, another Person.

SECTION 9. MISCELLANEOUS.

i. AMENDMENTS AND WAIVERS. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the same are in writing and signed by Holder and the Company.

ii. ASSIGNMENT. Holder may assign to any Affiliate all, but not less than all, of its rights hereunder with respect to the Registrable Securities. Holder shall promptly notify the Company in writing of any such assignment.

iii. NOTICES. All notices, requests and other communications provided for herein shall be given or made in writing:

| | |
|---|---|
| if to the Company: | Motorcar Parts & Accessories, Inc.<br>2727 Maricopa Street<br>Torrance, California 90503<br>Attention: Anthony Souza<br>Facsimile: (310) 459-7052 |
| with copies to: | Arter & Hadden LLP<br>725 South Figueroa Street, Suite 3400<br>Los Angeles, California 90017<br>Attention:Jack Goldman, Esq.<br>Facsimile: (213) 617-9255 |
| if to Holder: | Wells Fargo Bank, N.A.<br>333 South Grand Avenue<br>Los Angeles, California 90071<br>Attention: Edith Lim, Vice President<br>Facsimile: (213) 253-5913 |
| with copies to: | Gibson, Dunn & Crutcher LLP<br>One Montgomery Street<br>San Francisco, California 94104<br>Attention: Douglas D. Smith, Esq.<br>Facsimile: (415) 986-5309 |

All such notices, requests and other communications shall be: (i) personally delivered, sent by courier guaranteeing overnight delivery or sent by registered or certified mail, return receipt requested, postage prepaid, or by facsimile in each case given or addressed as aforesaid; and (ii) effective upon receipt.

iv. HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

v. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflicts of law.

vi. SEVERABILITY. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be in any way impaired thereby, it being intended that all of the rights and privileges of Holder shall be enforceable to the fullest extent permitted by law.

vii. ATTORNEY'S FEES. In any action or proceeding brought to enforce any provision of this Agreement or where any provision hereof is validly asserted as a defense, the successful party shall, to the extent permitted by applicable law, be entitled to recover reasonable attorneys' fees and expenses in addition to any other available remedy.

viii. FURTHER ASSURANCES. Each party shall cooperate and take such action as may be reasonably requested by another party in order to carry out the provisions and purposes of this Agreement and the transactions contemplated hereby.

ix. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument, binding on all parties hereto.

[the remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first written above.

**MOTORCAR PARTS & ACCESSORIES, INC.**

By: _____
Anthony Souza
President/Chief Operating Officer

By: _____
Michael Nelson
Chief Financial Officer
Assistant Secretary

**WELLS FARGO BANK, N.A.**

By: _____
Razia Darnji
Vice President

**Exhibit 10.32**

# SECOND AMENDED AND RESTATED CREDIT AGREEMENT

THIS SECOND AMENDED AND RESTATED CREDIT AGREEMENT (as amended, modified, supplemented or restated from time to time, this "Agreement") is entered into as of May 31, 2001, by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

## RECITALS

A. Borrower is currently indebted to Bank pursuant to the terms of that certain Amended and Restated Credit Agreement between Borrower and Bank dated as of April 20, 2000 (as amended, the "Prior Credit Agreement"). Borrower has requested that Bank extend the credit accommodations described below (each, a "Credit" and collectively, the "Credits"), and Bank has agreed to extend the Credits to Borrower on the terms and conditions contained herein.

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

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

## ARTICLE I

## THE CREDITS

SECTION 1.1 LINE OF CREDIT.

(a) LINE OF CREDIT. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to April 30, 2002, not to exceed at any time the aggregate principal amount of Twenty-Four Million Seven Hundred Fifty Thousand Dollars ($24,750,000.00) ("Line of Credit"), the proceeds of which shall be used solely for Borrower's general corporate and working capital requirements and shall in no event be used to fund the Escrow Account or any settlement of the Pending Litigation (as such terms are defined in Section 1.3(b) below). Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note substantially in the form of EXHIBIT A attached hereto ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) LIMITATION ON BORROWINGS. Outstanding borrowings under the Line of Credit, to a maximum of the principal amount set forth above, shall not at any time exceed an aggregate of (i) seventy-five percent (75.0%) of Borrower's Eligible Accounts Receivable (as defined below), PLUS (ii) eighty percent (80.0%) of the Appraised Net Recovery Value (as defined below) of Borrower's inventory. The amount calculated pursuant to the preceding sentence is referred to herein as the "Borrowing Base". All of the foregoing shall be determined by Bank upon receipt and review of all collateral reports required hereunder and such other documents and collateral information as Bank may from time to time require. Borrower acknowledges that the Borrowing

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

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

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

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

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

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

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

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

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

(viii) that portion of any account from an account debtor which represents the amount by which Borrower's total accounts from said account debtor exceeds twenty-five

percent (25%) of Borrower's total accounts; PROVIDED, HOWEVER, that this limitation shall not apply to any accounts owing by AutoZone so long as the senior unsecured debt rating of AutoZone, Inc. by Standard & Poor's (a division of the McGraw-Hills Companies) is BBB- or better AND such rating by Moody's Investors Service is Baa3 or better;

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

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

(c) LETTER OF CREDIT SUBFEATURE. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause to be issued standby letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, "Letters of Credit") to provide credit support for Borrower's workmen's compensation obligations; PROVIDED, HOWEVER, that the form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion; and PROVIDED, FURTHER, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed One Million Six Hundred Thousand Dollars ($1,600,000.00). On March 31, 2002, any Letter of Credit with an expiry date subsequent to April 30, 2002 shall be fully cash collateralized. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit Agreement and related documents, if any, required by Bank in connection with the issuance thereof (each, a "Letter of Credit Agreement" and collectively, "Letter of Credit Agreements"). Each draft paid by Bank under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; PROVIDED, HOWEVER, that if advances under the Line of Credit are not available, for any reason, at the time any draft is paid by Bank, then Borrower shall immediately pay to Bank the full amount of such draft, together with interest thereon from the date such amount is paid by Bank to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any demand deposit account maintained by Borrower with Bank for the amount of any such draft.

