MOTORCAR PARTS AMERICA INC

FORM 10-K
(Annual Report)

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Industry	Auto & Truck Parts
Sector	Consumer Cyclical
Fiscal Year	03/31

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UNITED STATES
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, 2004.

[ ] 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 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

MOTORCAR PARTS & ACCESSORIES, INC.
Former name, changed since last report on Form 10-K

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

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

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

The aggregate market value, calculated on the basis of the price at which the stock was last sold on the Internet Billboard, of Common Stock held by non-affiliates of the Registrant as of September 30, 2003 was approximately $29,403,734.

There were 8,113,955 shares of Common Stock outstanding at June 25, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement of the registrant to be filed within 120 days of March 31, 2004, pursuant to Regulation 14A under the Securities Exchange Act of 1934, for the 2004 Annual Meeting of Shareholders, are incorporated by reference into Part III of this Form 10-K.

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MOTORCAR PARTS OF AMERICA, INC.

PART I

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

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

Item 1. Business

General

Motorcar Parts of America, Inc. is a leading remanufacturer of replacement alternators and starters for import and domestic cars and light trucks. These vehicles, which are manufactured both in the United States and overseas, include many of the most recognizable brands from companies such as General Motors, Ford, DaimlerChrysler, Toyota, Honda, Nissan, Mazda, Mitsubishi, Hyundai, Kia and Volkswagen.

Our products are sold throughout the United States to some of the nation's largest chains of retail automotive stores, including AutoZone, CSK Automotive, and O'Reilly Automotive **.** Our marketing and sales efforts are geared toward both the automotive chain stores and the traditional warehouse distributors. We believe that chain stores represent the fastest growing segment of the automotive after-market industry, which is consistent with our existing targeted customers. During fiscal 2004, 2003 and 2002, approximately 96%, 99% and 97% respectively, of our sales were to automotive chain stores consisting of approximately 5,500 stores. We also supply remanufactured alternators and starters to General Motors that are distributed through GM's Service Parts Operation to warehouse distributors and smaller retail chains in the United States and Canada.

Presently, we believe that automotive retail chains control approximately 40% of the automotive after-market for alternators and starters. Of the remaining 60%, 52% is controlled by traditional warehouse distributors and organized buying groups, mostly focused on the professional installer market. We believe we are well-positioned to penetrate this segment of the market through our affiliation with General Motors' Service Parts Operation which is currently supplying a portion of this market and through the launch of our "Quality-Built"™ line of alternators and starters targeted to the traditional market. During the year, we hired a senior sales executive to head up our entry into the traditional warehouse market and organized buying group business. In addition, we see potential growth through the efforts that our existing retail chain store customers are making to target the professional installer marketplace by providing products directly to those professionals.

The Automotive After-market Industry

The automotive after-market for alternators and starters has grown in recent years. We believe that this growth has resulted from, among other trends, (1) the increased number of vehicles in use, (2) the increased number of miles driven each year and (3) the growth of vehicles at their prime repair age of seven years and older. Conversely, higher gasoline prices over a sustained period may negatively affect the after-market. Based upon market information it has reviewed, management believes the average age of vehicles in operation in the United States is approximately 9 years.

Two distinct groups of end-users buy replacement automotive parts: (1) individual "do-it-yourself" [DIY] consumers; and (2) professional "do-it-for-me" [DIFM] installers. The individual consumer market is typically supplied through retailers and retail arms of warehouse distributors. Automotive repair shops generally purchase parts through local independent parts wholesalers, through national warehouse distributors and, at a growing rate, through commercial account programs with automotive parts retailers aimed at servicing the professional "DIFM" installers. We believe we are well-positioned for potential growth in both the DIY market through increased sales to our existing retail chain store customers and the DIFM market through the efforts of automotive parts retailers to expand their sales to professional installers.

The increasing complexity of cars and light trucks and the number of different makes and models of these vehicles have resulted in a significant increase in the number of different alternators and starters required to service imported and domestic cars and light trucks. To respond to this market development, we have increased the number of items we carry from approximately 2,400 SKUs in fiscal 2003 to approximately 2,800 SKUs in fiscal 2004.

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

Remanufacturing, which involves the reuse of parts which might otherwise be discarded, creates a supply of parts at a lower cost to the end user than newly manufactured parts, and makes available automotive parts which are no longer being manufactured. Remanufacturing benefits automotive repair shops by relieving them of the need to rebuild worn parts on an individual basis and conserves material which would otherwise be used to manufacture new replacement parts. Our remanufactured parts are sold at competitively lower prices than most new replacement parts.

Company Products

Our products principally consist of remanufactured replacement alternators and starters for both imported and domestic cars and light trucks. During fiscal 2004, 2003 and 2002, sales of replacement alternators and starters constituted 99% of total sales. Alternators and starters are essential components in all makes and models of vehicles. These products constitute non-elective replacement parts and are required for a vehicle to operate. Approximately 99% of our products are sold for resale under customer private labels, with the remaining 1% being sold under our brand name, which includes the use of our trademark, “Quality Built to Last”™. Customers that sell our products under private label include AutoZone, CSK Automotive, O’Reilly Automotive, and General Motors. During 2004 we lost our only customer of ignition wire sets. We will continue to offer this ancillary product for sale. Sales of ignition wire sets totaled $485,000 in fiscal 2004.

Our alternators and starters are produced to meet or exceed automobile manufacturer specifications. We remanufacture a broad assortment of alternators and starters in order to accommodate the proliferation of applications and products in use. Currently, we provide a full line of approximately 1,700 different alternators and 1,100 different starters. Our alternators and starters are provided for virtually all foreign and domestic vehicle manufacturers.

Customers and Customer Concentration

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

A significant percentage of our sales are concentrated among a relatively small number of customers, and this level of concentration has been increasing. Our three largest customers, AutoZone, CSK Automotive and O’Reilly Automotive, accounted for approximately 95% of total net sales during fiscal 2004. During fiscal 2003 and 2002, these three largest customers accounted for approximately 91% and 86% respectively, of total net sales. The loss of a significant customer or substantial decrease in sales to any of these three customers could have a material adverse effect on our sales and operating results. Because of the very competitive nature of the market for remanufactured starters and alternators and the limited number of customers for these products, our customers have increasingly sought and obtained price concessions and more favorable payment terms. The increased pressure we have experienced from our customers may adversely impact our profit margins in the future.

Longer-term Multi-Year Agreement with Largest Customer; Other Arrangements

We expect our customer concentration to continue as a result of the May 2004 agreement we signed with AutoZone to become its primary supplier of import alternators and starters for its eight distribution centers, up from the three we currently supply. As part of this four year agreement, we entered into a pay-on-scan (POS) arrangement with AutoZone. Under this arrangement, AutoZone will not be obligated to purchase the merchandise we have shipped to AutoZone that is covered by the POS arrangement until that merchandise is ultimately sold to AutoZone's customers. We also agreed to purchase approximately $24 million of AutoZone's current inventory of import starters and alternators transitioning to the POS program at the price AutoZone originally paid for this inventory. We will pay for this inventory over 24 months, without interest, through the issuance of monthly credits against receivables generated by sales to AutoZone. The contract requires that we continue to meet our historical performance and competitive standards. We have also agreed to work with AutoZone to transition all of the products we sell to AutoZone to the POS arrangement by April 2006. If that is not accomplished, we expect to acquire an additional $24 million of AutoZone inventory to be covered by the expanded POS arrangement. We will then provide AutoZone with an additional $24 million of credits, to be taken in equal monthly installments over a 24-month period beginning in May 2006, and the contract will be extended for an additional two years through May 2010.

We signed multi-year agreements with our other two large customers. In each case, we must continue to meet our historical performance and competitive standards.

In October 2003, we entered into an agreement with one of our major customers to provide units to that customer net of an upfront core charge. This agreement requires the customer to return a core to the Company for every sale made. If a core is not returned, the customer is obligated to pay for it. This agreement will have the effect of reducing our revenues for each unit sold to this customer. Our gross profit per unit, however, will be unaffected by this arrangement.

Operations of the Company

Cores

In our remanufacturing operations, we obtain used alternators and starters, commonly known as "cores", from our customers or core brokers. 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 in a work cell or assembly line into a finished product. Inspection and testing are conducted at multiple stages of the remanufacturing process, and each finished product is inspected and tested on equipment designed to simulate performance under operating conditions. Components of cores, which are not used by us in our remanufacturing process, are sold as scrap.

The majority of the cores remanufactured by us are obtained from customers as trade-ins, which are credited against accounts receivable. Our customers offer consumers a credit to exchange their used units at the time of purchase. We purchase approximately 15% of our cores in the open market from core brokers who specialize in buying and selling cores. Although we believe that the open market is not a primary source of cores, it does offer us a supplemental source for maintaining stock balances. Other materials and components used in remanufacturing are purchased in the open market. The ability to obtain cores of the types and quantities required by us is essential to our ability to meet demand.

The price of a finished product sold to our customers is generally comprised of a separately invoiced amount for the core included in the product ("core value") and an amount for remanufacturing ("value added").

Production Process; Offshore Manufacturing

The initial step in our remanufacturing process begins with the receipt of cores. The cores are assessed and evaluated for inventory control purposes and then sorted by part number. Each core is completely disassembled into all of its fundamental components. The components are cleaned in a process that employs customized equipment and cleaning materials. The cleaning process is accomplished in accordance with the required specifications of the particular component.

After the cleaning process is complete, the component parts are inspected and tested as prescribed by our QS-9000 approved quality control program, which is implemented throughout the production process. (QS-9000 is an internationally recognized, world class, automotive quality system.)

Upon passage of all tests, which are monitored by designated quality control personnel, the components are assembled into required units. Each fully assembled unit is then subjected to additional testing to ensure performance and quality. Finished products are either stored in our warehouse facility or packaged for immediate delivery. To maximize manufacturing efficiency, we store component parts ready for assembly in its warehousing facilities. Our management information systems, including hardware and software, facilitate the remanufacturing process from cores to finished products.

We continue to explore opportunities for improving efficiencies in our manufacturing process. During fiscal 2004, we continued with the reorganization of our manufacturing processes to combine product families with similar configurations into dedicated factory work cells. This manufacturing process, known as lean manufacturing, replaced the more traditional assembly line approach we had previously utilized and eliminated the need to move and track inventory throughout our remanufacturing facility. This change impacted approximately 100% of our production volume in California and 50% of our production volume in Malaysia. Because of this "lean manufacturing" approach, we have reduced the time it takes to produce a finished product significantly.

We also conduct business through two wholly owned foreign subsidiaries, MVR Products Pte. Limited ("MVR"), which operates a shipping and receiving warehouse, testing facility and maintains office space in Singapore and Unijoh Sdn. Bhd. ("Unijoh"), which conducts remanufacturing operations in Malaysia. These foreign operations are conducted with quality control standards similar to those currently implemented at our remanufacturing facilities in Torrance. The facilities of MVR and Unijoh are located approximately two hours apart by car. We believe that the operations of our foreign subsidiaries are important because of the lower labor costs experienced by these entities for the same remanufacturing process. The foreign subsidiaries produced in fiscal 2004, 2003 and 2002 approximately 211,000, 160,000 and 195,000 units, or 9%, 7% and 9% respectively of our total production for each of the last three years. We distribute these units from our US facilities.

To take further advantage of the production savings associated with manufacturing outside the United States, we have continued to evaluate the establishment of a production facility in northern Mexico. Although we have not made a final decision to establish a Mexican facility, we anticipate doing so in the first quarter of calendar 2005.

Product Warranty

As is standard in the industry, we only accept warranties from on-going customers. If a customer ceases doing business with us, we have no further obligations to that customer with respect to product warranties, and no additional warranty returns are accepted by us. Similarly, if we gain a new customer, we would accept product warranty and grant appropriate credits. This obligation to accept warranties from our customer does not result in decreased liquidity or increased expenses since we only accept one used core for each unit sold to the new customer. For additional information see "Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies."

Sales, Marketing and Distribution

We market and distribute our products nationally. Our products are sold principally under our customers' private labels. Products are delivered directly to the chain's distribution centers which then deliver the merchandise directly to the retail stores for purchase by consumers. We also sell our alternators and starters to General Motors Service Parts Operation for distribution throughout the United States and Canada. During fiscal 2004, we expanded our sales efforts beyond automotive retail chains to include the traditional warehouse distribution centers. We satisfy our customers' needs for special and timely products by producing individual units and shipping those units for overnight delivery via our special order programs. We believe we have obtained significant marketing, distribution and manufacturing efficiencies by focusing our sales efforts on chains of automotive retail stores. As we enter into longer-term contracts with customers in this market segment, we are attempting to expand our customer base by exploring options to solicit new outlets for our products.

We publish for print and electronic distribution a catalog with part numbers and applications of our alternators and starters, along with a detailed technical glossary and explanation database. We believe that we maintain one of the market's most extensive catalog and product identification systems, offering one of the widest varieties of alternators and starters available in the market. Included in sales are royalties we received from the license of our intellectual property specifications, for rotating electrical products (alternators and starters), we had developed over many years.

Seasonality of Business

Due to the nature and design as well as the current limits of technology, alternators and starters traditionally fail when operating in extreme conditions. That is, during summer months, when the temperature typically increases over a sustained period of time, alternators are more apt to fail and thus, an increase in demand for our products typically occurs. Similarly, during winter months, when there is typically a period of sustained cold weather, starters are more apt to fail and thus, an increase for our products occurs again. Since alternators and starters are mandatory for the operation of the vehicle, they require replacing immediately. As such, summer months tend to show an increase in overall volume – particularly for alternators, with a few spikes in the winter – particularly for starters. A mild summer or winter can have a negative impact on our sales.

Competition

The automotive after-market industry for remanufacturers and rebuilders of alternators and starters for imported and domestic cars and light trucks is highly competitive. Our direct competitors include two other large remanufacturers as well as several medium-sized rebuilders and a large number of small regional and specialty remanufacturers.

The reputation for quality and customer service that a supplier enjoys is a significant factor in a purchaser's decision as to which product lines to carry in the limited space available. We believe that these factors favor our Company, which provides quality replacement automotive products, rapid and reliable delivery capabilities as well as promotional support. In this regard, there is increasing pressure from customers, particularly the large ones that we sell to, for suppliers to provide "just-in-time" delivery, which allows delivery on an as-needed basis to promptly meet customer orders. We believe that our ability to provide "just-in-time" delivery distinguishes us from many of our competitors and provides a competitive advantage that may represent a barrier to entry to current or future competitors.

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

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

Governmental Regulation

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

Employees

We have approximately 900 full-time employees in the United States, substantially all of whom are located in Torrance, California. Of our employees, 60 are administrative personnel and 10 are sales personnel. In addition, we employ approximately 240 people at our wholly owned subsidiary companies in Singapore and Malaysia. In the fourth quarter of fiscal 2004, we increased our employee count by approximately 300 employees in anticipation of the new business we were awarded from one of our major customers. None of our employees is a party to any collective bargaining agreement. We have not experienced any work stoppages and consider our employee relations to be satisfactory.

Evaluation of Strategic Options

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

Item 2. Properties

We presently lease facilities in Torrance, California, Nashville, Tennessee and Charlotte, North Carolina. In fiscal 2002 we completed the consolidation of our two Torrance facilities into a single building containing an aggregate of approximately 227,000 square feet. As part of this consolidation, we negotiated a new lease extending the lease term for an additional five years through March 31, 2007 and providing for a base rent of $94,358 per month. We believe that our facilities are sufficient to satisfy our foreseeable production requirements. We have also entered into an agreement to lease an additional 4,005 square feet of office space adjacent to our current facility in Torrance, California. This new lease was effective June 1, 2004, its term coincides with our current Torrance lease and it provides for a base rent of $3,400 per month.

On December 31, 2003 we entered into an agreement to sublease approximately 1,171 square feet of office space in Charlotte, North Carolina at a base rent of $1,561 per month. The term of this sublease expires on July 14, 2006. This office is used to manage our sales activities focusing on the traditional warehouse distribution centers.

Subsequent to March 31, 2004 we entered into an agreement to lease an additional 860 square feet of office space in Nashville, Tennessee effective June 1, 2004. With this expansion, we now lease approximately 2,100 square feet at a base rent of $2,820 per month. This office is used to manage our purchasing activities.

In addition, our subsidiaries have facilities at leased locations in Singapore and Malaysia which occupy nearly 50,000 square feet of manufacturing, warehousing, and office space. There are eight separate leases which expire on various dates through March 14, 2005. The average monthly lease expense for all properties is $6,010. As the leases expire, we expect to renew the leases of these properties with minor price increases.

Item 3. Legal Proceedings

On September 18, 2002, the Securities and Exchange Commission filed a civil suit against the Company and our former chief financial officer, Peter Bromberg, arising out of the SEC's investigation into our financial statements and reporting practices for fiscal years 1997 and 1998. Simultaneously with the filing of the SEC Complaint, we agreed to settle the SEC's action without admitting or denying the allegations in the Complaint. Under the terms of the settlement agreement, we are subject to a permanent injunction barring us from future violations of the antifraud and financial reporting provisions of the federal securities laws. No monetary fine or penalty was imposed upon us in connection with this settlement with the SEC.

