

MOTORCAR PARTS AMERICA INC
Form 10-Q
January 08, 2019

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

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-33861

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

New York 11-2153962
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2929 California Street, Torrance, California 90503
(Address of principal executive offices) (Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

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

There were 18,809,102 shares of Common Stock outstanding at December 31, 2018.

MOTORCAR PARTS OF AMERICA, INC.

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MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

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

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

“Remanufactured Core” — The Used Core underlying an automobile part that has gone through the remanufacturing process and through that process has become part of a newly remanufactured automobile part. The remanufacturing process takes a Used Core, breaks it down into its component parts, replaces those components that cannot be reused and reassembles the salvageable components of the Used Core and additional new components into a remanufactured automobile part. Upon adoption of Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contract with Customers, (“ASC 606”) on April 1, 2018, the Remanufactured Cores at our facilities, which were previously segregated from cores held at customers’ locations, were reclassified from long-term core inventory to our on-hand finished goods inventory. Remanufactured Cores held for sale at our customer locations are included in long-term contract assets. In addition, upon the adoption of ASC 606, the Remanufactured Core portion of stock adjustment returns are classified as contract assets until we physically receive them.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2018 (Unaudited)	March 31, 2018 (As Adjusted) (Note 4)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,175,000	\$ 13,049,000
Short-term investments	3,230,000	2,828,000
Accounts receivable — net	56,085,000	63,174,000
Inventory— net	188,287,000	161,210,000
Inventory unreturned	9,100,000	7,508,000
Contract assets (see Note 8)	24,272,000	23,206,000
Income tax receivable	11,572,000	7,972,000
Prepaid expenses and other current assets	10,200,000	8,608,000
Total current assets	308,921,000	287,555,000
Plant and equipment — net	30,512,000	28,322,000
Long-term deferred income taxes	7,345,000	6,698,000
Long-term contract assets (see Note 8)	230,438,000	222,731,000
Goodwill	2,551,000	2,551,000
Intangible assets — net	3,380,000	3,766,000
Other assets	866,000	804,000
TOTAL ASSETS	\$ 584,013,000	\$ 552,427,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 92,663,000	\$ 73,273,000
Accrued liabilities	10,622,000	12,048,000
Customer finished goods returns accrual	19,961,000	17,805,000
Contract liabilities (see Note 11)	31,488,000	32,603,000
Revolving loan	52,906,000	54,000,000
Other current liabilities	4,970,000	4,471,000
Current portion of term loan	3,685,000	3,068,000
Total current liabilities	216,295,000	197,268,000
Term loan, less current portion	26,032,000	13,913,000
Long-term contract liabilities (see Note 11)	52,535,000	48,183,000
Long-term deferred income taxes	211,000	226,000
Other liabilities	6,776,000	5,957,000
Total liabilities	301,849,000	265,547,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued	-	-
Series A junior participating preferred stock; par value \$.01 per share, 20,000 shares authorized; none issued	-	-
Common stock; par value \$.01 per share, 50,000,000 shares authorized; 18,799,477 and 18,893,102 shares issued and outstanding at September 30,	188,000	189,000

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2018 and March 31, 2018, respectively

Additional paid-in capital	211,593,000	213,609,000
Retained earnings	77,274,000	78,510,000
Accumulated other comprehensive loss	(6,891,000) (5,428,000)
Total shareholders' equity	282,164,000	286,880,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 584,013,000	\$ 552,427,000

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017 (As Adjusted)	2018	2017 (As Adjusted)
Net sales	\$ 127,939,000	\$ 110,261,000	\$ 219,607,000	\$ 204,956,000
Cost of goods sold	102,228,000	84,234,000	177,544,000	153,077,000
Gross profit	25,711,000	26,027,000	42,063,000	51,879,000
Operating expenses:				
General and administrative	8,997,000	8,615,000	21,088,000	14,503,000
Sales and marketing	4,537,000	3,457,000	8,929,000	6,851,000
Research and development	1,784,000	1,240,000	3,520,000	2,242,000
Total operating expenses	15,318,000	13,312,000	33,537,000	23,596,000
Operating income	10,393,000	12,715,000	8,526,000	28,283,000
Interest expense, net	5,699,000	3,522,000	10,774,000	6,836,000
Income (loss) before income tax expense (benefit)	4,694,000	9,193,000	(2,248,000)	21,447,000
Income tax expense (benefit)	1,181,000	3,598,000	(266,000)	8,032,000
Net income (loss)	\$ 3,513,000	\$ 5,595,000	\$ (1,982,000)	\$ 13,415,000
Basic net income (loss) per share	\$ 0.19	\$ 0.30	\$ (0.10)	\$ 0.72
Diluted net income (loss) per share	\$ 0.18	\$ 0.29	\$ (0.10)	\$ 0.69
Weighted average number of shares outstanding:				
Basic	18,878,674	18,718,709	18,887,214	18,687,179
Diluted	19,319,465	19,356,809	18,887,214	19,371,144