(d) BORROWING AND REPAYMENT. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; PROVIDED, HOWEVER, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above. The principal amount of the Line of Credit outstanding shall be repaid in accordance with the provisions of the Line of Credit Note.

SECTION 1.2 TERM LOAN.

(a) TERM LOAN. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make a loan to Borrower in the principal amount of Nine Million Dollars ($9,000,000.00) ("Term Loan"), the proceeds of which shall be used for general corporate and working capital purposes of Borrower; PROVIDED that no portion of the Term Loan shall be used to fund the Escrow Account or any settlement of the Pending Litigation. Borrower's obligation to repay the Term Loan shall be evidenced by a promissory note substantially in the form of EXHIBIT B attached hereto ("Term Note"), all terms of which are incorporated herein by this reference. The Term Loan shall be funded on the Closing Date (as defined below).

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

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

SECTION 1.3 INTEREST/FEES.

(a) INTEREST. Subject to Section 1.3(c), the outstanding principal balance of the Line of Credit Note shall bear interest at the Prime Rate PLUS the Applicable Line of Credit Margin MINUS any Litigation Margin Adjustment. The outstanding principal balance of the Term Note shall bear interest at the Prime Rate PLUS the Applicable Term Loan Margin MINUS any Litigation Margin Adjustment. As of the Closing Date (as defined below), the Applicable Line of Credit Margin shall be two and three-quarters percent (2.75%) and the Applicable Term Loan Margin shall be three percent (3.0%). Each such margin shall be adjusted quarterly on the date that the monthly financial statements for the month corresponding with such quarter end are required to be delivered pursuant to Section 4.3(b); PROVIDED, HOWEVER, that if a Default has occurred with respect to any of the financial reporting obligations set forth in Section 4.3, Bank shall have the option to apply the Applicable Line of Credit Margin and the Applicable Term Loan Margin at 3.00% and 3.25%, respectively, and the option to apply the default interest rate, until such Default is cured. If a Termination of Settlement occurs, then on the first day of the calendar month following the month in which any Termination of Settlement occurs, Borrower shall pay to Bank additional interest in an amount equal to the sum of (x) the cumulative reduction to interest otherwise payable pursuant to this Agreement as a result of the Litigation Margin Adjustment, PLUS (y) the cumulative reduction to interest otherwise payable pursuant to the Superseded Note (as defined below) as a result of the establishment of the Escrow Account.

(b) INTEREST RATE DEFINITIONS. The following terms when used in this Agreement shall have the following meanings:

(i) "Adjusted EBITDA" shall mean net income plus, to the extent deducted to arrive at net income, the sum of (a) taxes, (b) interest expense, (c) depreciation and amortization, (d) an amount not in excess of $1,500,000 related to the settlement of the Pending Litigation, (e) an amount not in excess of $900,000 of non-recurring facilities closing and consolidation charge during the fiscal quarter ended March 31, 2001, (f) up to an aggregate amount not in excess of $1,700,000 for inventory stock adjustments and core returns charged as expenses during the months of December 2000 and January 2001, and (g) an amount equal to any non-cash charge or non-cash credit to earnings resulting from the reduction of the exercise price of the Warrants

issued in favor of Bank pursuant to the Amendment to Warrant delivered pursuant to Section 3.1(b)(iii).

(ii) "Applicable Line of Credit Margin" shall mean at any time the applicable margin set forth below, based on the Funded Debt to Adjusted EBITDA Ratio as of the most recent calculation date:

| FUNDED DEBT TO ADJUSTED EBITDA RATIO | APPLICABLE LINE OF CREDIT MARGIN |
|---|---|
| Less than or equal to 4.5 | 2.25% |
| More than 4.5, but less than or equal to 5.0 | 2.50% |
| More than 5.0, but less than or equal to 5.5 | 2.75% |
| More than 5.5 | 3.00% |

(iii) "Applicable Term Loan Margin" shall mean the Applicable Line of Credit Margin PLUS one quarter of one percent (0.25%).

(iv) "Escrow Account" shall mean an escrow account established in an amount of not less than Seven Million Five Hundred Thousand Dollars ($7,500,000.00) pursuant to and as further described in the Memorandum of Understanding.

(v) "Funded Debt" shall mean all indebtedness of Borrower outstanding on any date of determination, including capitalized leases, standby letters of credit and the maximum outstanding obligations of Borrower with respect to any guaranties and contingent obligations.

(vi) "Funded Debt to Adjusted EBITDA Ratio" shall mean, as of any date of determination, the ratio of Funded Debt as of the last day of the testing period to the total of Borrower's Adjusted EBITDA for the twelve month period ending on the last day of such testing period.

(vii) "Litigation Margin Adjustment" shall mean (a) one quarter of one percent (0.25%) per annum for any period from and after the date the Escrow Account is opened and prior to the Settlement, or (b) one half of one percent (0.50%) from and after the Settlement; PROVIDED, HOWEVER, that no Litigation Margin Adjustment shall be made if a Termination of Settlement occurs.

(viii) "Memorandum of Understanding" shall mean that certain Memorandum of Understanding executed by the parties to the Pending Litigation between March 7, 2001 and March 12, 2001 as filed in connection with the Pending Litigation.

(ix) "Pending Litigation" shall mean that certain litigation pending against Borrower identified as JOSEPH L. SHALANT, IRA ON BEHALF OF HIMSELF AND OTHER SIMILARLY SITUATED, PLAINTIFF V. MOTORCAR PARTS AND ACCESSORIES, INC., MEL MARKS, RICHARD MARKS AND PETER BROOMBERG, DEFENDANTS.

(x) "Prime Rate" shall mean at any time the rate of interest most recently

announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof in such internal publication or publications as Bank may designate. Each change in the rate of interest shall become effective on the date each Prime Rate change is announced within Bank.

(xi) "Settlement" shall mean the Pending Litigation is settled and all releases in favor of Borrower described in the Memorandum of Understanding have been received by Borrower and a dismissal with prejudice of the Pending Litigation has been filed with the United States District Court, Central District of California, Western Division.