On May 20, 2004, the SEC and the United States Attorney's Office announced that Peter Bromberg had been sentenced to ten months, including five months of incarceration and five months of home detention, for making false and misleading statements about our financial condition and performance in our 1997 and 1998 Forms 10-K filed with the SEC. Mr. Bromberg also consented to the entry of judgment that ordered payment of $76,275 in disgorgement plus prejudgment interest.

The United States Attorney's Office had previously informed us that it does not intend to pursue criminal charges against us arising from the events involved in the SEC Complaint. On February 13, 2003, we received a letter from the U.S. Attorney's Office confirming this information.

In December 2003, the SEC and the United States Attorney's Office brought actions against Richard Marks, the Company's former President and Chief Operating Officer. Mr. Marks agreed to plead guilty to the criminal charges, and we anticipate he will be sentenced in the near future. To settle the SEC's civil fraud action, Mr. Marks paid over $1.2 million in fines and was permanently barred from serving as an officer or director of a public company.

The SEC's complaint and the Justice Department's criminal charges alleged that Mr. Bromberg and Mr. Marks engaged in fraudulent accounting practices and falsified our books and records, thereby causing us to issue false and misleading financial information to the investing public. The SEC's complaint alleged that we overstated our pre-tax earnings for fiscal year 1997 by $3,391,000 (59.8%) and for fiscal year 1998 by $3,576,000 (49.6%) in our annual reports on Form 10-K filed with the SEC for the fiscal years ended March 31, 1997 and 1998, and that we included our false 1997 financial statements in a registration statement filed with the SEC in October 1997, for an offering that raised $19.8 million.

Based upon the terms of agreements we previously entered into with Mr. Bromberg and Mr. Marks, we have been paying the costs they have incurred in connection with the SEC and U.S. Attorney's Office's investigation. During fiscal 2004, 2003 and 2002 we incurred costs of approximately $966,000, $603,000 and $165,000 respectively on their behalf.

We are subject to various other lawsuits and claims in the normal course of business. We do not believe that the outcome of these matters will have a material adverse effect on our financial position or results of operations.

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

None.

PART II

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

Our Common Stock is currently traded on the Internet Billboard. Since trading on the Billboard can be sporadic, it may not constitute an established trading market for our Common Stock. The following table sets forth the high and low bid prices for our Common Stock during each quarter of fiscal 2004 and 2003 as tracked on the Internet billboard. The prices reflect inter-dealer quotations and may not represent actual transactions and do not include any retail mark-ups, markdowns or commissions.

	Fiscal 2004		Fiscal 2003	
	High	Low	High	Low
1st Quarter	$2.49	$2.40	$4.05	$3.20
2nd Quarter	$3.75	$3.68	$4.00	$2.65
3rd Quarter	$4.97	$4.89	$2.95	$2.65
4th Quarter	$7.04	$6.89	$3.00	$2.13

At June 25, 2004, there were 8,113,955 shares of Common Stock outstanding held by 43 holders of record. We have never declared or paid dividends on our Common Stock. The declaration of dividends in the future is at the discretion of the Board of Directors and will depend upon our earnings, capital requirements and financial position, general economic conditions, state law requirements and other relevant factors. In addition, our agreement with our lender prohibits payment of dividends without the bank's prior consent, except dividends payable in Common Stock.

Preferred Stock

In February 24, 1998, we entered into a Rights Agreement with Continental Stock Transfer & Trust Company. As part of this agreement, we established 20,000 shares of Series A Junior Participating Preferred Stock, par value $.01 per share. The Series A Junior Participating Preferred Stock has preferential voting, dividend and liquidation rights over the Common Stock.

On February 24, 1998, we also declared a dividend distribution to the March 12, 1998 holders of record of one Right for each share of Common Stock held. Each Right, when exercisable, entitles its holder to purchase one one-thousandth of a share of our Series A Junior Participating Preferred Stock at a price of $65 per one one-thousandth of a share (subject to adjustment).

The Rights are not exercisable or transferable apart from the Common Stock until an Acquiring Person, as defined in the Rights Agreement acquires 20% or more of the outstanding shares of the Common Stock or announces a tender offer that would result in 20% ownership, in each case without the prior consent of our Board of Directors. We are 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 our Common Stock, each Right not owned by a potential Acquiring Person will entitle its holder to receive, 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 our outstanding Common Stock, we are involved in a merger or other business combination transaction with another person in which we are not the surviving company, our common shares are changed or converted, or we sell 50% or more of our assets or earning power to another person. The Rights expire on March 12, 2008 unless earlier redeemed by the Company.

The Rights make it more difficult for a third party to acquire a controlling interest in the Company without our Board's approval. As a result, the existence of the Rights could have an adverse impact on the market for our Common Stock.

Equity Compensation Plan Information

	(a)	(b)	(c)
Plan Category.	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted-average exercise price of outstanding options warranties and rights**	**Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column (a)]**
Equity compensation plans approved by securities holders	793,250(1)	$3.31	1,200,000(2)
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	793,250	$3.31	1,200,000

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

(2) At our Annual Meeting of Shareholders held on December 17, 2003 the shareholders approved our 2003 Long-Term Incentive Plan (Incentive Plan) which had been adopted by our Board of Directors on October 31, 2003. Under the Incentive Plan, a total of 1,200,000 shares of our Common Stock have been reserved for grants of Incentive Awards and all of our employees are eligible to participate.

Item 6. Selected Financial Data

The following selected historical consolidated financial information as of and for each of the years ended March 31, 2004, March 31, 2003, March 31, 2002, March 31, 2001 and March 31, 2000, has been derived from and should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this report.

	Fiscal Year Ended March 31,				
Income Statement Data	**2004**	**2003**	**2002**	**2001**	**2000**
Net sales	$152,636,000	$167,566,000	$172,040,000	$160,699,000	$194,293,000
Operating income (loss)	10,965,000	6,944,000	11,241,000	(389,000)	(8,535,000)
Income (loss) before cumulative effect of accounting change	6,482,000	10,625,000	11,689,000	(4,102,000)	(10,542,000)
Cumulative effect of accounting change (1)	—	—	—	—	(17,702,000)
Net income (loss)	6,482,000	10,625,000	11,689,000	(4,102,000)	(28,244,000)
Basic income (loss) per share:					
Income (loss) before cumulative effect of accounting change	$ .81	$ 1.33	$ 1.61	$ (.63)	$ (1.63)
Cumulative effect of accounting change	—	—	—	—	(2.74)
Net income (loss) per share	$ .81	$ 1.33	$ 1.61	$ (.63)	$ (4.37)
Diluted income (loss) per share	$ .77	$ 1.24	$ 1.51	$ (.63)	$ (4.37)

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

	Fiscal Year Ended March 31				
Balance Sheet Data	**2004**	**2003**	**2002**	**2001**	**2000**
Total assets	$65,996,000	$59,282,000	$71,296,000	$60,108,000	$71,801,000
Working capital	40,426,000	20,801,000	9,404,000	1,836,000	2,996,000
Line of credit	3,000,000	9,932,000	28,029,000	28,950,000	36,661,000
Long-term debt and capitalized lease obligations – less current portions	1,247,000	209,000	915,000	2,099,000	3,062,000
Shareholders' equity	43,595,000	37,453,000	26,823,000	13,298,000	17,393,000

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

Disclosure Regarding Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements with respect to our future performance that involve risks and uncertainties. Various factors could cause actual results to differ materially from those projected in such statements. These factors include, but are not limited to: concentration of sales to certain customers, changes in our relationship with any of our customers, including the increasing customer pressure for lower prices and more favorable payment terms, the potential for changes in consumer spending, consumer preferences and general economic conditions, increased competition in the automotive parts remanufacturing industry, unforeseen increases in operating costs and other factors discussed herein and in our other filings with the Securities and Exchange Commission.

Management Overview

Both the retail and traditional markets in our rotating electrical category are continuing to grow in size; however, both markets continue to experience consolidation. We make it a priority to focus our efforts on those customers we believe will be successful in the industry and will provide a strong distribution base for our future. We operate in a very competitive environment, where our customers expect us to provide quality products, in a timely manner at a low cost. To meet these expectations while maintaining or improving gross margins, we have focused on regular changes and improvements to make our manufacturing processes more efficient, and our movement to lean manufacturing cells, increased production in Malaysia and pursuit of a production facility in northern Mexico, utilization of advanced inventory tracking technology and development of in-store testing equipment reflect this focus. Our sales are increasingly concentrated among a very few customers, and these key customers regularly seek more favorable pricing, delivery and payment terms as a condition to the continuation of existing business or expansion of a particular customer's business. To partially offset some of these customer demands, we have sought to position ourselves as a preferred supplier by working closely with our key customers to satisfy their particular needs and entering into longer-term preferred supplier agreements.

To grow our revenue base, we have been seeking to broaden our retail distribution network and have begun to target sales to the traditional warehouse and professional installer markets. We continue to expand our product offerings to respond to changes in the marketplace, including those related to the increasing complexity of automotive electronics.

Our management pays particular attention to the cash generated by operations and views this as a key measure of our performance. Management also looks for ways to enhance shareholder value by assuring that invested capital is efficiently deployed. As part of this strategy, we have from time to time repurchased shares of Common Stock or options or warrants to purchase Common Stock upon terms that were accretive to our earnings. To strengthen our customer relationships, we have structured attractive purchase arrangements for these customers and entered into agreements with our customers and financial institutions to reduce the working capital costs associated with these arrangements.

General

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

Critical Accounting Policies

Revenue Recognition. We recognize revenue when our performance is complete and all of the following criteria established by SAB 104, Revenue Recognition, have been met:

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

For products shipped free-on-board ("FOB") shipping point, revenue is recognized on the date of shipment. For products shipped FOB destination, revenues are recognized two days after the date of shipment based on our experience regarding the length of transit duration. We include shipping and handling charges in the gross invoice price to customers and classify the total amount as revenue in accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs." Shipping and handling costs are recorded in cost of sales.

The price of a finished product sold to customers and recorded as revenue is generally comprised of separately invoiced amounts for the core included in the product ("core value") and for the value added by remanufacturing ("unit value"). Core value revenue is recorded based on the assigned value of the core as agreed upon with customers. Unit value revenue is recorded based on our price list, which is revised from time-to-time, net of applicable discounts and allowances. The terms of one customer agreement provide that the invoice price is based on unit value only, excluding the core charge. In that case, we record only unit value revenue based on our price list, net of any applicable discounts or allowances. This agreement will have the effect of reducing our revenues for each unit sold to this customer. Our gross profit per unit, however, will be unaffected by this arrangement. Under this arrangement, profit or loss from the sales of cores to this customer is recognized on a monthly basis based upon a reconciliation of the number of units sold to the number of cores returned.

As discussed under the caption "Business — Multi-year Agreement with Largest Customer; Other Arrangements," in fiscal 2004, we began to offer products on a pay-on-scan (POS) basis. For POS inventory, revenue is recognized when the customer has notified us that it has sold a specifically identified product to another person or entity. Our customer bears the risk of loss of any POS product from any cause whatsoever from the time possession is taken until a third party customer purchases the product. Net sales from POS inventory were $10,372,000 for the fiscal year ended March 31, 2004.

We record sales incentives, concessions and allowances as a reduction of revenues at the time the related revenues are recorded or when such incentives are offered in accordance with EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer." Sales incentive amounts are recorded based on the value of the incentive provided.

Product Warranty. We generally have two types of warranty policies: (a) an advance warranty discount policy, which is a reduction taken on the invoice and (b) an authorized warranty return program which is generally given upon a request from a customer:

Advance Warranty Discount Policy: For products under this warranty policy, we deduct from the invoice an agreed-upon warranty adjustment, which is typically a percentage of the invoice price. In accordance with SAB 104, we record revenue at the time of sale based on the agreed-upon price, which is net of the warranty adjustment.

Authorized Warranty Return Policy: This policy allows ongoing customers to return parts that have been returned to them under their return policies by a consumer purchaser regardless of whether the parts are defective. In accordance with SFAS 48, "Revenue

Recognition When Right of Return Exists," we reduce revenue at the time of sale based on estimated future returns.

With respect to the Authorized Return Warranty Policy, we estimate returns in the same period in which the revenue is recorded. The estimates are based on historical analysis, customer agreements and currently known factors that arise in the normal course of business. Since the warranty charge impacts revenues, if estimated returns vary from actual returns, our revenues will be higher or lower than previously recorded.

Stock Adjustments. Under the terms of certain agreements with our customers and consistent with industry practice, our customers from time to time are allowed stock adjustments when their inventory level of certain product lines in their stock exceed their anticipated levels of sales to their end-user customers. Stock adjustment returns are not recorded unless and until they are authorized by the Company, and they do not occur at any specific time during the year.

In fiscal 2001 we modified our accounting for stock adjustments. Historically, when the returns were made we charged a portion of stock adjustment returns against net sales and expensed the balance as cost of goods sold. In the third quarter of fiscal 2001, because of an unprecedented large return from one customer, we recognized adjustments to net sales and cost of goods sold of $898,000. Therefore, in the fourth quarter of fiscal 2001, we began to provide for a monthly $75,000 allowance to cost of goods sold to address the anticipated impact of stock adjustments. We review the reasonableness of this accounting estimate every quarter by evaluating the stock adjustment returns received in the last twelve months as well as information obtained from customers concerning inventory levels and perceived demand in specific locations and/or specific part numbers. Accordingly, we increased the monthly accrual from $80,000 to $112,000 per month in March 2003. In January 2004, as a result of a special stock adjustment of $263,000 we allowed in December 2003, we increased the allowance by that amount and increased the monthly accrual to $134,000 per month. The provision for stock adjustments we accrued in fiscal 2004, 2003, and 2002 resulted in gross profit decreasing by $1,561,000, $962,000 and $898,000, respectively. The stock adjustments accepted by the Company were $1,882,000, $778,000 and $513,000 in 2004, 2003 and 2002, respectively, and these amounts were charged against the stock adjustment allowance. As of March 31, 2004, 2003 and 2002, the balance in the stock adjustment reserve account was $473,000, $794,000 and $610,000 respectively. The following table summarizes our reserve for stock adjustments:

For the Year Ended March 31	Balance at Beginning of Period	Stock Adjustment Accrual Charged To Income	Stock Adjustments Received	Balance at End of Period
2004	$ 794,000	$ 1,561,000	$ 1,882,000	$ 473,000
2003	$ 610,000	$ 962,000	$ 778,000	$ 794,000
2002	$ 225,000	$ 898,000	$ 513,000	$ 610,000

In fiscal 2004, we also agreed to accept a stock adjustment of approximately $490,000 to assist our largest customer in its acquisition of a major commercial customer. This adjustment was charged against the allowance for stock adjustments.

The stock adjustment allowance is reviewed quarterly based on information received from customers to determine if the allowance should be adjusted. This accrual reflects the fact that the amount of the credit for inventory overstocks is negotiated with our customers, and this credit may be different than the price charged the customer for the returned inventory.

Inventory Reserve. We have taken a systematic approach in establishing a reserve for excess and obsolete inventory. The reserve is based upon our knowledge of the industry, communication with core brokers and suppliers, scrap values and discussions with our customers and is computed based upon historical usage and a product's life cycle.

The excess and obsolete inventory reserve account decreased by $611,000 to $2,954,000 in fiscal 2004 from $3,565,000 in fiscal year 2003. In fiscal 2003, this account decreased by $150,000 from $3,715,000 in fiscal year 2002. The decrease in fiscal 2004 was principally due to the scrapping of 52,000 pieces of import alternator cores which reduced the reserve for excess and obsolete inventory by $465,000. In addition, we sold certain domestic starters which were previously reserved for in the amount of $155,000. Each quarter, we review the last 12 months of activities of each part number to determine the usage for these parts. Based on this activity, we then determine the number of months of inventory on hand and in general establish reserves at rates ranging from 10% to 80% of the cost of inventory on hand for that particular item of inventory.

Acquisition of Cores; Related Marketing Allowance. Upon receipt of a core from a customer, we generally give a credit to the customer for the contractually agreed-upon core value for the respective part number, which is typically the same as the amount invoiced at the time of a sale. This amount generally exceeds the market value of the core accepted as a trade-in, and we record this difference in cost of sales. We generally limit core returns to cores sold to the specific customer that are in remanufacturable condition.

Core Valuation. We record core inventory at the lower of cost or market. We adjust the carrying value of cores in three ways:

(1) When purchases constitute 25% or more of quantity on hand, a weighted average cost is applied. We believe that purchases from core brokers that represent 25% or more of the quantity on hand represent a quantity that is sufficiently large enough to derive a market value for that particular core.