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017 (As Adjusted)	2018	2017 (As Adjusted)
Net income (loss)	\$3,513,000	\$ 5,595,000	\$(1,982,000)	\$ 13,415,000
Other comprehensive (loss) income, net of tax:				
Unrealized gain on short-term investments (net of tax of \$0, \$40,000, \$0 and \$78,000)	-	60,000	-	116,000
Foreign currency translation (loss) gain	(2,000)	608,000	(717,000)	837,000
Total other comprehensive (loss) gain, net of tax	(2,000)	668,000	(717,000)	953,000
Comprehensive income (loss)	\$3,511,000	\$ 6,263,000	\$(2,699,000)	\$ 14,368,000

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	September 30,	
	2018	2017
		(As Adjusted)
Cash flows from operating activities:		
Net (loss) income	\$(1,982,000)	\$13,415,000
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	2,834,000	1,828,000
Amortization of intangible assets	384,000	325,000
Amortization and write-off of debt issuance costs	647,000	426,000
Amortization of interest on contract liabilities, net	513,000	269,000
Gain due to change in fair value of the warrant liability	-	(2,313,000)
Gain on short-term investments	(180,000)	-
Net provision for inventory reserves	5,285,000	3,258,000
Net provision for customer payment discrepancies	274,000	604,000
Net provision for (recovery of) doubtful accounts	206,000	(2,000)
Deferred income taxes	(667,000)	(207,000)
Share-based compensation expense	2,121,000	1,744,000
Loss on disposal of plant and equipment	11,000	7,000
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	6,598,000	2,819,000
Inventory	(32,380,000)	(28,552,000)
Inventory unreturned	(1,592,000)	(123,000)
Income tax receivable	(3,595,000)	(3,985,000)
Prepaid expenses and other current assets	(658,000)	(2,645,000)
Other assets	(79,000)	(20,000)
Accounts payable and accrued liabilities	17,840,000	(3,764,000)
Customer finished goods returns accrual	2,156,000	(4,246,000)
Contract assets, net	(8,773,000)	6,882,000
Contract liabilities, net	2,724,000	5,837,000
Other liabilities	1,904,000	295,000
Net cash used in operating activities	(6,409,000)	(8,148,000)
Cash flows from investing activities:		
Purchase of plant and equipment	(5,259,000)	(2,460,000)
Purchase of business, net of cash acquired	-	(4,974,000)
Change in short-term investments	(222,000)	(226,000)
Net cash used in investing activities	(5,481,000)	(7,660,000)
Cash flows from financing activities:		
Borrowings under revolving loan	35,200,000	52,000,000
Repayments of revolving loan	(36,294,000)	(27,000,000)
Borrowings under term loan	13,594,000	-
Repayments of term loan	(782,000)	(1,563,000)
Payments for debt issuance costs	(1,757,000)	(443,000)
Payments on capital lease obligations	(711,000)	(392,000)
Exercise of stock options	244,000	295,000
Cash used to net share settle equity awards	(320,000)	(594,000)
Settlement of warrant	-	4,000,000

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Repurchase of common stock, including fees	(4,062,000)	(4,476,000)
Net cash provided by financing activities	5,112,000	21,827,000
Effect of exchange rate changes on cash and cash equivalents	(96,000)	42,000
Net (decrease) increase in cash and cash equivalents	(6,874,000)	6,061,000
Cash and cash equivalents — Beginning of period	13,049,000	9,029,000
Cash and cash equivalents — End of period	\$6,175,000	\$15,090,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net	\$9,534,000	\$6,121,000
Income taxes, net of refunds	3,263,000	11,672,000
Non-cash investing and financing activities:		
Plant and equipment acquired under capital lease	\$-	\$498,000

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements

September 30, 2018

(Unaudited)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019. This report should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2018, which are included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on June 14, 2018.