(xii) "Termination of Settlement" shall mean the settlement of the Pending Litigation on the terms and subject to the conditions set forth in the Memorandum of Understanding is revoked or terminated by any party, or any party to the Memorandum of Understanding indicates in writing that it does not intend to settle the Pending Litigation in accordance with the terms of the Memorandum of Understanding.

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

(d) COMPUTATION AND PAYMENT. Interest shall be computed on the basis of a 360 day year, actual days elapsed. Interest shall be payable on the Line of Credit and on the Term Loan on the first day of each month, commencing June 1, 2001.

(e) RESTRUCTURING FEE. Borrower shall pay to Bank a restructuring fee equal to one and one-quarter percent (1.25%) of the sum of the Line of Credit and the Term Loan. One-quarter of one percent (0.25%) of the sum of the Line of Credit and the Term Loan shall be fully earned and non-refundable and shall be paid in cash on the Closing Date. The other one percent (1.0%) of the sum of the Line of Credit and the Term Loan shall be fully earned on the Closing Date, but shall be payable on December 15, 2001; PROVIDED that if the Term Loan is repaid in full, the Line of Credit is repaid in full and terminated and all other fees and expenses reimburseable to Bank pursuant to this Agreement and any other Loan Document have been paid in full prior to such date, then the portion of the restructuring fee due on December 15, 2001 shall be waived by Bank.

(f) UNUSED COMMITMENT FEE. Borrower shall pay to Bank a fee equal to three-quarters of one percent (0.75%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily unused amount of the Line of Credit, which fee shall be calculated on a monthly basis by Bank and shall be due and payable by Borrower in arrears on the first business day of the following month.

(g) LETTER OF CREDIT FEES. Borrower shall pay to Bank fees upon the issuance of each Letter of Credit, upon the payment or negotiation by Bank of each draft under any Letter of

Credit and upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity. In addition, Borrower shall pay to Bank a fee equal to three percent (3.0%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily face amount of Letters of Credit outstanding, which fee shall be calculated on a monthly basis by Bank and shall be due and payable by Borrower in arrears on the first business day of the following month.

SECTION 1.4 MANDATORY PREPAYMENTS. Borrower shall repay the Line of Credit on any date on which the outstanding balance of the Line of Credit plus the face amount of all Letters of Credit outstanding exceeds the Borrowing Base. In addition, Borrower shall prepay the Credits from time to time in an amount equal to one hundred percent (100%) of (i) the net proceeds of any sales by Borrower of assets outside the ordinary course of business, (ii) the net proceeds of any debt or equity issuance by Borrower (exclusive of up to $1,500,000 of equity to be issued by Borrower to Mel Marks in connection with the settlement of the Pending Litigation), (iii) the net proceeds of any insurance payment received by Borrower (exclusive of any payments received by Borrower under its Director's and Officer's insurance policy in connection with the Pending Litigation), and
(iv) any and all local, state, or federal tax refunds received by Borrower from time to time. Each prepayment of the Credits required by this Section 1.4 shall first be applied to the Term Loan, and thereafter shall be applied to the outstanding principal balance of the Line of Credit. On the date that any repayment under the Line of Credit is required pursuant to the preceding sentence, the Line of Credit shall be permanently reduced by a corresponding amount.

SECTION 1.5 COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under any Loan Document (as defined below) by charging Borrower's demand deposit account number 4608-043691 with Bank, or any other demand deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such demand deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower. Borrower authorizes Bank to (a) apply all amounts on deposit in such account at the close of each business day to the outstanding balance of the Line of Credit, and (b) make advances under the Line of Credit after the close of business each business day in an amount equal to any overdraft reflected with respect to such demand deposit account; PROVIDED, that Borrower acknowledges and agrees that any advance described in this clause (b) shall be subject to all of the terms and conditions applicable to advances under the Line of Credit set forth in this Agreement and the other Loan Documents.

SECTION 1.6 COLLATERAL. As security for all indebtedness of Borrower to Bank or Trade Bank subject hereto, Borrower hereby re-affirms its prior grant to Bank and Trade Bank of security interests of first priority in all Borrower's accounts, other rights to payment, general intangibles, inventory and equipment. All of the foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds of trust and other documents as Bank or Trade Bank shall reasonably require, all in form and substance satisfactory to Bank (and, as appropriate, Trade Bank). Borrower shall reimburse Bank and Trade Bank immediately upon demand for all costs and expenses incurred by Bank or Trade Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of

appraisals and audits.

SECTION 1.7 CERTAIN LOAN DOCUMENTS SUPERSEDED. As of the Closing Date, the Prior Credit Agreement shall be deemed to have been amended and restated in its entirety by this Agreement, the Revolving Line of Credit Note in the principal amount of $33,750,000.00 dated March 28, 2001 (the "Superseded Note") made by Borrower in favor of Bank shall be amended and restated in its entirety by the Line of Credit Note and the Term Note, and the indebtedness evidenced by the Superseded Note shall be evidenced first by the Term Note, and then, to the extent of the remaining principal amount outstanding thereunder, by the Line of Credit Note. To the extent that the Prior Credit Agreement provides for costs, expenses, fees and indemnities in favor of Bank, Borrower promises to pay all such costs, expenses, fees and indemnities.

## ARTICLE II

## REPRESENTATIONS AND WARRANTIES

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

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

SECTION 2.2 AUTHORIZATION AND VALIDITY. This Agreement, the Line of Credit Note, the Term Note, and each other document, contract and instrument required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms. The Certificate of Incumbency delivered to Bank in connection with the First Amendment to the Prior Credit Agreement remains true and correct as of the date of this Agreement, and the officers of Borrower identified in such Certificate of Incumbency are duly authorized by all necessary corporate action to execute this Agreement and each other Loan Document to be executed and delivered in connection herewith.

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

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

SECTION 2.5 CORRECTNESS OF FINANCIAL STATEMENT. The financial statements of Borrower dated February 28, 2001, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as disclosed on Schedule 5.2.