(2) Cores not adjusted for purchases as described in (1), are adjusted every six months based on a comparison to core broker prices. All cores that have a difference between the carrying value and the quoted core broker price of 35% or greater are adjusted to reflect the change in market value. The 35% amount was determined to be the approximate range in the fluctuation of market prices observed based on seasonal factors and differences in pricing between brokers. Core values fluctuate on the basis several economic factors, including market availability, seasonality and demand. Broker prices are determined individually by the broker based on the quantity available to the broker and its expectation of demand.

(3) A valuation reserve is maintained for those cores not adjusted by the above policies. This reserve is based upon the inherent value of cores, which we estimate have a life cycle of 20 years. This reserve account, which is part of the reserve for excess and obsolete inventory, decreased in fiscal year 2004 by $3,000 from $37,000 at fiscal year-end 2003 to $34,000 at fiscal year-end 2004. In fiscal year 2003, this reserve account decreased by $227,000 from $264,000 at fiscal year-end 2002 to $37,000 at fiscal year-end 2003. The

decrease in both years was principally the result of our continued efforts to decrease the quantity of core inventory by selling and scrapping obsolete cores.

These adjustments to core inventory values result in a corresponding adjustment to cost of goods sold.

Accounting for Over/Under Returns of Cores. Based on our experience, contractual arrangements with customers and inventory management practices, on an annual basis we receive and purchase a used but remanufacturable core from customers for almost every remanufactured alternator or starter we sell to customers. However, both the sales and receipts of cores throughout the year are seasonal with the receipts of used cores lagging sales significantly. Our customers typically purchase more cores than they return during the months of April through September (the first six months of the fiscal year) and return more cores than they purchase during the months of October through March (the last six months of the fiscal year). To account for this lag and match sales with the associated liability to receive and purchase used cores, on a monthly basis we either (a) record deferred revenue (a liability) if core receipts are less than sales or (b) record a debit entry to deferred revenue if core receipts are greater than sales. In addition to matching sales to associated returns, this policy is conservative because we do not record any gain from under-returns of used cores until the last quarter of the fiscal year, which marks the end of the period during which we typically experience an over-return of cores. The amount of the adjustment taken at the end of fiscal years 2004, 2003, and 2002, was $981,477, $0 and $630,200, respectively. This year-end adjustment has the effect of increasing our gross revenues.

Accounting for Deferred Taxes. The valuation allowance for deferred tax assets was based upon management's estimate of current and future taxable income using the accounting guidance in SFAS 109, "Accounting for Income Taxes." Based on SFAS 109, the seasonality of our earnings stream and numerous other factors discussed below, management considered it appropriate to defer recognition of tax benefits to the fourth quarters of fiscal 2003 and 2002 when we recognized a tax benefit of $4,331,000 and $4,005,000, respectively.

In preparing our fiscal 2002 financial statements, we considered the weight of the available evidence to determine whether it was "more likely than not" that a portion of the deferred tax asset would not be realized. In particular, management identified two positive factors impacting realization of the deferred tax assets that did not exist in fiscal 2001 – our improved profitability in fiscal 2002 and the resulting increased confidence in management's ability to rely on future earnings to forecast the utilization of more of the deferred tax benefits. Due to ongoing concerns about pending income tax audits and financing contingencies, however, management still concluded it was "more likely than not" that a portion of the deferred tax asset would not be realized. Accordingly, for fiscal 2002, we calculated the amount of the valuation allowance based on projected future taxable income beyond the next two fiscal years (thus the amount of the net deferred tax asset was based on projected fiscal 2003 and 2004 income) and the resulting income tax benefit was recorded in the fourth quarter of fiscal 2002.

In the fourth quarter of fiscal 2003, the IRS approved our treatment of the amount to be deducted relating to the fiscal 2000 change in accounting for inventory and allowed us to deduct the entire amount in one year (2003) instead of the four years originally anticipated. In addition, the IRS concluded its audits. Furthermore, we resolved our financing contingency and signed an agreement with a new bank. These positive factors, as well as another year's history of operating profits, lead us to conclude that a valuation allowance was no longer required. Thus, the balance in the allowance was eliminated in the fourth quarter of fiscal 2003.

No valuation allowance is reflected in the fiscal 2004 financial statements, based on our evaluation of the deferred tax assets using the accounting guidance in SFAS 109.

Results of Operations

	Fiscal Year Ended March 31,		
	2004	2003	2002
Net Sales	100.0%	100.0%	100.0%
Cost of Goods Sold	84.8%	89.6%	88.0%
Gross Margin	15.2%	10.4%	12.0%
General and Administrative Expenses	6.3%	5.4%	4.2%
Selling Expenses	1.3%	0.7%	0.7%
Research and Development	0.4%	0.3%	0.3%
Provision for Doubtful Accounts	.0%	(0.1%)	0.2%
Operating Income	7.2%	4.1%	6.6%
Interest Expense, net of Interest Income	0.6%	0.8%	2.1%
Income Before Income Taxes	6.6%	3.3%	4.5%
Income Tax (Expense) Benefit	(2.3%)	3.0%	2.3%
Net Income	4.3%	6.3%	6.8%

Fiscal 2004 compared to Fiscal 2003

Net sales for fiscal year ended March 31, 2004 were $152,636,000, a decrease of $14,930,000 or 8.9% from the prior years' sales of $167,566,000. This decrease principally reflects: (1) a decrease of $5,472,000 representing sales made during fiscal 2003 to a customer we lost in February 2003; (2) the loss of $6,496,000 in sales made to two distribution centers (and their supported retail stores) that we supplied during fiscal 2003 but no longer supply (as noted in the following paragraph we subsequently gained incremental business in excess of what we had previously lost from this customer); (3) inventory of approximately $3,911,000 which remained unsold as of March 31, 2004 and would have been included in net sales prior to the initiation during fiscal 2004 of the pay-on-scan arrangement with our largest customer; (4) the mild summer in 2003 that resulted in reduced sales of a particular product line that often fails during the hot summer by approximately $3,000,000; (5) a decrease in revenues of $6,163,000 because we began selling products to one of our customers net of a core charge, as of October 1, 2003 and (6) recognition of $1,084,000 as a reduction to net sales from amortization of a marketing allowance and a $325,000 reduction to net sales reflecting testing equipment we paid for as part of a marketing allowance. Both amounts were provided to one of our customers as part of an agreement for a five year contract. The remaining balance of the marketing allowance of $1,939,000 will be recognized monthly through January 31, 2008.

Offsetting the decrease in sales were increases in sales of $2,724,000 to the customer that we began to sell products to net of a core charge and, although we stopped supplying one of our customer's two distribution centers during fiscal 2004, sales to this customer for those distribution centers we continued to supply increased by $7,465,000. In addition, due to programs implemented with our customers and engineering and quality control initiatives, warranty returns and allowances, which reduce gross revenues, improved to 18.8% of gross revenues for fiscal 2004 as compared to 19.9% of gross revenues for fiscal 2003. This equates to approximately a $1,318,000 increase in gross revenues for the period. We are unable to estimate whether this improvement in warranty returns and allowances can be sustained.

As a percentage of net sales, cost of goods sold decreased in fiscal 2004 to 84.8%, which represents a decrease of 4.8% when compared to fiscal 2003. Our improved gross margin is primarily due to: (1) a reduction in cost of sales of $6,163,000 reflecting our agreement with one customer to sell goods net of a cost charge; (2) lowered production costs associated with a number of manufacturing efficiencies we have adopted, which we estimate saved approximately $3,000,000 in production costs when compared to fiscal 2003; (3) the under-return of cores by our customers of $981,000 which we recognized as a reduction to cost of sales in the fourth quarter of fiscal 2004 in accordance with our accounting policy for core over/under returns; (4) a decrease in our adjustments to inventory values, which increase cost of sales, to $2,976,000 in fiscal 2004 from $3,658,000 in fiscal 2003; (5) raw material cost savings of $1,394,000 from price concessions we realized from our suppliers over the amount realized in fiscal 2003; (6) cost savings of $337,000 that we realized by increasing production in our Malaysian facilities; and (7) royalty income of $215,000 from the licensing of our proprietary product identification intellectual property as part of a confidential licensing agreement entered into in fiscal 2004 for which there was no related expenses. These reductions in cost of sales were offset by an increase in the stock adjustment return allowance to $1,561,000 in fiscal 2004 from $962,000 in fiscal 2003. This increase resulted in a corresponding increase in cost of sales.

General and administrative expense for fiscal 2004 was $9,616,000, which represents an increase of $700,000 or 7.9%, from the prior year's expense of $8,916,000. This increase reflects the following factors: (1) an increase in the amount of legal fees we incurred, from $560,000 in fiscal 2003 to $966,000 in fiscal 2004, pursuant to an indemnification agreement with Richard Marks, a former officer, in connection with the SEC's and the U.S. Attorney's investigations; (2) a $240,000 increase in expenses relating to the implementation of an automated inventory tracking system and increased staffing in our information technology department; (3) $155,000 in increased travel expenses incurred in connection with greater trade show participation, visiting customers and suppliers; and (4) an increase of $25,000 in other miscellaneous expenses. These increases were offset by a decrease in bank fees of $126,000 recognized in fiscal 2003 associated with the financing which we obtained in December 2002.

Sales and marketing expenses increased by $906,000 or 84.6% to $1,977,000 in fiscal 2004 from $1,071,000 in fiscal 2003. This increase is principally attributable to costs incurred in connection with various marketing initiatives to strengthen our overall presence in the marketplace and increase our sales to the traditional warehouse market (including preparation of primary and collateral sales and marketing materials, costs incurred in connection with our name change, our participation in various trade shows in which we had not participated in recent years, development of materials relating to our new brand introduction, "Quality-Built", and the hiring of a new senior sales executive).

Interest expense for fiscal 2004 was $968,000. This was a decrease of $1,012,000 or 51.1% from fiscal 2003 interest expense of $1,980,000. This decrease is the result of lower interest rates and lower outstanding loan balances. Our outstanding loan balance was $3,000,000 as of March 31, 2004 as compared to $9,932,000 as of March 31, 2003, a reduction of $6,932,000 over the twelve month period. The decrease was partially offset by an increase of $318,000 in the amount of discounts we accepted in connection with the receivable discount programs we have with two of our customers. This increase is largely attributable to an increase of $15,506,000 in the amount of receivables that we discounted under these programs. In addition, in fiscal 2003, only one of our customers participated in the receivable discount program, compared to two in fiscal 2004. Interest expense was comprised principally of interest on our line of credit facility, capital leases (and related notes payable) and our receivable discount programs.

Interest income for fiscal 2004 was $37,000. This is a decrease of $599,000 or 94.2% when compared to interest income of $636,000 for fiscal 2003. This decrease is principally related to the $606,000 of interest income we received from federal and California taxing authorities as a result of a favorable determination following an examination of our 1996 through 2001 income tax returns.

Although our fiscal 2004 pre-tax income increased by 79.2%, when compared to our results for fiscal 2003, our net income for fiscal 2004 declined by 39%, when compared to our fiscal 2003 net income. In fiscal 2004, we recognized book tax expense of $3,552,000. By contrast, in fiscal 2003, we recognized a tax benefit of $5,025,000 due to the elimination of the deferred income tax valuation allowance of $4,331,000 and a federal income tax refund of $694,000 from the successful conclusion of a tax examination of our income tax returns covering fiscal years 1996 to 2001. For tax purposes, we have federal and state net operating loss carry forwards of $11,709,000 and $7,492,000, respectively, which expire in varying amounts through 2023.

Fiscal 2003 compared to Fiscal 2002

Net sales for fiscal year ended March 31, 2003 were $167,566,000, a decrease of $4,474,000 or 2.6% from the prior years' sales of $172,040,000. This decrease in net sales is principally related to the loss of two customers which resulted in a reduction in net sales of approximately $3,500,000. The decrease in sales to these customers was partially offset by an increase in sales to our continuing customers of approximately $1,800,000. Our net sales for fiscal 2003 were also reduced by an increase in the marketing allowances we provide our customers from approximately $1,500,000 in fiscal 2002 to approximately $4,300,000 in fiscal 2003. Approximately $1,626,000 of this increase is attributable to those allowances granted to a customer as part of a five-year contract that we executed with that customer in March 2003. (In connection with this agreement, we also agreed to assume responsibility for up to $1,500,000 of the cost of testing equipment that this customer may install in its stores. Any such cost that is incurred by us will be recognized over a five-year period as an additional marketing allowance.) The balance of the increase in marketing allowances is attributable to the increasing pressure we are receiving from our customers for more favorable pricing terms. Warranty returns and allowances, which are also netted against sales, remained relatively flat at 19.9% of sales for fiscal 2003 as compared to 19.8% in fiscal 2002.

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

General and administrative expense for fiscal 2003 was $8,916,000, which represents an increase of $1,713,000 or 23.8%, from the prior year's expense of $7,203,000. This increase is principally attributable to several factors. Our total legal fees increased from $299,000 in fiscal 2002 to $1,347,000 in fiscal 2003. Of this amount, approximately $560,000 and $156,000 represent increased legal fees we incurred pursuant to our indemnification agreements with Richard Marks and Peter Bromberg, respectively, in connection with the SEC's and the U.S. Attorney's Office's investigation of these two former officers. In addition, we incurred $230,000 in additional legal fees for attorneys we hired to represent us, Mel Marks, one of our Board members, and other employees who were interviewed in connection with these investigations.

In addition, we increased the compensation we paid to Selwyn Joffe by approximately $120,000 to reflect the expanded duties he assumed prior to his appointment as our CEO in February 2003 and increased by $115,000 the compensation we paid to Mel Marks, one of our directors and our single largest shareholder. We also recorded $267,500 of additional expenses associated with the departure of Anthony Souza, our former CEO. General and administrative expenses also increased as a result of (1) increased directors' fees of $60,000 resulting from the addition of new members to our Board; (2) investment banking fees of nearly $110,000 which were incurred in connection with an evaluation of our strategic options; (3) insurance and benefit cost increases of nearly $275,000; and (4) bank fees and charges of approximately $130,000 paid to both our current and former lenders in connection with the replacement of our lending facility. These increases were partially offset by a decrease of approximately $300,000 in salaries and bonuses paid to key executives, largely attributable to a decline in our pre-tax profits.

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

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

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

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

Interest income for fiscal 2003 was $636,000. This is an increase of $610,000 when compared to interest income for fiscal 2002. This increase is due to the interest paid to us by both the federal and California taxing authorities as a result of a favorable determination following an examination of the Company's 1996 through 2001 income tax returns.

Liquidity and Capital Resources

We have financed our working capital needs through the use of our bank credit facility, the receivable discount programs we have established with two of our customers and the cash flow generated from operations. Under the terms of our December 2002 loan agreement which we recently replaced, we could borrow up to the lesser of (i) $25,000,000 or (ii) our borrowing base, which consisted of 75% of our qualified accounts receivable plus up to $10,000,000 of qualifying inventory. At March 31, 2004 our borrowing base was $19,080,000, and we had borrowed $3,000,000 of this amount and reserved an additional $3,100,000 in connection with the issuance of standby letters of credit for worker's compensation insurance. The interest on the amount outstanding at March 31, 2004 was calculated based upon the 90 day IBOR rate plus 2% or 3.11% and matured on April 22, 2004.

In May 2004, we entered into a new loan agreement that replaced the facility we established in December 2002. Under this new agreement, we can borrow up to $15,000,000 without reference to a borrowing base. The interest rate on this credit facility fluctuates and is based upon the (i) bank's reference rate or (ii) LIBOR, as adjusted to take into account any bank reserve requirements, plus a margin of 2.00%. At June 25, 2004 we had no borrowings outstanding under the facility. This new loan agreement expires on October 2, 2006.

The new loan agreement includes various financial conditions, including minimum levels of tangible net worth, cash flow, fixed charge coverage ratio and a number of restrictive covenants, including prohibitions against additional indebtedness, payment of dividends, pledge of assets and capital expenditures as well as loans to officers and/or affiliates. In addition, it is an event of default under the loan agreement if Selwyn Joffe is no longer our CEO. Pursuant to the new loan agreement, we have agreed to pay a fee of 3/8% per year on any difference between the $15,000,000 commitment and the outstanding amount of credit we actually use, determined by the average of the daily amount of credit outstanding during the specified period.

During fiscal 2004, we increased our working capital by $12,872,000, or 46.7%, over working capital at fiscal year-end 2003. In addition, we were able to reduce our line of credit debt by $6,932,000 and improve our cash on hand by $6,323,000, in each case comparing the amounts at fiscal year-end 2004 to those at fiscal year-end 2003.

Our inventory levels increased by approximately $1,161,000 from fiscal year-end 2003 to fiscal year-end 2004. Because of our improved inventory management, we were able to reduce our raw materials inventory by $4,899,000 during this period. Our finished goods inventory increased by approximately $5,547,000 as a result of our decision to build up inventories in anticipation of the incremental business we were recently awarded by our largest customer.