The accompanying consolidated financial statements have been prepared on a consistent basis with, and there have been no material changes to, except as noted below, the accounting policies described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements that are presented in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

1. Company Background and Organization

Motorcar Parts of America, Inc. and its subsidiaries (the “Company”, or “MPA”) is a leading manufacturer, remanufacturer, and distributor of aftermarket automotive and light truck applications. The Company also, to a lesser extent, is a manufacturer, remanufacturer, and distributor of heavy duty truck and industrial and agricultural application parts. These replacement parts are sold for use on vehicles after initial vehicle purchase. These automotive parts are sold to automotive retail chain stores and warehouse distributors throughout North America and to major automobile manufacturers for both their aftermarket programs and warranty replacement programs (“OES”). The Company’s products include (i) rotating electrical products such as alternators and starters, (ii) wheel hub assemblies and bearings, (iii) brake master cylinders, and (iv) other products which include turbochargers, brake power boosters, and diagnostic equipment. As a result of the July 2017 acquisition of D&V Electronics Ltd. (“D&V”), the Company’s business also now includes developing and selling diagnostics systems for alternators, starters, belt-start generators (stop start and hybrid technology), and electric power trains for electric vehicles.

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

The Company has remanufacturing, warehousing and shipping/receiving operations for automotive parts in North America and Asia. In addition, the Company utilizes various third party warehouse distribution centers in North America.

Pursuant to the guidance provided under the Financial Accounting Standards Board (“FASB”) ASC for segment reporting, the Company has identified its chief executive officer as chief operating decision maker (“CODM”), has reviewed the documents used by the CODM, and understands how such documents are used by the CODM to make financial and operating decisions. The Company has determined through this review process that it has one reportable

segment for purposes of recording and reporting its financial results.

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2. Impact on Previously Issued Financial Statements for the Correction of an Error

Revision of Prior Period Financial Statements

During the second quarter ended September 30, 2018, the Company identified and corrected immaterial errors that affected previously issued consolidated financial statements. These errors primarily related to historical misapplication of GAAP related to the timing of recognizing certain expenses incurred in connection with allowances paid for core inventory purchase obligations at the start of a new business relationship. The Company previously recorded the difference between the acquisition price of Remanufactured Cores purchased from customers generally in connection with new business, and the related inventory cost as a sales allowance reducing revenue when the purchases were made. These sales allowances are now recorded as an asset and recognized as a reduction of revenue through the later of the date at which related revenue is recognized or the date at which the sales incentive is offered (as further described under the caption “Contract Assets” in Note 4). The Company also corrected errors resulting from differences between the original cost estimate and the actual cost of the Remanufactured Cores held at customers’ locations.

The Company also corrected other immaterial errors, which primarily relate to bonus accruals and core inventory, and recorded certain adjustments to income taxes, including reflecting the tax effect of the aforementioned adjustments. In addition, the Company reclassified certain customer contract related prepayments from prepaid expenses and other current assets and other assets to contract assets related to the adoption of ASC 606 on April 1, 2018 (see Note 4).

As of June 30, 2018, the cumulative error for all periods previously reported was an understatement of net income of \$2,938,000. The Company assessed the materiality, both quantitatively and qualitatively, in accordance with the SEC’s Staff Accounting Bulletin (“SAB”) No. 99 and SAB No. 108, and concluded that these errors were not material to any of its previously issued financial statements. However, the Company determined that the cumulative correction of these errors would have had a material effect on the financial results for the three and six months ended September 30, 2018. Accordingly, in order to correctly present the errors noted above, previously issued financial statements have been revised and are presented as “As Revised” in the tables presented in the following footnotes. In addition, upon the adoption of ASC 606 on April 1, 2018, the Company adjusted its revised consolidated financial statements and related footnotes for the years ended March 31, 2018, and 2017 and applicable interim periods within the fiscal year ended March 31, 2018. These consolidated financial statements and tables are presented as “As Adjusted”.

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The effect of the above corrections on the consolidated statement of operations for the fiscal year ended March 31, 2018 is as follows:

Revised Consolidated Statement of Operations Amounts:	Year Ended March 31, 2018		
	As Previously Reported	Adjustment	As Revised
Net sales	\$428,072,000	\$(1,081,000)	\$426,991,000
Cost of goods sold	322,199,000	(1,750,000)	320,449,000
Gross profit	105,873,000	669,000	106,542,000
Operating expenses:			
General and administrative	35,527,000	(50,000)	35,477,000
Sales and marketing	15,030,000	-	15,030,000
Research and development	5,692,000	-	5,692,000
Total operating expenses	56,249,000	(50,000)	56,199,000
Operating income	49,624,000	719,000	50,343,000
Interest expense, net	15,445,000	-	15,445,000
Income before income tax expense (benefit)	34,179,000	719,000	34,898,000
Income tax expense (benefit)	17,863,000	(1,791,000)	16,072,000
Net income	\$16,316,000	\$2,510,000	\$18,826,000
Basic net income per share	\$0.87	\$0.13	\$1.00
Diluted net income per share	\$0.84	\$0.13	\$0.96