SECTION 2.6 INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year which would result in any obligation to pay additional taxes.

SECTION 2.7 NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

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

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

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

SECTION 2.11 ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with

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

## ARTICLE III

## CONDITIONS

SECTION 3.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to grant any of the Credits is subject to the fulfillment to Bank's satisfaction of all of the following conditions on or before June 15, 2001:

(a) APPROVAL OF BANK COUNSEL. All legal matters incidental to the granting of each of the Credits shall be satisfactory to Bank's counsel.

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

(i) This Agreement, the Line of Credit Note, and the Term Note.
(ii) An Amendment to Warrant in form and substance satisfactory to Bank, which shall reduce the exercise price of the Warrant from $2.045 per share to $0.01 per share.
(iii) A Corporate Borrowing Resolution and resolutions of the Board of Directors of Borrower approving the execution and delivery of the Amendment to Warrant.
(iv) Such other documents as Bank or Trade Bank may require under any other Section of this Agreement.

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

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

(e) REIMBURSEMENT OF EXPENSES; RESTRUCTURING FEE. Borrower shall have reimbursed Bank for all fees, costs and expenses (including without limitation the allocated cost of in-house counsel and all audit and appraisal fees) incurred by Bank in connection with the negotiation of

documentation of the transaction described herein and in the other Loan Documents. In addition, Borrower shall have paid Bank the portion of the restructuring fee required to be paid on the Closing Date as described in Section 1.3(e).

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

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

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

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

## ARTICLE IV

## AFFIRMATIVE COVENANTS

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

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

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

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

(a) not later than June 30, 2001, Borrower's Form 10-K for the fiscal year ended March 31, 2001 as filed with the Securities Exchange Commission (the "SEC"), and financial

statements of Borrower, audited by independent certified public accountants acceptable to Bank, to include a balance sheet, income statement and statement of cash flows and all footnotes;

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

(c) not later than 30 days after the end of each month, monthly financial statements of Borrower (to include a narrative explaining the reasons for any variances from the Projections (as defined below) and a progress report on the Settlement of the Pending Litigation), together with a Compliance Certificate substantially in the form of EXHIBIT C from the Chief Financial Officer or President of Borrower (and accompanying calculations in form and substance satisfactory to Bank);

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

(e) not later than 20 days after and as of the end of each month beginning with the month ending June 30, 2001, a Borrowing Base Certificate substantially in the form of EXHIBIT D, together with an inventory collateral report, an aged listing of accounts receivable and accounts payable, and a reconciliation of accounts, and immediately upon each request from Bank, a list of the names and addresses of all Borrower's account debtors;

(f) contemporaneously with each annual and monthly financial statement of Borrower required hereby, a certificate of the President or Chief Financial Officer of Borrower that said financial statements are accurate and that there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default;

(g) not later than July 31, 2001, a Certificate of Incumbency executed by Borrower;

(h) within five business days of receipt by Borrower and in any event not later than September 30, 2001, the management letter prepared by Borrower's independent certified public accountants in connection with their audit for the fiscal year ended March 31, 2001;

(i) promptly, and in any event within five business days after Borrower has knowledge thereof, a report describing any material development in connection with the Pending Litigation, including any Settlement or Termination of Settlement; and

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

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

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

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

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

SECTION 4.8 LITIGATION. Promptly give notice in writing to Bank of (a) any litigation pending or threatened against Borrower with a claim in excess of $100,000.00, and (b) the terms of any modifications to the settlement of any pending or threatened litigation and the proposed source of funding for any such settlement.

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

(a) Monthly EBITDA, calculated on a monthly basis beginning with the month ended April 30, 2001, shall at all times equal not less than 110% of the sum of Borrower's monthly interest and lease payment obligations; PROVIDED, HOWEVER, that if in any given month Borrower's EBITDA is less than 110% but not less than 100% of the sum of Borrower's monthly interest and lease payment obligations, then Borrower shall not be in default under this provision so long as the sum of Borrower's EBITDA for such month when combined with that of the immediately preceding month exceeds 110% of the sum of Borrower's monthly interest and lease payment obligations for such month when combined with that of the immediately preceding month. "EBITDA" shall refer to Borrower's net income, PLUS in each case to the extent deducted to arrive at net income, interest expense (net of capitalized interest expense), taxes, depreciation expense and amortization expense, and an amount equal to any non-cash charge or non-cash credit to earnings resulting from the reduction of the exercise price of the Warrants issued in favor of Bank pursuant to the Amendment to Warrant delivered pursuant to Section 3.1(b)(iii).

(b) Net Operating Income/(Loss), calculated on a monthly basis beginning with the month ended April 30, 2001, shall never be more than 10% less than (in the case of income) or 10% greater than (in the case of loss) the amount of income/loss reflected in the Projections for such month; PROVIDED, HOWEVER, that if in any given month Borrower's Net Operating Income/(Loss) does vary more than such permitted 10% variance from the Projections for such

month, Borrower shall not be in default under this provision so long as the sum of Borrower's Net Operating Income/(Loss) for such month when combined with that of the immediately preceding month is within such permitted 10% variance from the Projections for such two-month period. "Net Operating Income/(Loss)" as used herein shall mean all income (not including any interest income) before deducting interest expense and taxes. "Projections" as used herein shall mean those certain financial projections for the fiscal year ending March 31, 2002 prepared by Borrower and delivered to Bank, a copy of which are attached hereto as EXHIBIT E.

(c) Gross sales, calculated on a monthly basis beginning with the month ended April 30, 2001, shall never be less than 90% of the amount of gross sales reflected in the Projections for such month; PROVIDED, HOWEVER, that if in any given month Borrower's gross sales are less than 90% of gross sales as reflected in the Projections for such month, Borrower shall not be in default under this provision so long as the sum of Borrower's gross sales for such month when combined with that of the two immediately preceding months is at least 90% of the gross sales reflected in the Projections for such three-month period.