Accounts receivable increased by $1,862,000 during fiscal 2004. Trade receivables decreased by $1,665,000. This decrease was offset by:

(i) a $1,746,000 reduction in the accrued for slotting fees; (ii) a $1,460,000 reduction in authorized returns; and (iii) a decrease of $321,000 in the stock adjustment reserve.

Our liquidity has been positively impacted by receivable discount programs we have established with two of our customers. Under this program, we have the option to sell a customer's receivables to the bank at an agreed upon discount set at the time the receivables are sold. The discount has ranged from .12% to 2.06% during fiscal 2004, and has allowed us to accelerate collection of two of our customer's receivables aggregating $39,506,000 by an average of 149 days.

This agreement is an important factor behind the $6,323,000 increase in cash at March 31, 2004. In the current fiscal year, we established a similar arrangement for one of our other key customers. While this arrangement has reduced our working capital needs, there can be no assurance that it will continue in the future. In addition, the cost of this program will increase as interest rates increase.

Our liquidity was also positively impacted by the increase in accounts payable of $5,374,000. This increase is the result of obtaining extended payment terms with our vendors during fiscal 2004. In addition our cash flow was positively impacted by $3,398,000 in deferred income taxes as the result of federal and state net operating loss carry forwards to fiscal 2004. At March 31, 2004, we had federal and state net operating loss carry forwards of $11,704,000 and $7,492,000, respectively, which expire in varying amounts through 2023.

Under the terms of the agreement discussed under the caption “Business — Multi-year Agreement with Largest Customer”, we have agreed to purchase approximately $24 million of inventory from AutoZone through the issuance of monthly credits, over a 24-month period, against receivables generated by sales to AutoZone. We have also agreed that, with respect to merchandise covered by our pay-on-scan arrangement, AutoZone will not be obligated to purchase the goods we ship to it until that merchandise is purchased by one of its customers. While these arrangements will defer recognition of income from sales to AutoZone, we do not believe they will ultimately have an adverse impact our liquidity. In addition, although we have increased our inventory levels and our employee base to accommodate the incremental business we received from AutoZone, we believe that this incremental business will improve our overall liquidity and cash flow from operations.

Our customers continue to aggressively seek extended payment terms, pay-on-scan inventory arrangements, price concessions and other terms that could adversely affect our liquidity. In this regard we are working with our bank and other financial institutions to increase our liquidity and financial capabilities. There can no assurance that these initiatives will be successful.

Management believes that cash flow from operations, availability under our credit agreement and our participation in the receivable discount program we have established with two of our customers will be sufficient to meet our working capital needs during fiscal 2005.

Recent Accounting Pronouncements

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

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

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

In November 2002, the EITF reached a consensus on EITF 00-21, ”Revenue Arrangements with Multiple Deliverables.” EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material effect on our financial statements because our revenue arrangements do not have multiple deliverables.

In December 2002, the FASB issued SFAS 148, “Accounting for Stock-Based Compensation Transition and Disclosure,” an amendment of SFAS 123, “Accounting for Stock-Based Compensation.” SFAS 148 amends SFAS 123 to provide alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS 123 to require prominent disclosures for both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the methods used on reported results. The interim transition and annual disclosure requirements of SFAS 148 are effective for the fiscal year 2003. The adoption of SFAS 148 did not have a material impact on our financial statements.

In November 2002, the FASB issued Interpretation No. (“FIN”) 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” which elaborates on the disclosures to be made in interim and annual financial

statements of a guarantor about its obligations under certain guarantees that it has been issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing a guarantee. Initial recognition and measurement provisions for the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. As of December 31, 2002, we did not have any outstanding guarantees.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," which addresses consolidation by business enterprises of variable interest entities. Consolidation by a primary beneficiary of the assets, liabilities and result of activities of variable interest entities will provide more complete information about the resources, obligations, risks and opportunities of the consolidated company. The interpretation also requires disclosures about variable interest entities that the company is not required consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We adopted the requirements of this Interpretation with respect to all variable interest entities created on or before January 31, 2003 as of June 30, 2003. The adoption of this Interpretation did not have a material effect on our financial statements.

In April 2003, FASB issued SFAS 149, "Amendment of Statement 133 on Derivative instruments and Hedging Activities." SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is effective for contracts and hedging relationships entered into or modified after June 30, 2003. We do not have any derivative instruments nor does we engage in hedging activities. The adoption of SFAS 149 did not have a material effect on our financial statements.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 generally requires that instruments that have characteristics of both a liability and equity be classified as a liability. SFAS 150 specifies that three categories of freestanding financial instruments (mandatorily redeemable instruments, obligations to repurchase and entity's equity shares by transferring assets and certain obligations to issue a variable number of equity shares) be classified as liabilities or, in certain instances, as assets. SFAS 150 is generally effective for all financial instruments entered into or modified after May 31, 2003. We do not have any financial instruments with characteristics of both liabilities and equity. The adoption of this statement did not have a material impact on our financial statements.

In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities" with respect to variable interest entities created before January 2003, which among other issues, revised the implementation date to the first fiscal year or interim period ending after March 15, 2004, with the exception of Special Purpose Entities ("SPE"). The consolidation requirements apply to all SPE's in the first fiscal year or interim period ending after December 15, 2003. We currently have no SPEs. The adoption of this statement did not have a material impact on our financial statements.

On December 17, 2003, the Staff of the SEC issued Staff Accounting Bulletin No. ("SAB") 104, "Revenue Recognition," which supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded by the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the FAQ) issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged in SAB 104. The adoption of SAB 104 did not affect our revenue recognition policies, nor the results of operations, financial position or cash flows.

In December 2003, the FASB issued SFAS 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits." SFAS 132R requires additional disclosures about defined benefit pension plans and other postretirement benefit plans. The standard requires, among other things, additional disclosures about the assets held in employer sponsored pension plans, disclosures relating to plan asset investment policy and practices, disclosure of expected contributions to be made to the plans and expected benefit payments to be made by the plans. Annual disclosures applicable to our U.S. pension and postretirement plans are required to be made in our financial statements for the year ended March 31, 2004. Annual disclosures relating to our non-U.S. plans will be required for the year ending March 31, 2005. We have adopted this pronouncement as of December 31, 2003 for all of our U.S. plans.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

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

The following table presents the weighted-average interest rates expected on our debt instruments in effect at March 31, 2004.

Principal (Notional) Amount by Expected Maturity Date

(As of March 31, 2004)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Liabilities					
Bank Debt, Including Current Portion					
Line of Credit Facility*	$15,000,000	$15,000,000	$15,000,000	—	—
Interest Rate*	3.58%/4.00%	3.58%/4.00%	3.58%/4.00%	—	—
Capital lease obligations	$ 409,000	$ 393,000	$ 371,000	$ 290,000	$ 193,000
Interest Rate	4.28-10.36%	4.28-10.36%	4.28-10.36%	4.28-10.36%	4.28-6.08%

* On May 28, 2004, we secured a new $15,000,000 credit facility with a new bank. The new revolving credit line, which replaces our existing asset-based facility, bears interest either at the LIBOR rate plus 2% or the bank's reference rate, at our option. The new loan agreement matures on October 2, 2006. At June 25, 2004, there was no outstanding loan balance.

Qualitative Disclosures . Our primary exposure relates to (1) interest rate risk on our long-term and short-term borrowings, (2) our ability to pay or refinance our borrowings at maturity and (3) the impact of interest rate movements on the cost of the receivable discount program we have established with two of our customers. While we cannot predict or manage our ability to refinance existing debt or the impact interest rate movements will have on our existing debt, we evaluate our financial position on an on-going basis. An increase in interest rates of 1% would have the effect of reducing our results from operations by approximately $50,000, based on interest-bearing debt and capitalized lease obligations at March 31, 2004 of $4,656,000. In addition, for each $100,000,000 of accounts receivable we discount over a period of 180 days, a 1% increase in interest rates would decrease our operating results by $500,000.

We are exposed to foreign currency exchange risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. We transact business in two foreign currencies which affect our operations; the Malaysian Ringit, which has been fixed in relation to the U.S. dollar, and the Singapore dollar.

During the past three years, we have experienced a $8,000 gain, $5,000 gain, and a $34,000 loss, in fiscal years 2004, 2003 and 2002 respectively, relative to our transactions involving these two foreign currencies. Our total foreign assets were $647,000 as of March 31, 2004. A change of 10% in exchange rates would result in an immaterial change in the amount reported in our financial statements.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

We have has completed an evaluation under the supervision and with the participation of our chief executive officer and chief financial officer of the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this report, pursuant to the Securities and Exchange Act of 1934, as amended, Rule 13a-14c. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective with respect to timely communicating to them of all material information required to be disclosed in this report as it related to the Company and its subsidiaries.

There have been no changes in our internal control. over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Our definitive proxy statement for our 2004 annual meeting of shareholders will be filed with SEC no later than July 29, 2004. To accommodate this schedule, shareholder proposals for consideration at our 2004 annual meeting should be delivered to our offices at 2929 California Street, Torrance, California 90503, Attention: Secretary, no later than July 20, 2004.

Item 10. Directors and Executive Officers of the Registrant.

See the information set forth in the sections entitled “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our proxy statement for the 2004 annual meeting of shareholders to be filed with the SEC no later than July 29, 2004, which is incorporated herein by reference.

Item 11. Executive Compensation.

See the information set forth in section entitled “Executive Compensation” in the 2004 proxy statement, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

See the information set forth in the section entitled “Security Ownership of Certain Beneficial Owners and Management” in the 2004 proxy statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

See the information set forth in the sections entitled “Related Party Transactions” and “Election of Directors – Compensation Committee Interlocks and Insider Participation” in the 2004 Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

See the information set forth in the section entitled “Principal Accountant Fees and Services” in the 2004 proxy statement, which is incorporated herein by reference.

PART IV

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

a. Documents filed as part of this report:

(1) Index to Consolidated Financial Statements:

(2) Schedules.

None.

(3) Exhibits:

Number	Description of Exhibit	Method of Filing
3.1	Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 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

Number	Description of Exhibit	Method of Filing
		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	Amendment to Certificate of Incorporation of the Company	Incorporated by reference to Exhibit C to the Company's proxy statement on Schedule 14A filed with the SEC on November 25, 2003.
3.6	By-Laws of the Company	Incorporated by reference to Exhibit 3.2 to the 1994 Registration Statement.
4.1	Specimen Certificate of the Company's Common Stock	Incorporated by reference to Exhibit 4.1 to the 1994 Registration Statement.
4.2	Form of Underwriter's Common Stock Purchase Warrant	Incorporated by reference to Exhibit 4.2 to the 1994 Registration Statement.
4.3	1994 Stock Option Plan	Incorporated by reference to Exhibit 4.3 to the 1994 Registration Statement.

Number	Description of Exhibit	Method of Filing
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	Rights Agreement, dated as of February 24, 1998, by and between the Company and Continental Stock Transfer and Trust Company, as rights agent	Incorporated by reference to Exhibit 4.8 to the 1998 Registration Statement.
4.8	2003 Long Term Incentive Plan	Incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed with the SEC on April 2, 2004.

Number	Description of Exhibit	Method of Filing
10.1	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.

Number	Description of Exhibit	Method of Filing
		1997 Form 10-K.
10.2	Lease Agreement, dated September 19, 1995, by and between Golkar Enterprises, Ltd. and the Company relating to the Company's facility located in Torrance, California	Incorporated by reference to Exhibit 10.18 to the 1995 Registration Statement.
10.3	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.
10.4	Form of Indemnification Agreement for officers and directors	Incorporated by reference to Exhibit 10.25 to the 1997 Registration Statement.
10.5	Warrant to Purchase Common Stock, dated April 20, 2000, by and between the Company and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.29 to the 2001 10-K.
10.6	Amendment No. 1 to Warrant dated May 31, 2001, by and between the Company and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.32 to the 2001 10-K.
10.7	Form of Employment Agreement dated February 14, 2003 by and between the Company and Selwyn Joffe.	Incorporated by reference to Exhibit 10.42 to the 2003 10-K
10.8	Letter Agreement dated July 17, 2002 by and between the Company and Houlihan Lokey Howard & Zukin Capital.	Incorporated by reference to Exhibit 10.43 to the 2003 10-K
10.9	Second Amendment to Lease dated March 15, 2002 between Golkar Enterprises, Ltd. and the Company relating to property in Torrance, California	Incorporated by reference to Exhibit 10.44 to the 2003 10-K
10.10	Separation Agreement and Release, dated February 14, 2003, between the	Incorporated by reference to Exhibit

Number	Description of Exhibit	Method of Filing
	Company and Anthony Souza	10.45 to the 2003 10-K
10.11	Employment Agreement, dated April 1, 2003 between the Company and Charles Yeagley.	Incorporated by reference to Exhibit 10.46 to the 2003 10-K.
10.12	Form of Warrant Cancellation Agreement and Release, dated April 30, 2003, between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.47 to the 2003 10-K
10.13	Form of Agreement, dated June 5, 2002, by and between the Company and Sun Trust Bank.	Incorporated by reference to Exhibit 10.38 to the 2002 10-K.
10.14	Credit Agreement, dated May 28, 2004, between the Company and Union Bank of California, N.A.	Filed herewith.
10.15*	Addendum to Vendor Agreement, dated May 8, 2004, between AutoZone Parts, Inc. and the Company.	Filed herewith.
10.16	Employment Agreement, dated November 1, 2003, between the Company and Bill Laughlin.	Filed herewith.
10.17	Form of Orbian Discount Agreement between the Company and Orbian Corp.	Filed herewith.
10.18	Form of Standard Industrial/Commercial Multi-Tenant Lease, dated May 25, 2004, between the Company and Golkar Enterprises, Ltd for property located at 530 Maple Avenue, Torrance, California.	Filed herewith.
10.19	Stock Purchase Agreement, dated February 28, 2001 between the Company and Mel Marks.	Incorporated by reference to Exhibit 99.2 to Form 8-K filed with the SEC on March 29, 2001.
14.1	Code of Business Conduct and Ethics	Incorporated by reference to Exhibit 10.48 to the 2003 10-K.
18.1	Preferability Letter to the Company from Grant Thornton LLP	Incorporated by reference to Exhibit 18.1 to the 2001 10-K.
21.1	List of Subsidiaries	Incorporated by reference to Exhibit 21.1 to the 1998 Registration Statement.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.	Filed herewith.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.	Filed herewith

* Portions of this exhibit are subject to a request for confidential treatment. These portions have been redacted and filed separately with the SEC.

b. Reports on Form 8-K :

On January 14, 2004, the Company filed a current report on Form 8-K announcing that it had changed its name from Motorcar Parts & Accessories, Inc. to Motorcar Parts of America, Inc.

On February 18, 2004, the Company filed a current report on Form 8-K announcing its results for the fiscal period that ended on December 31, 2003.

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 OF AMERICA, INC

Dated: June 29, 2004

By: /s/ Charles W. Yeagley
Charles W. Yeagley
Chief Financial Officer and Secretary

POWER OF ATTORNEY

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

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

/s/ Selwyn Joffe Selwyn Joffe	Chief Executive Officer and Director (Principal Executive Officer)	June 29, 2004
/s/ Charles Yeagley Charles Yeagley	Chief Financial Officer (Principal Financial and Accounting Officer)	June 29, 2004
/s/ Mel Marks Mel Marks	Director	June 29, 2004
/s/ Murray Rosenzweig Murray Rosenzweig	Director	June 29, 2004
/s/ Douglas Horn Douglas Horn	Director	June 29, 2004
/s/ Irv Siegel Irv Siegel	Director	June 29, 2004

Consolidated Financial Statements and Report of Independent Certified Public Accountants

MOTORCAR PARTS OF AMERICA, INC AND SUBSIDIARIES

March 31, 2004, 2003 and 2002

CONTENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
Motorcar Parts of America, Inc.

We have audited the accompanying consolidated balance sheets of Motorcar Parts of America, Inc.(formerly Motorcar Parts & Accessories, Inc.) and Subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the consolidated financial position of Motorcar Parts of America, Inc. and Subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II of Motorcar Parts of America, Inc. and Subsidiaries for each of the three years in the period ended March 31, 2004. In our opinion, this schedule, when considered in relation to the basic consolidated financial statements taken as whole, presents fairly, in all material respects, the information set forth therein.