The effect of the above corrections on the consolidated statement of operations for the fiscal year ended March 31, 2017 is as follows:

Revised Consolidated Statement of Operations Amounts:	Year Ended March 31, 2017		
	As Previously Reported	Adjustment	As Revised
Net sales	\$421,253,000	\$1,629,000	\$422,882,000
Cost of goods sold	306,207,000	(281,000)	305,926,000
Gross profit	115,046,000	1,910,000	116,956,000
Operating expenses:			
General and administrative	31,124,000	1,000	31,125,000
Sales and marketing	12,126,000	-	12,126,000
Research and development	3,824,000	-	3,824,000
Total operating expenses	47,074,000	1,000	47,075,000
Operating income	67,972,000	1,909,000	69,881,000
Interest expense, net	13,094,000	-	13,094,000
Income before income tax expense	54,878,000	1,909,000	56,787,000
Income tax expense	17,305,000	706,000	18,011,000
Net income	\$37,573,000	\$1,203,000	\$38,776,000
Basic net income per share	\$2.02	\$0.06	\$2.08
Diluted net income per share	\$1.93	\$0.06	\$2.00

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The effect of the above corrections on the consolidated statement of operations for the fiscal year ended March 31, 2016 is as follows:

Revised Consolidated Statement of Operations Amounts:	Year Ended March 31, 2016		
	As Previously Reported	Adjustment	As Revised
Net sales	\$368,970,000	\$ 700,000	\$369,670,000
Cost of goods sold	268,046,000	402,000	268,448,000
Gross profit	100,924,000	298,000	101,222,000
Operating expenses:			
General and administrative	49,665,000	298,000	49,963,000
Sales and marketing	9,965,000	-	9,965,000
Research and development	3,008,000	-	3,008,000
Total operating expenses	62,638,000	298,000	62,936,000
Operating income	38,286,000	-	38,286,000
Interest expense, net	16,244,000	-	16,244,000
Income before income tax expense	22,042,000	-	22,042,000
Income tax expense	11,479,000	294,000	11,773,000
Net income	\$10,563,000	\$ (294,000)	\$10,269,000
Basic net income per share	\$0.58	\$ (0.02)	\$0.56
Diluted net income per share	\$0.55	\$ (0.02)	\$0.54

The effect of the above corrections on the consolidated statement of comprehensive income for the fiscal year ended March 31, 2018 is as follows:

Revised Consolidated Statement of Comprehensive Income Amounts:	Year Ended March 31, 2018		
	As Previously Reported	Adjustment	As Revised
Net income	\$16,316,000	\$2,510,000	\$18,826,000
Comprehensive income	\$18,329,000	\$2,510,000	\$20,839,000

The effect of the above corrections on the consolidated statement of comprehensive income for the fiscal year ended March 31, 2017 is as follows:

Revised Consolidated Statement of Comprehensive Income Amounts:	Year Ended March 31, 2017		
	As Previously Reported	Adjustment	As Revised
Net income	\$37,573,000	\$1,203,000	\$38,776,000
Comprehensive income	\$34,984,000	\$1,203,000	\$36,187,000

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The effect of the above corrections on the consolidated statement of comprehensive income for the fiscal year ended March 31, 2016 is as follows:

Revised Consolidated Statement of Comprehensive Income Amounts:	Year Ended March 31, 2016		
	As Previously Reported	Adjustment	As Revised
Net income	\$ 10,563,000	\$ (294,000)	\$ 10,269,000
Comprehensive income	\$ 8,229,000	\$ (294,000)	\$ 7,935,000

The effect of the above corrections on the consolidated balance sheet at March 31, 2018 is as follows:

Revised Consolidated Balance Sheet Amounts:	March 31, 2018		
	As Previously Reported	Adjustment	As Revised
ASSETS			
Income tax receivable	\$ 7,796,000	\$ 176,000	\$ 7,972,000
Prepaid expenses and other current assets	11,491,000	3,613,000	15,104,000
Long-term core inventory — net	301,656,000	(3,362,000)	298,294,000
Long-term deferred income taxes	10,556,000	(3,619,000)	6,937,000
Other assets	7,392,000	14,603,000	21,995,000
TOTAL ASSETS	\$ 494,497,000	\$ 11,411,000	\$ 505,908,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accrued liabilities	\$ 11,799,000	\$ 249,000	\$ 12,048,000
TOTAL LIABILITIES	\$ 219,521,000	\$ 249,000	\$ 219,770,000
Retained earnings	\$ 66,606,000	\$ 11,162,000	\$ 77,768,000
TOTAL SHAREHOLDERS' EQUITY	\$ 274,976,000	\$ 11,162,000	\$ 286,138,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 494,497,000	\$ 11,411,000	\$ 505,908,000

The effect of the above corrections on the consolidated balance sheet at March 31, 2017 is as follows:

Revised Consolidated Balance Sheet Amounts:	March 31, 2017		
	As Previously Reported	Adjustment	As Revised
ASSETS			
Prepaid expenses and other current assets	\$ 9,848,000	\$ 3,240,000	\$ 13,088,000
Long-term core inventory — net	262,922,000	(4,501,000)	258,421,000
Long-term deferred income taxes	13,546,000	(5,179,000)	8,367,000
Other assets	6,990,000	15,391,000	22,381,000
TOTAL ASSETS	\$ 436,139,000	\$ 8,951,000	\$ 445,090,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accrued liabilities	\$ 10,077,000	\$ 299,000	\$ 10,376,000
TOTAL LIABILITIES	\$ 187,458,000	\$ 299,000	\$ 187,757,000
Retained earnings	\$ 50,290,000	\$ 8,652,000	\$ 58,942,000
TOTAL SHAREHOLDERS' EQUITY	\$ 248,681,000	\$ 8,652,000	\$ 257,333,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 436,139,000	\$ 8,951,000	\$ 445,090,000

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The effect of the above corrections on the consolidated statement of shareholders' equity for the fiscal year ended March 31, 2018 is as follows:

Revised Consolidated Statement of Shareholders' Equity Amounts:	Year Ended March 31, 2018		
	As		
	Previously Reported	Adjustment	As Revised
Retained earnings at March 31, 2017	\$50,290,000	\$8,652,000	\$58,942,000
Net income	16,316,000	2,510,000	18,826,000
Retained earnings at March 31, 2018	\$66,606,000	\$11,162,000	\$77,768,000

The effect of the above corrections on the consolidated statement of shareholders' equity for the fiscal year ended March 31, 2017 is as follows:

Revised Consolidated Statement of Shareholders' Equity Amounts:	Year Ended March 31, 2017		
	As		
	Previously Reported	Adjustment	As Revised
Retained earnings at March 31, 2016	\$11,825,000	\$7,449,000	\$19,274,000
Cumulative effect adjustment	892,000	-	892,000
Net income	37,573,000	1,203,000	38,776,000
Retained earnings at March 31, 2017	\$50,290,000	\$8,652,000	\$58,942,000

The effect of the above corrections on the consolidated statement of shareholders' equity for the fiscal year ended March 31, 2016 is as follows:

Revised Consolidated Statement of Shareholders' Equity Amounts:	Year Ended March 31, 2016		
	As		
	Previously Reported	Adjustment	As Revised
Retained earnings at March 31, 2015	\$1,262,000	\$-	\$1,262,000
Cumulative effect adjustment of error corrections	-	7,743,000	7,743,000
Net income (loss)	10,563,000	(294,000)	10,269,000
Retained earnings at March 31, 2016	\$11,825,000	\$7,449,000	\$19,274,000

The effect of the above corrections on the consolidated statement of cash flows for the fiscal year ended March 31, 2018 is as follows:

Revised Consolidated Statement of Cash Flow from Operating Activities Amounts:	Year Ended March 31, 2018		
	As		
	Previously Reported	Adjustment	As Revised
Net income	\$16,316,000	\$2,510,000	\$18,826,000
Deferred income taxes	3,055,000	(1,560,000)	1,495,000
Income tax receivable	(6,081,000)	(231,000)	(6,312,000)
Prepaid expenses and other current assets	(2,507,000)	(318,000)	(2,825,000)
Other assets	(384,000)	788,000	404,000

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Accounts payable and accrued liabilities	(11,621,000)	(50,000)	(11,671,000)
Long-term core inventory	(45,839,000)	(1,139,000)	(46,978,000)
Net cash used in operating activities	\$(13,944,000)	\$-	\$(13,944,000)

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The effect of the above corrections on the consolidated statement of cash flows for the fiscal year ended March 31, 2017 is as follows:

Revised Consolidated Statement of Cash Flow from Operating Activities Amounts:	Year Ended March 31, 2017		
	As		
	Previously Reported	Adjustment	As Revised
Net income	\$37,573,000	\$1,203,000	\$38,776,000
Deferred income taxes	6,510,000	355,000	6,865,000
Prepaid expenses and other current assets	(4,333,000)	(549,000)	(4,882,000)
Other assets	(3,339,000)	(1,025,000)	(4,364,000)
Accounts payable and accrued liabilities	12,446,000	1,000	12,447,000
Long-term core inventory	(24,964,000)	(281,000)	(25,245,000)
Other liabilities	(1,344,000)	296,000	(1,048,000)
Net cash used in operating activities	\$(5,269,000)	\$-	\$(5,269,000)

The effect of the above corrections on the consolidated statement of cash flows for the fiscal year ended March 31, 2016 is as follows:

Revised Consolidated Statement of Cash Flow from Operating Activities Amounts:	Year Ended March 31, 2016		
	As		
	Previously Reported	Adjustment	As Revised
Net income	\$10,563,000	\$(294,000)	\$10,269,000
Deferred income taxes	(3,781,000)	590,000	(3,191,000)
Prepaid expenses and other current assets	2,765,000	618,000	3,383,000
Other assets	(477,000)	(1,318,000)	(1,795,000)
Accounts payable and accrued liabilities	6,620,000	298,000	6,918,000
Long-term core inventory	(53,408,000)	402,000	(53,006,000)
Other liabilities	1,673,000	(296,000)	1,377,000
Net cash used in operating activities	\$15,334,000	\$-	\$15,334,000

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The effect of the above corrections on the consolidated statement of operations for the three months ended June 30, 2017 is as follows:

Revised Consolidated Statement of Operations Amounts:	Three Months Ended June 30, 2017		
	As		
	Previously Reported	Adjustment	As Revised
Net sales	\$95,063,000	\$(824,000)	\$94,239,000
Cost of goods sold	69,224,000	-	69,224,000
Gross profit	25,839,000	(824,000)	25,015,000
Operating expenses:			
General and administrative	6,187,000	(299,000)	5,888,000
Sales and marketing	3,394,000	-	3,394,000
Research and development	1,002,000	-	1,002,000
Total operating expenses	10,583,000	(299,000)	10,284,000
Operating income	15,256,000	(525,000)	14,731,000
Interest expense, net	3,314,000	-	3,314,000
Income (loss) before income tax expense (benefit)	11,942,000	(525,000)	11,417,000
Income tax expense (benefit)	4,316,000	(194,000)	4,122,000
Net income (loss)	\$7,626,000	\$(331,000)	\$7,295,000
Basic net income (loss) per share	\$0.41	\$(0.02)	\$0.39
Diluted net income (loss) per share	\$0.39	\$(0.02)	\$0.38

The effect of the above corrections on the consolidated statements of operations for the three and six months ended September 30, 2017 is as follows:

Revised Consolidated Statement of Operations Amounts:	Three Months Ended September 30, 2017			Six Months Ended September 30, 2017		
	As Previously Reported			As Previously Reported		
	Reported	Adjustment	As Revised	Reported	Adjustment	As Revised
Net sales	\$111,774,000	\$(921,000)	\$110,853,000	\$206,837,000	\$(1,745,000)	\$205,092,000
Cost of goods sold	84,612,000	-	84,612,000	153,836,000	-	153,836,000
Gross profit	27,162,000	(921,000)	26,241,000	53,001,000	(1,745,000)	51,256,000
Operating expenses:						
General and administrative	8,615,000	-	8,615,000	14,802,000	(299,000)	14,503,000
Sales and marketing	3,457,000	-	3,457,000	6,851,000	-	6,851,000
Research and development	1,240,000	-	1,240,000	2,242,000	-	2,242,000
Total operating expenses	13,312,000	-	13,312,000	23,895,000	(299,000)	23,596,000
Operating income (loss)	13,850,000	(921,000)	12,929,000	29,106,000	(1,446,000)	27,660,000
Interest expense, net	3,522,000	-	3,522,000	6,836,000	-	6,836,000
Income (loss) before income tax expense (benefit)	10,328,000	(921,000)	9,407,000	22,270,000	(1,446,000)	20,824,000
Income tax expense (benefit)	4,027,000	(343,000)	3,684,000	8,343,000	(537,000)	7,806,000
Net income (loss)	\$6,301,000	\$(578,000)				