(d) Minimum Tangible Net Worth not at any time less than the sum of (i) Borrower's Tangible Net Worth as of March 31, 2001, PLUS (ii) as of each month end from and after May 31, 2001, an amount equal to 50% of Borrower's net income after taxes for such month, PLUS (iii) an amount equal to any increase in Tangible Net Worth in connection with the Settlement, including in connection with a purchase of capital stock by Mel Marks, MINUS (iv) an amount equal to any charge or credit to earnings resulting from the reduction of the exercise price of the Warrants issued in favor of Bank pursuant to the Amendment to Warrant delivered pursuant to Section 3.1(b)(iii). "Tangible Net Worth" is defined as the aggregate of total stockholders' equity plus subordinated debt minus any intangible assets.

(e) Minimum Adjusted EBITDA, calculated as of the last day of each month beginning with the month ended April 30, 2001, of not less than the amount set forth opposite such date for the twelve month period ending on such date:

| | |
|---|---|
| April 30, 2001 | $6,000,000 |
| May 31, 2001 | $6,000,000 |
| June 30, 2001 and each month ending thereafter | $6,500,000 |

(f) Stock adjustments for the fiscal year ended March 31, 2002 shall not exceed $900,000 or 30,000 units.

(g) Maximum Funded Debt to Adjusted EBITDA Ratio, calculated as of the last day of calendar quarter beginning with the quarter ended March 31, 2001, less than or equal to the ratio set forth opposite such date below:

| | |
|---|---|
| March 31, 2001 | less than or equal to 5.50 |
| June 30, 2001 | less than or equal to 5.75 |
| September 30, 2001 | less than or equal to 5.50 |
| December 31, 2001 | less than or equal to 5.00 |
| March 31, 2002 | less than or equal to 4.75 |

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

SECTION 4.11 QUARTERLY FIELD EXAMINATIONS AND APPRAISALS. Borrower shall permit Bank and its agents, representatives, auditors and appraisers access to its facilities, books and records, and provide such other assistance as requested by Bank or any such person (a) to enable Bank's appraisers to complete quarterly inventory appraisals, with the first inventory appraisal after the Closing Date to be completed by July 31, 2001 with respect to inventory as of June 30, 2001, and to establish the "Appraised Net Recovery Value" of inventory on a quarterly basis for purposes of Section 1.1(b), (b) to enable Bank's auditors to complete quarterly field audit examinations. The results of each field audit examination must be in form and substance satisfactory to Bank. Such examinations and appraisals shall be in addition to and shall in no way limit any other rights to audit and appraise Bank's collateral provided to Bank in this Agreement and in the other Loan Documents. Borrower shall reimburse Bank immediately upon demand for all costs and expenses incurred by Bank in connection with such examinations and appraisals.

## ARTICLE V

## NEGATIVE COVENANTS

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

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

SECTION 5.2 OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, and (b) any other liabilities of Borrower existing as of the date hereof and identified on Schedule 5.2.

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

SECTION 5.4 GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank and except for guaranties of the obligations of Borrower's foreign affiliates not to exceed an aggregate of $150,000.00 outstanding at any time.

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

SECTION 5.6 DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding.

SECTION 5.7 PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except (a) any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof, (b) liens for taxes and assessments not yet due, (c) mechanics, warehousemen, carrier, landlord and other statutory liens which arise in the ordinary course of Borrower's business for amounts not yet due, (d) liens on equipment leased by Borrower, and (e) liens in security deposits made in the ordinary course of Borrower's business.

SECTION 5.8 CAPITAL EXPENDITURES. Make or incur Capital Expenditures in excess of $1,000,000.00 in any twelve month period. "Capital Expenditures" shall refer to the aggregate cost of all assets which have been (or shall be) classified and accounted for as a capital asset on the Borrower's balance sheet. The limitation on Capital Expenditures set forth in this Section 5.8 shall be tested on the last calendar day of each month, and shall include the twelve months ending on such date, whether or not any portion of such period occurred prior to the Closing Date.

## ARTICLE VI

## EVENTS OF DEFAULT

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

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

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

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections (a) and (b) above), and with respect to any such default which by its nature can be cured, such default shall continue for a period of ten (10) days from its occurrence.

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

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

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

(g) Borrower shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower shall file a voluntary petition in bankruptcy, or seek reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower, or Borrower shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower by any court of competent jurisdiction under the Bankruptcy Code or

any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

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

(i) The dissolution or liquidation of Borrower.

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

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

## ARTICLE VII

## MISCELLANEOUS

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

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

BORROWER: MOTORCAR PARTS & ACCESSORIES, INC.
2929 California Street
Torrance, California 90503
Attention: Anthony Souza, President

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
Loan Adjustment Group
333 South Grand Avenue, Suite 940
Los Angeles, California 90071
Attention: Edith Lim

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

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

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

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

SECTION 7.6 NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have

any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

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

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

SECTION 7.9 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

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

SECTION 7.11 ARBITRATION.

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

(b) GOVERNING RULES. Arbitration proceedings shall be administered by the American Arbitration Association ("AAA") or such other administrator as the parties shall mutually agree upon in accordance with the AAA Commercial Arbitration Rules. All Disputes submitted to arbitration shall be resolved in accordance with the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents. The arbitration shall be conducted at a location in California selected by the AAA or other administrator. If there is any inconsistency between the terms hereof and any such rules, the terms and procedures set forth herein shall control. All statutes of limitation applicable to any Dispute shall apply to any arbitration proceeding. All discovery activities shall be expressly limited to matters directly relevant to the Dispute being arbitrated. Judgment upon any award rendered in an arbitration may be entered in any court having jurisdiction; provided however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. ss.91 or any similar applicable state law.

(c) NO WAIVER; PROVISIONAL REMEDIES, SELF-HELP AND FORECLOSURE. No provision hereof shall limit the right of any party to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security, or to obtain provisional or ancillary remedies, including without limitation injunctive relief, sequestration, attachment, garnishment or the appointment of a receiver, from a court of competent jurisdiction before, after or during the pendency of any arbitration or other proceeding. The exercise of any such remedy shall not waive the right of any party to compel arbitration or reference hereunder.