/s/GRANT THORNTON LLP

Los Angeles, California
June 21, 2004

PART IV — FINANCIAL INFORMATION

Item 1. Financial Statements.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
(Formerly MOTORCAR PARTS & ACCESSORIES, INC.)
Consolidated Balance Sheets
March 31

	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,630,000	$ 1,307,000
Short term investments	288,000	162,000
Accounts receivable, net of allowance for doubtful accounts of $14,000 and $87,000 in 2004 and 2003, respectively	14,626,000	12,764,000
Inventory – net	28,744,000	27,583,000
Deferred income tax asset	8,124,000	6,753,000
Prepaid income tax	172,000	28,000
Prepaid expenses and other current assets	880,000	577,000
Total current assets	60,464,000	49,174,000
Plant and equipment – net	4,758,000	5,228,000
Deferred income taxes		3,768,000
Other assets	774,000	1,112,000
TOTAL ASSETS	$65,996,000	$ 59,282,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$13,456,000	$ 8,082,000
Accrued liabilities	2,851,000	2,559,000
Line of credit	3,000,000	9,932,000
Deferred compensation	260,000	214,000
Other current liabilities	62,000	18,000
Current portion of capital lease obligations	409,000	815,000
Total current liabilities	20,038,000	21,620,000
Deferred income taxes	1,016,000	—
Deferred income	100,000	—
Capital lease obligations, less current portion	1,247,000	209,000
Total Liabilities	22,401,000	21,829,000
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; 8,085,955 and 7,960,455 shares issued and outstanding at March 31, 2004 and 2003, respectively	81,000	80,000
Additional paid-in capital	53,096,000	53,126,000
Accumulated other comprehensive loss	(78,000)	(107,000)
Accumulated deficit	(9,504,000)	(15,646,000)
Total shareholders' equity	43,595,000	37,453,000
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$65,996,000	$ 59,282,000

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
(Formerly MOTORCAR PARTS & ACCESSORIES, INC.)
Consolidated Statements of Operations
Year Ended March 31,

	2004	2003	2002
Net sales	$152,636,000	$167,566,000	$172,040,000
Cost of goods sold	129,500,000	150,175,000	151,465,000
Gross margin	23,136,000	17,391,000	20,575,000
Operating expenses:			
General and administrative	9,616,000	8,916,000	7,203,000
Sales and marketing	1,977,000	1,071,000	1,167,000
Research and development	565,000	564,000	552,000
Provision for doubtful accounts	13,000	(104,000)	412,000
Total operating expenses	12,171,000	10,447,000	9,334,000
Operating income	10,965,000	6,944,000	11,241,000
Other expense (income)			
Interest expense	968,000	1,980,000	3,582,000
Interest income	(37,000)	(636,000)	(26,000)
Income before income tax (expense) benefit	10,034,000	5,600,000	7,685,000
Income tax (expense) benefit	(3,552,000)	5,025,000	4,004,000
Net income	$ 6,482,000	$ 10,625,000	$ 11,689,000
Basic income per share	$ 0.81	$ 1.33	$ 1.61
Diluted income per share	$ 0.77	$ 1.24	$ 1.51
Weighted average shares outstanding:			
Basic	8,023,228	7,960,455	7,253,606
Diluted	8,388,129	8,540,560	7,765,958

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
(Formerly MOTORCAR PARTS & ACCESSORIES, INC.)
Consolidated Statement of Shareholders' Equity

For the years ended March 31, 2004, 2003 and 2002

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total	Comprehensive Income
	Shares	Amount					
Balance at March 31, 2001	6,460,455	$65,000	$51,281,000	$ (88,000)	$(37,960,000)	$13,298,000	
Sale of Stock	1,500,000	15,000	1,485,000	—	—	1,500,000	
Stock Warrants Re-priced	—	—	360,000	—	—	360,000	
Foreign currency translation	—	—	—	(34,000)	—	(34,000)	$ (34,000)
Unrealized gain on Investments	—	—	—	10,000	—	10,000	10,000
Net Income	—	—	—	—	11,689,000	11,689,000	11,689,000
Comprehensive Income							$11,665,000
Balance at March 31, 2002	7,960,455	80,000	53,126,000	(112,000)	(26,271,000)	26,823,000	
Foreign currency translation	—	—	—	5,000	—	5,000	$ 5,000
Net Income	—	—	—	—	10,625,000	10,625,000	10,625,000
Comprehensive Income							$10,630,000
Balance at March 31, 2003	7,960,455	80,000	53,126,000	(107,000)	(15,646,000)	37,453,000	
Purchase and cancellation of warrants and options	—	—	(372,000)	—	(340,000)	(712,000)	
Exercise of options	204,500	2,000	498,000	—	—	500,000	
Tax benefit from employee stock options	—	—	139,000	—	—	139,000	
Purchase of common stock	(79,000)	(1,000)	(295,000)	—	—	(296,000)	
Unrealized gain on investments	—	—	—	21,000	—	21,000	$ 21,000
Foreign currency translation	—	—	—	8,000	—	8,000	8,000
Net Income	—	—	—	—	6,482,000	6,482,000	6,482,000
Comprehensive Income							$ 6,511,000
Balance at March 31, 2004	8,085,955	$81,000	$53,096,000	$ (78,000)	$ (9,504,000)	$43,595,000	

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
(Formerly MOTORCAR PARTS & ACCESSORIES, INC.)
Consolidated Statements of Cash Flows
Year Ended March 31,

	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 6,482,000	$ 10,625,000	$ 11,689,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,369,000	2,384,000	2,889,000
Provision for inventory reserves and stock adjustments	2,473,000	2,512,000	2,338,000
Provision for doubtful accounts	13,000	(104,000)	412,000
(Benefit) Expense for deferred income taxes	3,413,000	(4,271,000)	(3,000,000)
Tax benefit from employee stock options	139,000	—	—
Loss on disposal of assets	—	—	11,000
Stock warrants re-priced	—	—	360,000
Changes in:			
Accounts receivable	(1,870,000)	5,262,000	(11,010,000)
Inventory	(3,626,000)	4,174,000	(1,399,000)
Prepaid income tax	(144,000)	3,381,000	(964,000)
Prepaid expenses and other current assets	(303,000)	(171,000)	253,000
Other assets	338,000	620,000	(1,453,000)
Accounts payable	5,379,000	(2,909,000)	3,934,000
Accrued liabilities	299,000	(254,000)	(1,357,000)
Deferred compensation	46,000	(58,000)	75,000
Other liabilities	44,000	(165,000)	44,000
Deferred income	100,000	—	—
Net cash provided by operating activities	15,152,000	21,026,000	2,822,000
Cash flows from investing activities:			
Purchase of property, plant and equipment	(322,000)	(669,000)	(756,000)
Purchase of investments	(126,000)	—	(81,000)
Liquidation of investments	—	110,000	—
Net cash used in investing activities	(448,000)	(559,000)	(837,000)
Cash flows from financing activities:			
Borrowings under the line of credit	8,068,000	60,281,000	49,820,000
Payments under the line of credit	(15,000,000)	(78,378,000)	(50,741,000)
Repurchase of warrants, stock options and treasury shares	(1,008,000)	—	—
Proceeds from options exercised	500,000	—	—
Payment on capital lease obligation	(945,000)	(1,160,000)	(1,112,000)
Net cash used in financing activities	(8,385,000)	(19,257,000)	(2,033,000)
Effect of translation adjustment on cash	4,000	5,000	(24,000)
Net increase (decrease) in cash and cash equivalents	6,323,000	1,215,000	(72,000)
Cash and cash equivalents – beginning of year	1,307,000	92,000	164,000
Cash and cash equivalents – end of year	$ 7,630,000	$ 1,307,000	$ 92,000
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 968,000	$ 2,132,000	$ 2,679,000
Income taxes	$ 253,000	$ 32,000	$ 1,000
Non-cash investing and financing activities:			
Property acquired under capital lease	$ 1,577,000	$ —	$ 103,000
Capital stock issued	$ —	$ —	$ 1,500,000

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
(Formerly MOTORCAR PARTS & ACCESSORIES, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004 AND 2003

Note A — Company Background

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

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

The Company changed its name to Motorcar Parts of America, Inc. on January 8, 2004.

Note B – Summary of Significant Accounting Policies

1. *Principles of consolidation*

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

2. *Cash Equivalents*

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash balances at several financial institutions located in Southern California. At times, the cash balances may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents. Total amounts uninsured at March 31, 2004 and 2003 were approximately $6,930,000 and $1,047,000, respectively.

3. *Accounts Receivable*

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

4. *Inventory*

Inventory is stated at the lower of cost or market. Cost is determined by the average cost method, which approximates the first-in, first-out (FIFO) method. Market for cores is determined by comparison to core broker prices. The Company provides an allowance for potentially excess and obsolete inventory based upon historical usage. Inventory costs include core value, material and core components, labor and overhead. The Company records occasional discounts on supplier invoices at the time of payment by reducing related accounts payable and inventory.

5. *Income Taxes*

The Company accounts for income taxes in accordance with guidance issued by the Financial Accounting Standard Board ("FASB") in Statement of Financial Accounting Standards No. 109 ("SFAS"), "Accounting for Income Taxes," which requires the use of the liability method of accounting for income taxes.

The liability method measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax base of assets and liabilities and their reported amounts in the financial statements. The resulting asset or liability is adjusted to reflect changes in the tax laws as they occur. A valuation allowance is provided to reduce deferred tax assets when it is more likely than not that a portion of the deferred tax asset would not be realized.

6. *Plant and Equipment*

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

7. *Foreign Currency Translation*

For financial reporting purposes, the functional currency of the foreign subsidiaries is the local currency. The assets and liabilities of foreign operations are translated into the reporting currency (U. S. dollar) at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average exchange rates during the year in accordance with SFAS 52, “Foreign Currency Translation.” The accumulated foreign currency translation adjustment is presented as a component of Other Comprehensive Income in the Consolidated Statement of Stockholders’ Equity.

8. *Revenue Recognition*

The Company recognizes revenue when performance by the Company is complete. Revenue is recognized when all of the following criteria established by the Staff of the Securities and Exchange Commission in Staff Accounting Bulletin (“SAB”) 104, “Revenue Recognition,” have been met:

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

For products shipped free-on-board (“FOB”) shipping point, revenue is recognized on the date of shipment. For products shipping FOB destination, revenues are recognized two days after the date of shipment based on the Company’s experience regarding the length of transit duration. The Company includes shipping and handling charges in its gross invoice price to customers and classifies the total amount as revenue in accordance with Emerging Issues Task Force Issue (“EITF”) 00-10, “Accounting for Shipping and Handling Fees and Costs.” Shipping and handling costs are recorded as cost of sales.

The price of a finished product sold to customers and recorded as revenue is generally comprised of separately invoiced amounts for the core included in the product (“core value”) and for the value added by remanufacturing (“unit value”). Core value revenue is recorded based on the contractual price of the core as agreed upon with customers. Unit value revenue is recorded based on the Company’s price list, which is revised from time-to-time, net of applicable discounts and allowances.

The terms of one customer agreement provide that the Company’s invoice price is based on unit value only, excluding the core charge. In that case, the Company records only unit value revenue based on the Company’s price list, net of any applicable discounts or allowances. Profit or loss from the sales of cores to this customer are recognized on a monthly basis based upon a reconciliation of the number of units sold to the number of cores returned.

During fiscal 2004, the Company began to offer products on pay-on-scan (“POS”) arrangement. For POS inventory, revenue is recognized when the customer has notified the Company that it has sold a specifically identified product to another person or entity. This customer bears the risk of loss of any consigned product from any cause whatsoever from the time possession is taken until a third party customer purchases the product or its absence is noted in a cycle or physical inventory count. Net sales from consignment inventory were $10,372,000 for the fiscal year ended March 31, 2004.

Sales Incentives

The Company records sales incentives, concessions and allowances as a reduction of revenues at the time the related revenues are recorded or when such incentives are offered in accordance with EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer." Sales incentive amounts are recorded based on the value of the incentive provided.

The Company generally has two types of warranty policies: (a) an advance warranty discount policy ("AWD"), which is a reduction taken on the invoice and (b) an authorized warranty return program which is generally given upon a request from a customer:

Advance Warranty Discount Policy: For products under this warranty policy, in lieu of repairing or exchanging defective units, the Company deducts from the invoice a warranty adjustment of 19.5%. In accordance with SAB 104, the Company records revenue at the time of sale based on the agreed-upon price, which is net of the warranty discount.

Authorized Return Warranty Policy: This policy allows ongoing customers to return parts that have been returned to them under their return policies by a consumer purchaser regardless of whether the parts are defective. In accordance with SFAS 48, "Revenue Recognition When Right of Return Exists," the Company reduces revenue at the time of sale based on estimated future returns.

With respect to the Authorized Return Warranty Policy, we estimate returns in the same period in which the revenue is recorded. The estimates are based on historical analysis, customer agreements and/or currently known factors that arise in the normal course of business. If estimated returns vary from actual returns, actual revenues could be higher or lower than the amount previously recorded.

The Company's payment terms vary depending upon contractual arrangements with individual customers.

9. *Income Per Share*

Basic income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted income per share includes the effect, if any, from the potential exercise or conversion of securities, such as stock options and warrants, which would result in the issuance of incremental shares of common stock, including the re-pricing of warrants which occurred in fiscal 2002.

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

	Year end March 31		
	2004	2003	2002
Net income	$6,482,000	$10,625,000	$11,689,000
Basic shares	8,023,228	7,960,455	7,253,606
Effect of dilutive options and warrants	364,901	580,105	512,352
Diluted shares	8,388,129	8,540,560	7,765,958
Net income per common share:			
Basic	$ 0.81	$ 1.33	$ 1.61
Diluted	$ 0.77	$ 1.24	$ 1.51

The effect of dilutive options and warrants excludes 127,250 options with exercise prices ranging from $6.35 to $19.13 per share in 2004; 57,475 options with exercise prices ranging from $3.60 to $19.13 per share in 2003; and 457,875 options with exercise prices ranging from $2.88 to $19.13 per share in 2002 – all of which were anti-dilutive. The compution of dilutive income per share excludes any potentially issuable Series A Junior Participating Preferred Stock (See Note I).

10. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The following are significant estimates affecting cost of goods sold, inventory and other current liabilities.

Under the terms of certain agreements with its customers and industry practice, the Company's customers from time to time may be allowed stock adjustments when their inventory quantity of certain product lines exceeds the anticipated quantity of sales to end-user customers. These adjustments are made when the Company accepts into inventory these customers' overstocks, which do not occur at any specific time during the year. Due to current and expected changes in customer return practices, in the fourth quarter of fiscal 2001, the Company began to provide for a monthly allowance to address the anticipated impact of stock adjustments. This accrual is based on the estimated impact on gross margin due to the following factors:

- The amount of the credit for inventory overstocks is negotiated between the Company and its customers. Thus the amount credited to the customer by the Company may be different than the total sales value of the inventory returned based on the Company's price lists;
- The product mix of inventory overstocks often varies from the product mix sold; and
- The standard costs of inventory received will vary based on the part numbers received.

During fiscal 2004, 2003 and 2002, the Company expensed $1,561,000, $962,000 and $898,000, respectively, in cost of goods sold and reduced the stock adjustment reserve by $1,882,000, $778,000 and $513,000 for fiscal 2004, 2003 and 2002, respectively, for stock adjustments. The reserve for stock adjustments was $473,000 and $794,000 as of March 31, 2004 and 2003, respectively. The allowance is reviewed quarterly based on review of the past twelve-month period and discussions with customers to determine whether the monthly accrual should be adjusted. In January 2004, the Company increased the reserve from $100,275 to $133,023 per month.

The Company provides for potential excess and obsolete inventory based upon historical usage and a product's life cycle. Each quarter the Company reviews the last 12 months of activities of each part number to determine the usage for these parts. Based on this activity the Company then determines the number of month's inventory on hand and in general reserves at rates ranging from 10% to 80%.

The Company changed its estimate of the life cycle of cores from 25 years to 20 years in October 2002 based on new information about the average age of US automobiles. The reserve account for excess and obsolete inventory decreased at fiscal year-end 2004 by $611,000 from $3,565,000 at fiscal year-end 2003 to $2,954,000 in fiscal year 2004. The decrease in fiscal 2004 was principally due to the scrapping of 52,000 import alternator cores which reduced the reserve for excess and obsolete inventory by $465,000 and the sale of domestic starters which decreased the reserve by $155,000. In fiscal 2003, this account decreased by $150,000 from $3,715,000 at fiscal year-end 2002 to $3,565,000 at fiscal year-end 2003.

The Company adjusts the carrying value of cores in three ways, (1) when purchases constitute 25% or more of quantity on hand, then a weighted average cost of recent purchases is applied, (2) core values not updated by the above method are adjusted every six months based on a comparison to core broker prices. All cores that have a difference between the carrying value and the quoted core broker price of 35% or greater are adjusted to reflect the change in market value, and (3) a valuation reserve has been set up for those cores not adjusted by the above policies. This reserve account is based upon the inherent value of cores, which the Company now estimates has a life cycle of 20 years. This reserve account, which is part of the reserve for excess and obsolete inventory, decreased in fiscal year 2004 by $3,000 from $37,000 in fiscal year 2003 to $34,000 in fiscal 2004. In fiscal year 2003, this reserve account decreased by $227,000 from $264,000 in fiscal year 2002 to $37,000 in fiscal year 2003. The decrease in both years was principally the result of the Company continuing to decrease core inventory by selling and scrapping cores.