(d) ARBITRATOR QUALIFICATIONS AND POWERS; AWARDS. Arbitrators must be active members of the California State Bar or retired judges of the state or federal judiciary of California, with expertise in the substantive laws applicable to the subject matter of the Dispute. Arbitrators are empowered to resolve Disputes by summary rulings in response to motions filed prior to the final arbitration hearing. Arbitrators (i) shall resolve all Disputes in accordance with the substantive law of the state of California, (ii) may grant any remedy or relief that a court of the state of California could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award, and (iii) shall have the power to award recovery of all costs and fees, to impose sanctions and to take such other actions as they deem necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Any Dispute in which the amount in controversy is $5,000,000 or less shall be decided by a single arbitrator who shall not render an award of greater than $5,000,000 (including damages, costs, fees and expenses). By submission to a single arbitrator, each party expressly waives any right or claim to recover more than $5,000,000. Any Dispute in which the amount in controversy exceeds $5,000,000 shall be decided by majority vote of a panel of three arbitrators; PROVIDED, HOWEVER, that all three arbitrators must actively participate in all hearings and deliberations.

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

(f) REAL PROPERTY COLLATERAL; JUDICIAL REFERENCE. Notwithstanding anything herein to the contrary, no Dispute shall be submitted to arbitration if the Dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations

of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such Dispute is not submitted to arbitration, the Dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

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

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

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

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

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

**"Section 1542. GENERAL RELEASE; EXTENT. A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE**

CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

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

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

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

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

| | |
|---|---|
| MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation | WELLS FARGO BANK, NATIONAL ASSOCIATION |
| By: _____<br>Anthony P. Souza<br>Chief Executive Officer and President | By: _____<br>Edith R. Lim<br>Vice President |
| By: _____<br>Charles W. Yeagley<br>Chief Financial Officer | |

**Exhibit 10.33**

**TERM NOTE**

$9,000,000.00 Los Angeles, California May 31, 2001

FOR VALUE RECEIVED, the undersigned MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation ("Borrower"), promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at 333 South Grand Avenue, Suite 940, Los Angeles, California, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Nine Million Dollars and No/100 ($9,000,000.00), with interest thereon as set forth herein.

**INTEREST:**

(a) INTEREST. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at the rate set forth in that certain Second Amended and Restated Credit Agreement dated as of May 31, 2001 (as amended from time to time, the "Credit Agreement') between Borrower and Bank.

(b) PAYMENT OF INTEREST. Interest accrued on this Note shall be payable on the first business day of each month, commencing July 1, 2001.

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

**REPAYMENT AND PREPAYMENT:**

(a) REPAYMENT. Borrower shall pay the outstanding principal balance of this Note at the times set forth in the Credit Agreement. On April 30, 2002, Borrower shall pay all remaining unpaid principal and all accrued and unpaid interest.

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

(c) APPLICATION OF PAYMENTS. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

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

**EVENTS OF DEFAULT:**

This Note is made pursuant to and is subject to the terms and conditions of the Credit Agreement. Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

**MISCELLANEOUS:**

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

(b) OBLIGATIONS JOINT AND SEVERAL. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

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

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

**MOTORCAR PARTS & ACCESSORIES, INC.**

By:

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

By:
Name: Charles W. Yeagley Title: Chief Financial Officer

**Exhibit 10.34**

**REVOLVING LINE OF CREDIT NOTE**

$24,750,000.00 Los Angeles, California May 31, 2001

FOR VALUE RECEIVED, the undersigned MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at 333 South Grand Avenue, Suite 940, Los Angeles, California, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Twenty-Four Million Seven Hundred Fifty Dollars ($24,750,000.00), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

**INTEREST:**

(a) INTEREST. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at the rate set forth in that certain Second Amended and Restated Credit Agreement dated as of May 31, 2001 (as amended from time to time, the "Credit Agreement') between Borrower and Bank.

(b) PAYMENT OF INTEREST. Interest accrued on this Note shall be payable on the first day of each month, commencing July 1, 2001.

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

**BORROWING AND REPAYMENT:**

(a) BORROWING AND REPAYMENT. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; PROVIDED, HOWEVER, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on April 30, 2002.

(b) ADVANCES. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) Anthony Souza or Charles Yeagley, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such

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

(c) APPLICATION OF PAYMENTS. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

**EVENTS OF DEFAULT:**

This Note is made pursuant to and is subject to the terms and conditions of the Credit Agreement. Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

**MISCELLANEOUS:**

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

(b) OBLIGATIONS JOINT AND SEVERAL. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

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

(d) SUPERSEDED NOTE. This Note replaces and supersedes in its entirety that certain Revolving Line of Credit Note executed by Borrower in favor of Bank dated March __, 2001 in the original principal amount of $33,750,000.00.

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

**MOTORCAR PARTS & ACCESSORIES, INC.**

By:
Anthony P. Souza
President and Chief Executive Officer

By:
Charles W. Yeagley
Chief Financial Officer

Exhibit 10.35 Memorandum

To: Steven Kratz

CC: Richard Marks
Selwyn Jaffe

From: Anthony Souza

Date: 02/23/00

Re: Employment Contract

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The following is an Outline of the Terms of an Employment Contract which I am Offering on behalf of MPA to You as Senior Vice President Of Operations.

1) Guaranteed Salary Of $250000.00

2) A Bonus Program which pays Additional Salary (approx. $50000.00 to $100000.00) The Terms of which are to be mutually Agreed upon by MPA and Yourself.

3) One (1) Year Severance Agreement which Guarantees $300000.00 to be paid within 60 days of Termination, during the Term of the Employment Contract.(The terms of which are to mutually agreed upon by MPA and Yourself.)

4) Three (3) Weeks Vacation Annually

5) Existing PPO or Comparable Health Plan

6) Existing Stock Options (aprox. 63000) To be revalued or New Options issued at a value to be agreed upon by both MPA and yourself and at a time which is mutually agreeable to both parties.

7) Exclusive use of Your existing Company Car and Gas Credit Card or Car Allowance of Equal value.

8) A Signing Bonus (Payable by April 15the 2000) in an Amount Equal to the total Amount of Funds remaining in Your Deferred Compensation Plan including all Previous Penalties Paid, Company Matching Funds and any Future Penalties. Or all funds remaining in your Deferred Compensation Plan Equal to previous Penalties Paid, Company Matching Funds and any Future Penalties.

9) Indemnification Specified in the Employment Contract which Explicitly Reaffirms Your Indemnification by MPA and provides for certain Specific Indemnity as agreed by You.

10) The Option on Your part to Unilaterally Terminate the Contract with 60 days Written Notice or Remain Employed with the Contract in Full Force and Effect until the End of the Term of the Contract.

**11) The Term of the Contract Shall be Three (3) years**

Accepted By:_____ Anthony Souza CEO

Accepted By:_____ Steve Kratz SVP Ops

**Exhibit 10.36**

# EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT dated as of June 26, 2000, is entered into by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation currently having an address at 2727 Maricopa Street, Torrance, California 90503 (the "COMPANY"), and CHARLES W. YEAGLEY, an individual residing at 1401 Launer Drive, La Habra, California 90531("EMPLOYEE").

**W I T N E S S E T H:**

WHEREAS, the Company desires to employ Employee as its Chief Financial Officer and Employee desires to be employed by the Company all upon the terms and subject to the conditions contained herein.

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

1. EMPLOYMENT. Subject to and upon the terms and conditions contained in this Agreement, the Company hereby agrees to employ Employee and Employee agrees to enter the employ of the Company, for the period set forth in Paragraph 2 hereof, to render the services to the Company, its affiliates and/or subsidiaries described in Paragraph 3 hereof.

2. TERM. Employee's term of employment under this Agreement shall commence on the date hereof (the "COMMENCEMENT DATE") and shall continue for a period through and including December 1, 2001,(the "EMPLOYMENT TERM") unless extended in writing by both parties or earlier terminated pursuant to the terms and conditions set forth herein; provided that this Agreement shall be automatically renewed for successive one-year Employment Terms unless either the Company or Employee elects not to so renew by providing written notice of such election to the other party within ninety (90) days prior to the end of the then-current Employment Term.

3. DUTIES.

(a) Employee shall be employed as the Company's Chief Financial Officer and shall report to the President and Chief Executive Officer. It is agreed that Employee shall perform his services in the Company's Torrance, California facilities, or any other facilities mutually agreeable to the parties.

(b) Employee agrees to abide by all By-laws and applicable policies of the Company promulgated from time to time by the Board of Directors of the Company and the direction of the President and Chief Executive Officer.

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

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

(a) BASE SALARY. The Company shall pay Employee a base salary ("Salary") of One Hundred Seventy-Five Thousand Dollars ($175,000) per year.

(b) STOCK OPTIONS. As additional consideration for the services to be performed by Employee hereunder, the Company agrees, not later than June 26, 2000, to grant Employee an option to purchase, for a period of ten years from such date of grant, Twenty-Five Thousand (25,000) shares of the Company's common stock, par value $.01 per share (the "Common Stock"), pursuant to the terms of the Company's 1994 Stock Option Plan, as amended to date (the "Plan"), and any related stock option agreement(s) required to be executed in connection therewith. Such option shall become exercisable on the date of grant with respect to one-half of such shares of Common Stock and on the first anniversary thereof with respect to the remaining such shares. The exercise price shall be $0.931 per share.

(c) BONUS. Employee shall be paid an incentive bonus ("Bonus") equal to one percent (1%) of the pre-tax income (without giving effect to any tax on such income, whether actual or offset by loss carry overs) earned by the Company in each fiscal year of the term of this Agreement, provided that no Bonus shall be payable for any such year unless and until the amount of such pre-tax income in such year shall be at least Two Million Dollars ($2,000,000), without carry over from year to year. There shall be no minimum Bonus payable pursuant hereto and the maximum shall be Fifty Thousand Dollars ($50,000). The foregoing Bonus shall be paid by the Company within thirty (30) days after completion of the audited financial results of the Company for the applicable fiscal year, which Bonus shall be prorated (as reasonably determined by the Board of Directors) for any partial year service by the Employee.

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

7. EMPLOYEE BENEFITS.

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

(b) Employee shall receive as an allowance for medical insurance during the term of this Agreement the sum of Two Thousand Eighty-Three Dollars ($2,083.00) per month. The Company may withhold from any benefits payable to Employee all federal, state, local and other taxes and amounts as shall be permitted or required pursuant to law, rule or regulation. All of the benefits to which Employee may be entitled may be changed from time to time or withdrawn at any time in the sole discretion of the Company.

(c) During the Employment Term the Company shall provide to executive an automobile allowance in the amount of Five Hundred Dollars ($500) per month, payable monthly.

8. DEATH AND DISABILITY.

(a) The Employment Term shall terminate on the date of Employee's death, in which event Employee's accrued Salary and Bonus, reimbursable expenses and benefits, including accrued but unused vacation time owing to Employee through the date of Employee's death shall be paid to his estate. Employee's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 8(a).

(b) If, during the Employment Term, in the opinion of a duly licensed physician selected by Employee and reasonably acceptable to the Company, Employee, because of physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this Agreement for a period of three (3) consecutive months the Company may, upon at least ten (10) days' prior written notice given at any time after the expiration of such three-month period to Employee of its intention to do so, terminate this Agreement as of such date as may be set forth in the notice. In case of such termination, Employee shall be entitled to receive his accrued Salary and Bonus, if any, reimbursable expenses and benefits owing to Employee through the date of termination. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 8(b).

9. TERMINATION FOR CAUSE.

(a) The Company may terminate the employment of Employee for Cause (as hereinafter defined) without prior notice. Employee may terminate his employment at any time for any reason upon sixty (60) days' written notice. Upon any such termination, the Company shall be released from any and all further obligations under this Agreement except that the Company shall be obligated to pay Employee his Salary, reimbursable expenses and benefits owing to Employee through the day on which Employee is terminated. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(a).