Upon receipt of a core from a customer, the Company generally gives a credit to the customer for the core value originally invoiced with respect to that core. Typically, the core value credit given to a customer exceeds the market value of the core accepted as a trade-in. We record this difference in cost of sales. The Company generally limits core returns to cores sold to the specific customer which are in remanufacturable condition.

Core values fluctuate on the basis of several economic factors, including market availability, seasonality and demand.

The Company assumes that on an annual basis customers will return used but remanufacturable cores equal to an estimated percentage of the total annual number of remanufactured units sold. The estimated percentage is based on historical and current experience. However, both the sales and receipts of cores throughout the year are seasonal with the receipts of used cores lagging sales significantly. To account for this lag and match sales with the associated liability to receive and purchase used cores, on a monthly basis the Company either (a) records a credit to deferred income, which is included in Other Current Liabilities if core receipts are less than sales or (b) records a debit entry to reduce deferred income if core receipts are greater than sales. The Company eliminated any remaining balance in the deferred income account as of the end of the fiscal year as management has estimated that no continuing liability exists for such unreturned cores.

The Company eliminated the valuation allowance for deferred tax assets of $8,429,000 at fiscal year-end 2003. Management believes that it is more likely than not, based on projected taxable income, that the deferred tax assets will be fully realized before their expiration. As a result, there is no valuation allowance for deferred tax assets at fiscal year-end 2004

11. Financial Instruments

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

12. Stock-Based Compensation

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

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

	2004	2003	2002
Net Income as reported:	$6,482,000	$10,625,000	$11,689,000
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects:	—	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects:	(198,000)	(169,000)	(1,026,000)
Pro forma net income:	$6,284,000	$10,456,000	$10,663,000
Basic income per share – as report	0.81	1.33	1.61
Basic income per share – pro forma	0.78	1.31	1.47
Diluted income per share – as reported	0.77	1.24	1.51
Diluted income per share – pro forma	0.75	1.22	1.37

The weighted average estimated fair value of employee stock options granted during fiscal 2004, 2003 and 2002 was $1.76, $1.16 and $1.71, respectively.

Under SFAS 123, compensation cost for options granted is recognized over the vesting period. The compensation cost included in the pro forma amounts above represents the cost associated with options granted during fiscal 1996 through fiscal 2004. The following assumptions were used in the Black-Scholes pricing model to estimate stock-based compensation:

	2004	2003	2002
Risk free interest rate	3.28%	2.23%	4.46%
Expected life (years)	5	5	5
Expected volatility	51%	53%	77%
Expected dividend yield	0%	0%	0%

13. Credit Risk

Substantially all of the Company's sales are to leading automotive parts retailers. Management believes the credit risk with respect to trade accounts receivable is limited due to the Company's credit evaluation process and the nature of its customers. However, should our customers experience significant cash flow problems, the Company's financial position and results of operations could be significantly affected.

14. Deferred Compensation Plan

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

15. Comprehensive Income

SFAS 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's total comprehensive income consists of net income, foreign currency translation adjustments and unrealized gain/losses. The Company has presented Comprehensive Income on the Consolidated Statement of Shareholders' Equity.

16. Recent Pronouncements.

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

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

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

In November 2002, the EITF reached a consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables." EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material effect on the Company's financial statements because the Company's revenue arrangements do not have multiple deliverables.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure," an amendment of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 148 amends SFAS 123 to provide alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS 123 to require prominent disclosures for both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the methods used on reported results. The interim transition and annual disclosure requirements of SFAS 148 are effective for the Company's fiscal year 2003. The adoption of SFAS 148 did not have a material impact on the Company's financial statements.

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

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," which addresses consolidation by business enterprises of variable interest entities. Consolidation by a primary beneficiary of the assets, liabilities and results of activities of variable interest entities will provide more complete information about the resources, obligations, risks and opportunities of the consolidated company. The interpretation also requires disclosures about variable interest entities that the company is not required consolidate but in which it has a significant variable interest.

The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We adopted the requirements of this Interpretation with respect to all variable interest entities created on or before January 31, 2003 as of June 30, 2003. The adoption of this Interpretation did not have a material effect on the accompanying consolidated financial statements.

In April 2003, FASB issued SFAS 149, "Amendment of Statement 133 on Derivative instruments and Hedging Activities." SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is effective for contracts and hedging relationships entered into or modified after June 30, 2003. The Company does not have any derivative instruments nor does it engage in hedging activities. The adoption of SFAS 149 did not have a material effect on the accompanying consolidated financial statements.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 generally requires that instruments that have characteristics of both a liability and equity be classified as a liability. SFAS 150 specifies that three categories of freestanding financial instruments (mandatorily redeemable instruments, obligations to repurchase an entity's equity shares by transferring assets and certain obligations to issue a variable number of equity shares) be classified as liabilities or, in certain instances, as assets. SFAS 150 is generally effective for all financial instruments entered into or modified after May 31, 2003. The Company does not have any financial instruments with characteristics of both liabilities and equity. The adoption of this statement did not have a material impact on the accompanying consolidated financial statements.

In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities" with respect to variable interest entities created before January 2003, which among other issues, revised the implementation date to the first fiscal year or interim period ending after March 15, 2004, with the exception of Special Purpose Entities ("SPE"). The consolidation requirements apply to all SPE's in the first fiscal year or interim period ending after December 15, 2003. The Company currently has no SPEs. The adoption of this statement did not have a material impact on its consolidated financial statements.

On December 17, 2003, the Staff of the SEC issued Staff Accounting Bulletin No. ("SAB") 104, "Revenue Recognition," which supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded by the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the FAQ) issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged in SAB 104. The adoption of SAB 104 did not affect the Company's revenue recognition policies, nor the results of operations, financial position or cash flows.

In December 2003, the FASB issued SFAS 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits." SFAS 132R requires additional disclosures about defined benefit pension plans and other postretirement benefit plans. The standard requires, among other things, additional disclosures about the assets held in employer sponsored pension plans, disclosures relating to plan asset investment policy and practices, disclosure of expected contributions to be made to the plans and expected benefit payments to be made by the plans. Annual disclosures applicable to our U.S. pension and postretirement plans are required to be made in our financial statements for the year ended March 31, 2004. Annual disclosures relating to our non-U.S. plans will be required for the year ending March 31, 2005. We have adopted this pronouncement as of December 31, 2003 for all of our U.S. plans.

Note C – Short-Term Investments

The short-term investments account contains the assets of the Company's deferred compensation plan. 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. The plan's assets consist primarily of mutual funds and are classified as available for sale. As of March 31, 2004 and 2003 the fair market value of the short-term investments was $288,000 and $162,000 and the cost basis was $253,000 and $162,000, respectively. As of March 31, 2004 and 2003, related deferred compensation plan liabilities were $260,000 and $214,000, respectively.

Note D – Inventory

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

Inventory is comprised of the following at March 31:

	2004	2003
Raw materials and cores	$15,298,000	$20,197,000
Work-in-process	621,000	719,000
Finished goods	13,379,000	10,232,000
	29,298,000	31,148,000
Less allowance for excess and obsolete inventory	(2,954,000)	(3,565,000)
	26,344,000	27,583,000
Finished goods on consignment	2,400,000	—
Total	$28,744,000	$27,583,000

Note E – Plant and Equipment

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

	2004	2003
Machinery and equipment	$ 13,564,000	$ 12,412,000
Office equipment and fixtures	4,718,000	4,539,000
Leasehold improvements	1,099,000	2,619,000
	19,381,000	19,570,000
Less accumulated depreciation and amortization	(14,623,000)	(14,342,000)
Total	$ 4,758,000	$ 5,228,000

Note F – Capital Lease Obligations

The Company leases various types of machinery and computer equipment under agreements accounted for as capital leases and are included in plant and equipment as follows:

	2004	2003
Cost	$ 7,681,000	$ 5,498,000
Less accumulated amortization	(5,498,000)	(4,414,000)
Total	$ 2,183,000	$ 1,084,000

Future minimum lease payments at March 31, 2004 for the capital leases are as follows:

Year Ending March 31	
2005	$ 487,000
2006	456,000
2007	408,000
2008	310,000
2009	196,000
Total minimum lease payments	1,857,000
Less amount representing interest	(201,000)
Present value of future minimum lease payment	1,656,000
Less current portion	(409,000)
	$1,247,000

Note G – Line of Credit

On December 20, 2002, the Company obtained a new line of credit which provides for borrowings up to the lesser of (i) $25,000,000 or (ii) its borrowing base, which consists of 75% of the Company's qualified accounts receivable plus up to $10,000,000 of qualifying inventory. The Company paid the new lender a loan origination fee of $125,000 which has been deferred and is being amortized over 36 months. As a result of this refinancing, the Company's previous lender waived restructuring fees in the amount of $655,000 which were incurred in connection with an earlier restructuring of the Company's prior lending arrangement and which were to be paid if the Company did not secure a new lending source by December 31, 2002. The unamortized portion of the refinancing fee of $447,000 and the related liability of $655,000 were recorded in the income statement, resulting in a net credit of $208,000 recorded to interest expense in 2003.

At March 31, 2004 the Company's borrowing base was $19,616,000, and the Company had borrowed $3,000,000 of this amount and reserved an additional $3,100,000 in connection with the issuance of standby letters of credit for worker's compensation insurance. As such, the Company had availability under its line of credit of $13,516,000. The interest rate on this credit facility fluctuates and is based upon the (i) higher of the federal funds rate plus 1/2 of 1% or the bank's prime rate, in each case adjusted by a margin of between –. 25% and .25% that fluctuates based upon the Company's cash flow coverage ratio or (ii) LIBOR or IBOR, as adjusted to take into account any bank reserve requirements, plus a margin of between 2.00% and 2.50% that fluctuates based upon the Company's cash flow coverage ratio. At March 31, 2004 interest on the Company's outstanding borrowings of $3,000,000 was calculated based upon one month IBOR +2% or 3.11%. In addition the Company pays a fee of .25% per year on any difference between the commitment and the outstanding amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period.

The bank loan agreement includes various financial conditions, including minimum levels of tangible net worth, cash flow coverage and a number of restrictive covenants, including prohibitions against additional indebtedness, payment of dividends, pledge of assets and capital expenditures as well as loans to officers and/or affiliates. The Company was in compliance with its bank covenants at March 31, 2004.

On May 28, 2004 the Company secured a new $15,000,000 credit facility with a new bank. The new revolving credit line, which replaces the Company's existing asset-based facility, bears interest either at the LIBOR rate plus 2% or the bank's reference rate, at the Company's option. The new loan agreement matures on October 2, 2006.

The new bank loan agreement includes various financial conditions of which the major compliance requirements are tangible net worth of not less than $39,000,000 increased by 75% of net profit after taxes each quarter, EBITDA of not less than $3,000,000 for each quarter for a total of $14,000,000 for the fiscal year, fixed charge ratio of not less than 1.25 to 1.00 as of the last day of each quarter, quick ratio of not less than .65 to 1.00 as of the close of each quarter, capital expenditures in excess of $2,500,000 and permit to exist operating lease obligation of more than $2,000,000.

Under two separate agreements, executed on June 26, 2002 and August 21, 2003 with two different customers involving the same bank, the Company may sell those customers' receivables to the bank, at an agreed-upon discount set at the time the receivables are sold. The discount has ranged from .12% to 2.06% during fiscal 2004, and .53% to 1.51% during fiscal 2003 and has allowed the Company to accelerate collection of the customer's receivables aggregating $39,506,000 in fiscal 2004 and $24,000,000 in fiscal 2003 by an average of 149 days and 51 days, respectively. On an annualized basis the weighted average discount rate on the receivables sold to the bank during the year ended March 31, 2004 and 2003 was 3% and 7.8%, respectively. The amount of the discount on these receivables, $588,000 and $267,000 in fiscal 2004 and fiscal 2003, respectively was recorded in interest expense.

Note H – Stock Adjustments

Stock adjustments are allowed under the terms of certain Company agreements or in accordance with industry practice. Customer's request stock adjustments when the inventory level of certain product lines exceeds their anticipated sales level to their end-user customers. The Company provides an allowance for anticipated stock adjustments and the costs associated with stock adjustments are charged against this allowance. The allowance is reviewed quarterly, together with customer input, to determine if the allowance should be adjusted. The allowance for stock adjustments was $473,000 and $794,000 at March 31, 2004 and 2003, respectively. The following table summarizes the Company's reserve for stock adjustments for the years ended March 31, 2004, 2003 and 2002:

For the Year Ended March 31	Balance at Beginning of Period	Reserve Charged to Income	Stock Adjustments Received	Balance at End of Period
2004	$794,000	$1,561,000	$1,882,000	$473,000
2003	610,000	962,000	778,000	794,000
2002	225,000	898,000	513,000	610,000

In fiscal 2004, the Company accepted a stock adjustment of approximately $490,000 to assist its largest customer in its acquisition of a major commercial account.

Note I- Shareholders' Equity

In connection with the execution of the April 20, 2000 amended and restated credit agreement with its lender, the Company issued the bank a warrant to purchase 400,000 shares of the Company's common stock at an exercise price of $2.045 per share. In connection with the execution of the May 31, 2001 second amended and restated credit agreement, the exercise price of the warrant was reduced to $.01 per share, and the Company recognized an expense of $360,000 in fiscal 2002. During fiscal 2004, the Company obtained replacement financing and paid its former lender $700,000 to cancel the warrant to purchase 400,000 shares of its stock. This transaction resulted in a reduction of $340,000 in retained earnings and a reduction of $360,000 in additional paid in capital.

During the twelve months ended March 31, 2004, the Company also repurchased 79,000 shares of its common stock for $296,000. These shares have been retired and are no longer outstanding.

Preferred Stock

On February 24, 1998, the Company entered into a Rights Agreement with Continental Stock Transfer & Trust Company. As part of this agreement, the Company established 20,000 shares of Series A Junior Participating Preferred Stock, par value $.01 per share. The Series A Junior Participating Preferred Stock has preferential voting, dividend and liquidation rights over the Common Stock.

On February 24, 1998, the Company also declared a dividend distribution to the March 12, 1998 holders of record of one Right for each share of Common Stock held. Each Right, when exercisable, entitles its holder to purchase one one-thousandth of a share of our Series A Junior Participating Preferred Stock at a price of $65 per one one-thousandth of a share (subject to adjustment).

The Rights are not exercisable or transferable apart from the Common Stock until an Acquiring Person, as defined in the Rights Agreement, without the prior consent of our 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 Company's common stock, each Right not owned by a potential Acquiring Person will entitle its holder to receive, 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 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, the Company's common stock is 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.

The Rights make it more difficult for a third party to acquire a controlling interest in the Company without the approval of the Company's Board. As a result, the existence of the Rights could have an adverse impact on the market for the Company's Common Stock.

Note J – Accumulated Other Comprehensive Loss

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

	2004	2003	2002
Foreign currency translation loss	$(68,000)	$ (76,000)	$ (81,000)
Unrealized losses on investments	(10,000)	(31,000)	(31,000)
	$(78,000)	$(107,000)	$(112,000)

Note K – Employment Agreements and Bonus Plan

The Company has employment agreements with two employees, expiring on March 31, 2006. The employment agreements provide for annual base salaries aggregating $715,000. In addition, these employees were granted options in fiscal 2001 through 2004 pursuant to the Company's stock option plans for the purchase of 314,750 shares of common stock at exercise prices ranging from $0.93 to $6.35 per share.

Note L — Commitments

The Company leases office and warehouse facilities in California, Tennessee, North Carolina, Malaysia and Singapore under operating leases expiring through 2007. Certain leases contain escalation clauses for real estate taxes and operating expenses. At March 31, 2004, the remaining future minimum rental payments under the above operating leases are as follows:

Year ending March 31,	
2005	$1,283,000
2006	1,313,000
2007	1,300,000
2008	6,000
Thereafter	—
	$3,902,000

During fiscal years 2004, 2003 and 2002, the Company incurred total lease expenses of $1,263,000, $1,226,000 and $1,805,000, respectively.

The Company entered into a five-year agreement with one of its major customers in March 2003 whereby the Company was designated as the primary supplier for all remanufactured Import alternators and starters purchased by this customer. In consideration for this contract, the Company agreed to issue credits to this customer of approximately $5,014,000 at various times over the life of this five-year period. With the execution of this agreement, the Company recognized a charge against gross revenues of $1,626,000 in fiscal 2003 related to a write-down of core inventory which was recorded as a marketing allowance in accordance with EITF 01-9, received inventory valued at approximately $365,000 and an update order from this customer for $8,329,000 and agreed to assist this customer with their efforts to reduce their warranties by participating in a warranty reduction program. In fiscal 2004 and 2003, the Company recognized total charges against gross revenues of $1,084,000 and $1,626,000, respectively.