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

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

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

(b) Employee will not, during the term of this Agreement, directly or indirectly, under any circumstance other than at the direction and for the benefit of the Company, engage in or participate in any business activity, including, but not limited to, acting as a director, franchisor or franchisee, proprietor, syndicate member, shareholder or creditor or with a person having any other relationship with any other business,

company, firm occupation or business activity, in any geographic area within the United States that is, directly or indirectly, competitive with any business completed by the Company or any of its subsidiaries or affiliates during the term of this Agreement or thereafter. Should Employee own 5% or less of the issued and outstanding shares of a class of securities of a corporation the securities of which are traded on a national securities exchange or in the over-the-counter market, such ownership shall not cause Employee to be deemed a shareholder under this Paragraph 10(b).

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

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

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

11. COMPANY PROPERTY.

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

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

12. REMEDY. It is mutually understood and agreed that Employee's services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this Agreement by Employee, including, but not limited to, the breach of the non-disclosure, non-solicitation and non-compete clauses under Paragraph 10 hereof, the Company shall be entitled to equitable relief by way of injunction or otherwise in addition to damages the Company may be entitled to recover. In addition, the Company shall be entitled to reimbursement from Employee, upon request, of any and all reasonable attorneys7 fees and expenses incurred by it in enforcing any term or provision of this Agreement.

13. REPRESENTATIONS AND WARRANTIES OF EMPLOYEES.

(a) In order to induce the Company to enter into this Agreement, Employee hereby represents and warrants to the Company as follows: (i) Employee has the legal capacity and unrestricted right to execute and deliver this Agreement and to perform all of his obligations hereunder; (ii) the execution and delivery of this Agreement by Employee and the performance of his obligations hereunder will not violate or be in conflict with any fiduciary or other duty, instrument, agreement, document., arrangement or other understanding to which Employee is a party or by which he is or may be bound or subject; and
(iii) Employee is not a party to any instrument, agreement, document, arrangement or other understanding with any person (other than the Company) requiring or restricting the use or disclosure of any confidential information or the provision of any employment, consulting or other services, except one confidentiality agreement unrelated to the Company's industry and having no relationship or impact of any kind whatsoever with respect to this Agreement and the transactions contemplated hereby.

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

14. NOTICES. All notices given hereunder shall be in writing and shall be deemed effectively given when mailed, if sent by registered or certified mail, return receipt requested, addressed to Employee at his address set forth on the first page of this Agreement and to the Company at its address set forth on the first page of this Agreement.

15. ENTIRE AGREEMENT. This Agreement constitutes the entire understanding of the parties with respect to its subject matter and no

change, alteration or modification hereof may be made except in writing signed by the parties hereto. Any prior or other agreements, promises, negotiations or representations not expressly set forth in this Agreement are of no force or effect.

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

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

18. INDEMNIFICATION. Company shall indemnify Employee against any and all claims of third parties arising out of the lawful and authorized performance of this duties pursuant to this Agreement by Employee.

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

20. APPLICABLE LAW. This Agreement shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of California and shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law rules thereof. Nothing contained in this Agreement shall be construed so as to require the commission of any act contrary to law, and whenever there is any conflict between any provision of this Agreement and any statute, law, ordinance, order or regulation, contrary to which the parties hereto have no legal right to contract, the latter shall prevail, but in such event any provision of this Agreement so affected shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

21. JURISDICTION AND VENUE. It is hereby irrevocably agreed that all disputes or controversies between the Company and Employee arising out of, in connection with or relating to this Agreement shall be exclusively heard, settled and determined by arbitration to be held in the City of Los Angeles, County of Los Angeles, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The parties also agree that judgment may be entered on the arbitrator's award by any court having jurisdiction thereof and the parties consent to the jurisdiction of any court located in the City of Los Angeles, County of Los Angeles, for this purpose.

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

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

24. LEGAL REPRESENTATION. The parties hereto acknowledge that each has been represented by independent counsel of such party's own choice throughout all of the negotiations which preceded the execution of this Settlement Agreement and Mutual Release and in connection with the preparation and execution of this Settlement Agreement and Mutual Release or has had the opportunity to do so.

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

**MOTORCAR PARTS & ACCESSORIES, INC.**

By:
---
Name: Anthony Souza
Title: President

CHARLES W. YEAGLEY

**Exhibit 18.1**

Board of Directors
Motorcar Parts & Accessories, Inc.

As stated in note D to the consolidated financial statements of Motorcar Parts & Accessories, Inc. and Subsidiaries (the "Company") for the year ended March 31, 2000, the Company changed its accounting policy for valuation of its inventory of cores. Under the new accounting methodology, in recording its inventory of cores at the lower of cost or market, the Company determines the market value based on comparisons to current core broker prices. Such values are normally less than the cost of the core, which is the amount credited to customer's accounts when cores are returned to the Company as trade-ins. In prior years when the Company valued its inventory at the lower of cost or market, cost and market were deemed essentially the same and were determined by the weighted average of the repurchase price of cores acquired from the Company's customers and the price of cores purchased from core brokers. Management believes the newly adopted accounting principle is preferable in the circumstances because the new methodology better reflects the economics of its business while providing a better measurement under generally accepted accounting principles. At your request, we have reviewed and discussed with management the circumstances, business judgment, and planning that formed the basis for making this change in accounting principle.

It should be recognized that professional standards have not been established for selecting among alternative principles that exist in this area or for evaluating the preferability of alternative accounting principles. Accordingly, we are furnishing this letter solely for purposes of the Company's compliance with the requirements of the Securities and Exchange Commission, and it should not be used or relied on for any other purpose.

Based on our review and discussion, we concur with management's judgment that the newly adopted accounting principle is preferable in the circumstances. In formulating this position, we are relying on management's business planning and judgment, which we do not find unreasonable.

Very truly yours,

*/s/ Grant Thornton LLP*