The balance of the marketing allowance $1,939,000 will be recognized as a charge against gross revenues over the remaining term of the contract as follows:

Year ending March 31,	
2005	$ 495,000
2006	495,000
2007	495,000
2008	454,000
Total	$1,939,000

The Company supplemented the agreement in January 2004 and agreed to provide a $500,000 marketing allowance to this customer. The funds for the marketing allowance are being credited to this customer in 12 equal monthly amounts of $41,666, which began in January 2004 and will end in December 2004. These credits will be charged against gross revenues ratably over the twelve-month period, in accordance with EITF 01-09 as the credits do not result in a single exchange transaction and are dependent upon the customer's continuing relationship with the Company. The Company also agreed to accept a stock adjustment of $550,000 from this customer, which was accounted for as a charge to the stock adjustment reserve.

The Company entered into an eight-year agreement with one of its major customers in October 2003 whereby the Company was designated as the exclusive supplier of all remanufactured Import alternators and starters for a customer. In consideration for this contract, the Company agreed to issue credits to this customer of approximately $8,294,000 to be issued as monthly credits over the 96-month term of the contract. The Company also agreed to provide one-time incentive credits when new stores and distribution stores are opened. In fiscal 2004, the Company recognized total charges against gross revenues under this contract of $518,000. The balance of the marketing allowance of $7,776,000 will be recognized as a charge against gross revenues over the remaining term of the contract in accordance with EITF 01-09 as follows:

Year ending March 31,	
2005	$1,037,000
2006	1,037,000
2007	1,037,000
2008	1,037,000
2009	1,037,000
2010	1,037,000
2011	1,037,000
2012	517,000
Total	$7,776,000

The Company is partially self-insured for Workers Compensation Insurance and is liable for the first $250,000 of each claim, with an aggregate amount of $2,500,000 per year.

Note M — Major Customers

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

Sales	2004	2003	2002
Customer A	65%	65%	62%
Customer B	16%	14%	13%
Customer C	14%	12%	11%

Accounts Receivable	2004	2003
Customer A	61%	48%
Customer B	17%	33%
Customer C	15%	12%

Note N – Income Taxes

The income tax (expense) benefit for the years ended March 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Current tax (expense) benefit			
Federal	$ (125,000)	$ 821,000	$1,004,000
State	(7,000)	(67,000)	—
Foreign	(7,000)	—	—
Total current tax (expense) benefit	(139,000)	754,000	1,004,000
Deferred tax (expense) benefit			
Federal	(3,155,000)	3,703,000	2,610,000
State	(258,000)	568,000	390,000
Total deferred tax benefit	(3,413,000)	4,271,000	3,000,000
Total income tax (expense) benefit	$(3,552,000)	$5,025,000	$4,004,000

Deferred income taxes consist of the following at March 31:

	2004	2003
Assets		
Net operating loss carry-forwards	$ 4,527,000	$ 6,356,000
Inventory valuation	2,364,000	4,183,000
Allowance for customer discounts and bad debts	1,018,000	690,000
Inventory capitalization	57,000	54,000
Vacation pay	177,000	194,000
Deferred compensation	91,000	90,000
Accrued bonus	—	132,000
Other	26,000	5,000
	8,260,000	11,704,000
Liabilities		
Deferred state tax	(116,000)	(457,000)
Deferred tax on unrealized gain	(14,000)	—
Accelerated depreciation	(1,022,000)	(726,000)
Net deferred tax assets	$ 7,108,000	$10,521,000

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

	2004	2003	2002
Statutory federal income tax rate	34%	34%	34%
State income tax rate	5%	5%	5%
State income tax credits	(3)%	—	—
Change in tax law	(1)%	(15)%	(13)%
Valuation allowance	—	(114)%	(78)%
	35%	(90)%	(52)%

The primary components of the Company's income tax provision (benefit) are (i) the current liability or refund due for federal, state and foreign income taxes, including the effect of the tax net operating loss carryback provisions of the Job Creation and Work Assistance Act of 2002 and (ii) the change in the amount of the net deferred income tax asset, including the effect of any change in the valuation allowance.

The Job Creation and Work Assistance Act of 2002 (the "Act") was passed by Congress and then signed by the President on March 9, 2002. One of the provisions of the Act extends the carry-back period five years for losses arising in years ending during 2001 and 2002. Under the new tax law, the Company received tax refunds of $93,000 in fiscal 2004 and $821,000 in fiscal 2003 related to the five-year carry-back provision of the Act. In the fourth quarter of fiscal 2003, the IRS approved the Company's treatment of the amount to be deducted relating to the fiscal 2000 change in accounting for inventory and allowed the Company to deduct the entire amount in one year (2003) instead of the four years requested. In addition, the IRS concluded its audits. Furthermore, the Company resolved its financing contingency and signed an agreement with a new bank. These positive factors, as well as another year's history of operating profits, lead management to conclude that a valuation allowance was no longer required. Thus, the valuation allowance balance of $8,249,000 was eliminated in fiscal 2003.

At March 31, 2004, the Company had federal and state net operating loss carry forwards of $11,709,000 and $7,492,000, respectively, which expire in varying amounts through 2023.

Realization of these deferred tax assets is dependent upon the Company's ability to generate sufficient future taxable income. Management believes that it is more likely than not that future taxable income will be sufficient to realize the recorded deferred tax assets. Future taxable income is based on management's forecast of the future operating results of the Company. Management periodically reviews such forecasts in comparison with actual results and there can be no assurance that such results will be achieved.

Note O — Defined Contribution Plan

As of June 18, 2001, the Company has a 401(k) plan covering all employees who are 21 years of age with at least six months of service. The plan permits eligible employees to make contributions up to certain limitations, with the Company matching 25% of the employees contribution up to the first 6% of employee compensation. Employees are immediately vested in their voluntary contributions and vest in the Company's matching contributions ratably over five years. The Company's matching contribution to the 401(k) plan was $47,979, $33,948 and $25,184 for the fiscal years ended March 31, 2004, 2003 and 2002, respectively.

Note P — Stock Options

In January 1994, the Company adopted the 1994 Stock Option Plan (the "1994 Plan"), under which it was authorized to issue non-qualified stock options and incentive stock options to key employees, directors and consultants. After a number of shareholder-approved increases to this plan, at March 31, 2002 the aggregate number of stock options approved was 960,000 shares of the Company's common stock. The term and vesting period of options granted is determined by a committee of the Board of Directors with a term not to exceed ten years. At the Company's Annual Meeting of Shareholders held on November 8, 2002 the 1994 Plan was amended to increase the authorized number of shares issued to 1,155,000. As of March 31, 2004, there were 793,250 options outstanding under the 1994 Plan and 0 options were available for grant.

In August 1995, the Company adopted the Non-employee Director Stock Option Plan (the "Directors Plan") which provides for the granting of options to directors to purchase a total of 15,000 shares of the Company's common stock. Options to purchase 15,000 shares were granted under the Director's Plan and were exercised prior to March 31, 2001. There are no options outstanding as of March 31, 2004.

In September 1997, the Company adopted the 1996 Stock Option Plan (the "1996 Plan"), under which it is authorized to issue non-qualified stock options and incentive stock options to key employees, consultants and directors to purchase a total of 30,000 shares of the Company's common stock. The term and vesting period of options granted is determined by a committee of the Board of Directors with a term not to exceed ten years. Options to purchase 30,000 shares were granted under the 1996 Plan and were exercised prior to March 31, 2001. There are no options outstanding as of March 31, 2004.

At the Company's Annual Meeting of Shareholders held on December 17, 2003 the shareholders approved the Company's proposed 2003 Long-Term Incentive Plan (Incentive Plan) which had been adopted by our Board of Directors on October 31, 2003. Under the Incentive Plan, a total of 1,200,000 shares of our Common Stock have been reserved for grants of Incentive Awards and all of our employees are eligible to participate. The 2003 Incentive Plan will terminate on October 31, 2013, unless terminated earlier by our Board of Directors. No options have been granted under this plan as of March 31, 2004.

A summary of stock option transactions follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at 3/31/01	653,375	$ 9.16
Granted	591,500	$ 2.63
Exercised	0	$ 0
Cancelled	(451,000)	$11.29
Outstanding at 3/31/02	793,875	$ 2.87
Granted	154,500	$ 2.38
Exercised	0	$ 0
Cancelled	(8,000)	$ 1.87
Outstanding at 3/31/03	940,375	$ 2.82
Granted	112,875	$ 6.04
Exercised	(204,500)	$ 2.44
Cancelled	(55,500)	$ 2.77
Outstanding at 3/31/04	793,250	$ 3.31

The following table summarizes information about the options outstanding at March 31, 2004:

	Options Outstanding			Options Exercisable	
		Weighted Average			
Range of Exercise Prices	Shares	Exercise Price	Remaining Life in Years	Shares	Weighted Average Exercise Price
$0.931 to $1.800	121,500	$ 1.115	6.95	121,500	$ 1.115
$2.160 to $3.150	540,000	$ 2.786	7.67	540,000	$ 2.786
$3.600 to $11.813	120,375	$ 6.554	9.10	120,375	$ 6.554
$15.625 to $19.125	11,375	$17.469	3.20	11,375	$17.469
	793,250			793,250	

The stock options exercisable at end of year fiscal 2004, 2003 and 2002 are 793,250, 940,375 and 793,875, respectively.

Note Q — Litigation

In fiscal 2002, the Company settled the class action lawsuit that had been filed against the Company in the United States District Court, Central District of California, Western Division. The class action lawsuit alleged that, over a four-year period during 1996 to 1999, the Company misstated earnings in violation of securities laws. Under the terms of the settlement agreement, the class action plaintiffs received $7,500,000. Of this amount, the Company's directors and officer's insurance carrier paid $6,000,000 and the Company paid the balance. Final approval of this settlement was entered into Court Records on September 18, 2001 and all parties have exchanged releases in connection with this settlement. The consummation of this stock sale was conditioned upon the pending approval by the court of a class action settlement as well as the delivery of an opinion from an independent valuation firm that the price per share of the stock to be sold Mr. Mel Marks, the Company's founder and a board member, was fair to the Company's shareholders from a financial point of view. Mr. Marks also agreed that, if the independent valuation firm opined that the $1.00 price per share was not fair, the price per share would increase to a price the valuation firm opined to be fair. For purposes of this determination, the fairness of the transaction was evaluated as of November 30, 2000. On that date, the Company did not have the resources to pay their portion of the settlement from cash flow from operations and was required to raise these funds from an external source.

On September 18, 2002, the Securities and Exchange Commission filed a civil suit against the Company and its former chief financial officer, Peter Bromberg, arising out of the SEC's investigation into the Company's financial statements and reporting practices for fiscal years 1997 and 1998. Simultaneously with the filing of the SEC Complaint, the Company agreed to settle the SEC's action without admitting or denying the allegations in the Complaint. Under the terms of the settlement agreement, the Company is subject to a permanent injunction barring the Company from future violations of the antifraud and financial reporting provisions of the federal securities laws. No monetary fine or penalty was imposed upon the Company in connection with this settlement with the SEC.

On May 20, 2004, the SEC and the United States Attorney's Office announced that Peter Bromberg was sentenced to ten months, including five months of incarceration and five months of home detention, for making false and misleading statements about Motorcar's financial condition and performance in its 1997 and 1998 Forms 10-K filed with the SEC. Mr. Bromberg consented to the entry of judgment that ordered payment of $76,275 in disgorgement plus prejudgment interest. The SEC waived all but $50,000 of this amount and did not order a civil penalty based upon sworn representation in his Statement of Financial Condition and other documents submitted to the SEC.

The United States Attorney's Office had previously informed the Company that it does not intend to pursue criminal charges against the Company arising from the events involved in the SEC Complaint. On February 13, 2003, the Company received a letter from the U.S. Attorney's Office confirming this information.

In December 2003, the SEC and the United States Attorney's Office brought actions against Richard Marks, the Company's former President and Chief Operating Officer. Mr. Marks agreed to plead guilty to the criminal charges, and will be sentenced on August 9, 2004. In settlement of the SEC's civil fraud action, Mr. Marks paid over $1.2 million and was permanently barred from serving as an officer or director of a public company.

The SEC's complaint and the Justice Department's criminal charges alleged that the defendants, Mr. Bromberg and Mr. Marks, engaged in fraudulent accounting practices and falsified Motorcar's books and records, thereby causing Motorcar to issue false and misleading financial information to the investing public. The SEC's complaint alleged that the Company overstated pre-tax earnings for fiscal year 1997 by $3,391,000 (59.8%) and for fiscal year 1998 by $3,576,000 (49.6%), that the overstated earnings figures were reported to the public in the Company's annual reports on Form 10-K filed with the SEC for the fiscal years ended March 31, 1997 and 1998, and that the Company included false 1997 financial statements in a registration statement filed with the SEC in October 1997, for an offering that raised $19.8 million.

Based upon the terms of agreements we previously entered into with Mr. Marks, we have been paying the costs he has incurred in connection with the SEC and U.S. Attorney's Office's investigation. During fiscal 2004, 2003 and 2002 we incurred costs of approximately $966,000, $560,000 and $73,000 respectively on his behalf.

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 R – Related Party Transactions

The Company has entered into agreements with three members of its Board of Directors, Messrs. Selwyn Joffe, Mel Marks and Doug Horn.

In August 2000, the Company's Board of Directors agreed to engage Mr. Mel Marks to provide consulting services to the Company. Mr. Marks is paid an annual consulting fee of $350,000 per year. During fiscal 2004 he was paid $350,000 plus a $50,000 bonus. The Company can terminate this arrangement at any time.

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

Mr. Joffe and the Company entered into an additional consulting services agreement dated as of May 9, 2002, providing for Mr. Joffe to assist us in considering and pursuing potential transactions and relationships intended to enhance stockholder value. In connection with this arrangement, we agreed to pay Mr. Joffe an additional $10,000 per month for one year and 1% of the value of any transactions, which close by the second anniversary of the agreement, less any monthly fees, paid. This agreement remained in effect until February 14, 2003 at which time Mr. Joffe accepted his current position as President and Chief Executive Officer in addition to serving as the Chairman of the Board of Directors. Mr. Joffe's current agreement calls for an annual salary of $500,000, the continuation of his prior agreement relative to payment of 1% of the value of any transactions which close by March 31, 2006 along with a car allowance and other compensation generally provided to our other executive staff members. In addition, Mr. Joffe was awarded 100,000 Stock Options effective March 3, 2003 at a strike price of $2.16, 1,500 Stock Options effective April 30, 2003 at a strike price of $1.80 and 100,000 Stock Options effective January 14, 2004 at a strike price of $6.34. Unless otherwise extended, his contract expires on March 31, 2006.

Effective April 1, 2003, the Company entered into an employment agreement with Mr. Charles W. Yeagley, the Chief Financial Officer of the Company. Mr. Yeagley's current agreement calls for an annual salary of $215,000 along with a car allowance and other compensation generally provided to our other executive staff members. In addition, Mr. Yeagley was awarded 25,000 Stock Options effective June 26, 2000 at a strike price of $.93 and 15,000 Stock Options effective May 11, 2004 at a strike price of $8.70. Unless otherwise extended, his contract expires on March 31, 2006.

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

Note S – Subsequent Events

In May 2004, the Company entered into an agreement with AutoZone to become its primary supplier of import alternators and starters for its eight distribution centers. As part of this four year agreement, the Company entered into a pay-on-scan (POS) arrangement with AutoZone. Under this arrangement, AutoZone will not be obligated to purchase the merchandise the Company has shipped to AutoZone that is covered by the POS arrangement until that merchandise is ultimately sold to AutoZone's customers. The Company also agreed to purchase approximately $24 million of AutoZone's current inventory of import starters and alternators transitioning to the POS program at the price AutoZone originally paid for this inventory. The Company will pay for this inventory over 24 months, without interest, through the issuance of monthly credits against receivables generated by sales to AutoZone. The contract requires that the Company continue to meet its historical performance and competitive standards. The Company also agreed to work with AutoZone to transition all of the products it sells to AutoZone to the POS arrangement by April 2006. If that is not accomplished, the Company expects to acquire an additional $24 million of AutoZone inventory to be covered by the expanded POS arrangement. The Company will then provide AutoZone with an additional $24 million of credits, to be taken in equal monthly installments over a 24-month period beginning in May 2006, and the contract will be extended for an additional two years through May 2010.

Note T – Unaudited Quarterly Financial Data

The following summarizes selected quarterly financial data for the fiscal year ended March 31, 2004:

FY 2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$37,102,000	$46,424,000	$35,578,000	$33,532,000
Gross Margin	4,102,000	7,036,000	5,169,000	6,829,000
Total Operating Expenses	2,799,000	3,472,000	3,269,000	2,631,000
Operating Income / (Loss)	1,303,000	3,564,000	1,900,000	4,198,000
Interest expense — net	293,000	288,000	143,000	207,000
Income tax (expense) benefit	(330,000)	(1,378,000)	(632,000)	(1,212,000)
Net Income	680,000	1,898,000	1,125,000	2,779,000
Basic income per share	$ 0.08	$ 0.24	$ 0.14	$ 0.34
Diluted income per share	$ 0.08	$ 0.23	$ 0.13	$ 0.32

In the fourth quarter we benefited from the under-return of cores by our customers, which resulted in $625,000 in cost savings attributable to the difference in costs from obtaining cores from core brokers compared to obtaining cores from our customers and $356,000 in additional revenue due the elimination of warranty reserve related to the under-returns which reduced net sales. These items increased our gross margins by 2.9% in the fourth quarter.

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

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

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

Schedule II – Valuation and Qualifying Accounts

Accounts Receivable – Bad Debt Allowance

For the Year Ended March 31	Description	Balance at Beginning of Period	Charged to (Recovery) Bad Debts Expense	Accounts Written Off	Balance at End of Period
2004	Accounts receivable allowance	$ 87,000	$ 13,000	$ 86,000	$ 14,000
2003	Accounts receivable allowance	326,000	(104,000)	135,000	87,000
2002	Accounts receivable allowance	149,000	(412,000)	235,000	326,000

Inventory

For the Year Ended March 31	Description	Balance at Beginning of Period	Reserve Charged to Income	Inventory Written Off	Balance at End of Period
2004	Allowance for excess and obsolete inventory	$3,565,000	$ 912,000	$1,523,000	$2,954,000
2003	Allowance for excess and obsolete inventory	3,715,000	1,550,000	1,700,000	3,565,000
2002	Allowance for excess and obsolete inventory	4,253,000	1,440,000	1,978,000	3,715,000

EXHIBIT 10.14

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") is made and entered into as of May 28, 2004, by and between MOTORCAR PARTS OF AMERICA, INC., a New York corporation ("Borrower"), with its principal place of business located at 2929 California Street, Torrance, California 90503, and UNION BANK OF CALIFORNIA, N.A., a national banking association ("Bank"), with an office located at 5855 Topanga Canyon Boulevard, Second Floor, Woodland Hills, California 91367.

SECTION 1. DEFINITIONS

As used herein, initially capitalized terms shall have the respective meanings set forth below or set forth in the Section or subsection defining such terms:

"AFFILIATE" shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as a trustee, guardian or other fiduciary, ten percent (10%) or more of the stock having ordinary voting power in the election of directors of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person and (c) each of such Person's executive officers, directors, joint venturers, members and partners; provided, however, that in no case shall Bank be deemed to be an Affiliate of Borrower or any of its Subsidiaries. For the purpose of this definition, "control" of a Person means the ability, directly or indirectly, to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"ALTERNATIVE DISPUTE RESOLUTION AGREEMENT" shall mean that certain the Alternative Dispute Resolution Agreement dated as of even date herewith, on Bank's standard form therefor, duly executed by Borrower and Bank.

"AUTOZONE CONSENT AGREEMENT" shall mean that certain Consent Agreement, by and among Bank, Borrower and SunTrust, as agent for itself and other purchasers, as at any time amended, supplemented or otherwise modified or restated, pursuant to which, among other things, Bank shall consent to the terms and conditions of the AutoZone Supplier Agreement.

"AUTOZONE SUPPLIER AGREEMENT" shall mean that certain Supplier Agreement (and all documents, instruments and agreements executed in connection therewith), by and between SunTrust and Borrower, pursuant to which, among other things, SunTrust may, in its sole discretion, at the request of Borrower, purchase at a discount prior to its due date any SunTrust Draft from Borrower, as such Supplier Agreement is in effect on the date of this Agreement.

"BALC" shall mean Banc of America Leasing & Capital, LLC.

"BANK EXPENSES" shall mean (a) all reasonable costs and expenses paid or advanced by Bank which are required to be paid by Borrower under this Agreement or any of the other Loan Documents; (b) reasonable expenses incurred by Bank in auditing or examining the books and records of Borrower or any of its Subsidiaries and the Collateral following the occurrence and continuation of an Event of Default; (c) taxes and insurance premiums of every nature and kind of Borrower or any of its Subsidiaries paid by Bank; (d) reasonable appraisal, due diligence, filing, recording, documentation, publication and search fees paid or incurred by Bank on behalf of Borrower or any of its Subsidiaries prior to the date of this Agreement or to correct any Event of Default or enforce any provision of this Agreement or any other Loan Document, or, if an Event of Default has occurred and is continuing, in gaining possession of, maintaining, handling, preserving, storing, shipping, appraising, selling, preparing for sale and/or advertising to sell the Collateral, whether or not a sale is consummated;
(e) reasonable costs and expenses (including attorneys' fees) of any suit or arbitration proceeding in which Bank is the prevailing party, incurred by Bank in enforcing or defending this Agreement or any other Loan Document, or any portion thereof; and (f) reasonable attorneys' fees and expenses incurred by Bank in amending, terminating or concerning this Agreement or any other Loan Document, or any portion thereof, whether or not suit is brought, such attorneys' fees to include the reasonable estimate of the allocated costs and expenses of in-house legal counsel and staff. All Bank Expenses paid or incurred by Bank shall be considered to be and shall become a part of the Obligations and be secured by the Collateral, are payable upon demand, and if not reimbursed within thirty (30) days following such demand, shall immediately thereafter bear interest, together with all other amounts to be paid by Borrower pursuant hereto, at the Default Rate of Interest provided for herein and in the Revolving Note.

"BANK OF AMERICA" shall mean Bank of America, N.A., which has an office located at 525 South Flower Street, Mezzanine Level, Los Angeles, California 90071.

"BANK OF AMERICA LOAN" shall mean the revolving line of credit previously extended by Bank of America to Borrower, the Indebtedness with respect to which shall be repaid in full with the proceeds of the initial Revolving Loan provided for in this Agreement, as more particularly described in Section 2.3(a) hereinbelow.

"BANK OF AMERICA LOAN DOCUMENTS" shall mean, collectively, that certain Business Loan Agreement (Receivables and Inventory) dated as of December 20, 2002, executed by and between Bank of America and Borrower in connection with the Bank of America Loan, together with any and all documents, instruments and agreements executed by Borrower in connection therewith, as such Business Loan Agreement (Receivables and Inventory) and such documents, instruments and agreements may have been amended, supplemented or otherwise modified or restated prior to the date of this Agreement.

"BUSINESS DAY" shall mean a day other than a Saturday, a Sunday or a day on which commercial banks in the State of California are authorized or required by law to close.

"CAPITAL EXPENDITURES" shall mean all payments due (whether or not paid) during a fiscal period of Borrower and its Subsidiaries in respect of the cost of any fixed asset or capital improvement, or any replacement, substitution or addition thereto, and which fixed asset or capital improvement has a useful life of more than one (1) year, including without limitation, those payments due in connection with the direct or indirect acquisition of any such fixed asset or capital improvement by way of increased product or service charges or offset items or in connection with Capital Leases.

"CAPITAL LEASE" shall mean any lease of an asset by a Person as lessee which would, in accordance with GAAP, be required to be accounted for as an asset and corresponding liability on the balance sheet of such Person.

"CAPITAL LEASE OBLIGATIONS" shall mean, for any Person, all obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) property to the extent such obligations are required to be classified and accounted for as a Capital Lease on a balance sheet of such Person under GAAP. For the purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"CHANGE OF CONTROL" shall mean, with respect to any Person, an event or series of events by which:

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan and, for purposes of determining whether a "group" holds more than twenty-five percent (25%) of the equity securities of Borrower, excluding from the shares held by any such "group" shares of common stock of Borrower held as of the date of this Agreement by Mel Marks, Richard Marks and each of the members of the Marks family) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire (such right, an "option right"), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of twenty-five percent (25%) or more of the equity securities of such Person entitled to vote for members of the board of directors or equivalent governing body of such Person on a fully-diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right); or

(b) during any period of twelve (12) consecutive months, a majority of the members of the board of directors or other equivalent governing body of such Person cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or

other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (excluding, in the case of both clause (ii) and clause (iii), any individual whose initial nomination for, or assumption of office as, a member of that board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors).

"COLLATERAL" shall mean the collateral provided by Borrower to Bank pursuant to Section 3.1 hereof.

"CONSENT AGREEMENTS" and "CONSENT AGREEMENT" shall mean, respectively, (a) the O'Reilly Consent Agreement, the AutoZone Consent Agreement and any other consent agreement or equivalent agreement entered into from time to time after the date of this Agreement, and (b) any one of such Consent Agreements.

"CREDITOR" shall mean AutoZone Parts, Inc., a Nevada corporation.

"CSK" shall mean CSK Auto, Inc., an Arizona corporation.

"DEBT SERVICE" shall mean, as of the last day of each fiscal quarter of Borrower and its Subsidiaries, on a consolidated basis for Borrower and its Subsidiaries, the sum, without duplication, of (a) the amount of all scheduled principal payments in respect of Indebtedness of Borrower and its Subsidiaries during the four (4) consecutive fiscal quarters ending on such date, plus (b) interest expense of Borrower and its Subsidiaries paid or payable during the four (4) consecutive fiscal quarters ending on such date, plus (c) the New POS Product Credit Amount taken by Creditor during the four (4) consecutive fiscal quarters ending on such date, plus (d) the aggregate amount of all cash payments made in connection with any stock purchases, redemptions, defeasances or other retirements of any of the stock of Borrower and its Subsidiaries effected during the four (4) consecutive fiscal quarters ending on such date.

"DEFAULT RATE OF INTEREST" shall have the meaning assigned to such term in Section 2.6 hereof.

"DISPOSITION" shall mean the sale, transfer or other disposition in any single transaction or series of related transactions of any asset, or group of related assets, of Borrower or any of its Subsidiaries, which asset or assets constitute a material line of business or substantially all of the assets of Borrower or any of its Subsidiaries.

"EBITDA" shall mean, for any fiscal period, (a) the consolidated net income of Borrower and its Subsidiaries for such fiscal period, plus (b) interest expense of Borrower and its Subsidiaries for such fiscal period, plus (c) the aggregate amount of federal and state taxes on or measured by income of Borrower and its Subsidiaries for such fiscal period (whether or not payable during such fiscal period), minus (d) the aggregate amount of federal and state credits against taxes on or measured by income of Borrower and its

Subsidiaries for such fiscal period (to the extent such credits were used during such fiscal period in the calculation of net income), plus (e) depreciation, amortization and all other non-cash expenses of Borrower and its Subsidiaries for such fiscal period, in each case as determined in accordance with GAAP.

"FINANCIAL STATEMENTS" shall mean, with respect to any accounting period of any Person, statements of income and cash flow of such Person for such accounting period, and balance sheets of such Person as of the end of such accounting period, setting forth in each case in comparative form figures for the corresponding accounting period in the preceding fiscal year or, if such accounting period is a full fiscal year, corresponding figures from the preceding annual audit, all prepared in reasonable detail and in accordance with GAAP. The term "Financial Statements" shall include the notes and schedules to such statements of income and cash flow and balance sheets.

"FIXED CHARGE COVERAGE RATIO" shall mean, as of the last day of any fiscal quarter, calculated for Borrower and its Subsidiaries on a consolidated basis, the ratio of (a) (i) EBITDA for the four (4) consecutive fiscal quarters ending on such date, minus (ii) non-financed Capital Expenditures during the four (4) consecutive fiscal quarters ending on such date, minus (iii) federal and state income tax expense paid in cash during the four (4) consecutive fiscal quarters ending on such date, to (b) Debt Service for the four (4) consecutive fiscal quarters ending on such date.

"GAAP" shall mean generally accepted accounting principles in the United States of America in effect from time to time.

"GUARANTY OBLIGATION" shall mean, as to any Person, any (a) guaranty by such Person of Indebtedness of, or other obligation performable by, any other Person or (b) assurance given by such Person to an obligee of any other Person with respect to the performance of an obligation by, or the financial condition of, such other Person, whether direct, indirect or contingent, including any purchase or repurchase agreement covering such obligation or any collateral security therefor, any agreement to provide funds (by means of loans, capital contributions or otherwise) to such other Person, any agreement to support the solvency or level of any balance sheet item of such other Person or any "keep-well" or other arrangement of whatever nature given for the purpose of assuring or holding harmless such obligee against loss with respect to any obligation of such other Person; provided, however, that the term "Guaranty Obligation" shall not include endorsements of instruments for deposit or collection in the ordinary course of business and customary indemnities given in connection with asset sales in the ordinary course of business.

"INDEBTEDNESS" shall mean, as to any Person (without duplication), (a) indebtedness of such Person for borrowed money or for the deferred purchase price of property (excluding (i) Subordinated Indebtedness and (ii) trade and other accounts payable in the ordinary course of business in accordance with ordinary trade terms and accrued liabilities incurred in the ordinary course of business, including any contingent obligation of such Person for any such indebtedness), (b) indebtedness of such Person of the nature described in clause
(a) that is non-recourse to the credit of such Person but is

secured by assets of such Person, to the extent of the fair market value of such assets as determined in good faith by such Person, (c) Capital Lease Obligations of such Person, (d) indebtedness of such Person arising under bankers' acceptance facilities or under facilities for the discount of accounts receivable of such Person, (e) any direct or contingent obligations of such Person under letters of credit issued for the account of such Person (including, without limitation, the Letters of Credit) and (f) any net obligations of such Person under any interest rate protection agreements.

"INSOLVENCY PROCEEDING" shall mean and include any proceeding commenced by or against Borrower or any of its Subsidiaries under any provision of the Bankruptcy Code or similar statute, or under any other bankruptcy or insolvency law, including, but not limited to, assignments for the benefit of creditors and formal or informal moratoriums.

"INTERCREDITOR AGREEMENT" shall mean that certain Intercreditor Agreement dated as of even date herewith, by and between Bank and Creditor, and acknowledged by Borrower, as at any time amended, supplemented or otherwise modified or restated, pursuant to which Bank and Creditor shall agree as to the relative priorities of their respective liens upon and security interests in certain assets of Borrower.

"LETTER OF CREDIT AGREEMENTS" and "LETTER OF CREDIT AGREEMENT" shall mean, respectively, (a) the irrevocable commercial or standby letter of credit applications and agreements, each on Bank's standard form therefor, executed by Borrower in connection with the issuance by Bank of the Letters of Credit on the account of Borrower, and (b) any one of such Letter of Credit Agreements.

"LETTER OF CREDIT SUBLIMIT" shall have the meaning assigned to such term in Section 2.2(a) hereof.

"LETTERS OF CREDIT" and "LETTER OF CREDIT" shall have the meanings assigned to such terms in Section 2.2(a) hereof.

"LIEN" shall mean any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any agreement to give any security interest).

"LOAN DOCUMENTS" and "LOAN DOCUMENT" shall mean, respectively, (a) this Agreement, the Revolving Note, the Security Agreement, the Intercreditor Agreement, the Alternative Dispute Resolution Agreement, the Letter of Credit Agreements, the Consent Agreements and all other documents, instruments and agreements, and all related riders, exhibits, resolutions, authorizations, financing statements and certificates delivered to Bank in connection with this Agreement, and (b) any one of such Loan Documents.

"MVR" shall mean MVR Products Pte. Ltd., a Singapore corporation and wholly-owned Subsidiary of Borrower.

"NET PROFIT AFTER TAXES" shall mean, for any fiscal quarter, the consolidated income of Borrower and its Subsidiaries for such fiscal quarter, after payment of state and federal income taxes, as determined in accordance with GAAP.

"NEW POS PRODUCT" shall have the meaning assigned to such term in the Vendor Agreement.

"NEW POS PRODUCT CREDIT AMOUNT" shall have the meaning assigned to such term in the Vendor Agreement.

"OBLIGATIONS" shall mean and include all loans, advances, debts, liabilities and obligations, howsoever arising, owed by Borrower or any of its Subsidiaries to Bank of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to be come due, now existing or hereafter arising pursuant to the terms of this Agreement, any other Loan Document or any other agreement or instrument, including without limitation any Indebtedness of Borrower or any of its Subsidiaries which Bank obtains by assignment or otherwise, and all Bank Expenses.

"O'REILLY" shall mean O'Reilly Automotive, Inc., a Missouri corporation.

"O'REILLY CONSENT AGREEMENT" shall mean that certain Consent Agreement, by and among Bank, Borrower and SunTrust, as agent for itself and other purchasers, as at any time amended, supplemented or otherwise modified or restated, pursuant to which, among other things, Bank shall consent to the terms and conditions of the O'Reilly Supplier Agreement.

"O'REILLY SUPPLIER AGREEMENT" shall mean that certain Letter of Understanding and Agreement dated August 21, 2003 (and all documents, instruments and agreements executed in connection therewith), by and between SunTrust and Borrower, pursuant to which, among other things, SunTrust may, in its sole discretion, at the request of Borrower, purchase at a discount prior to its due date any SunTrust Draft from Borrower, as such Letter of Understanding and Agreement is in effect on the date of this Agreement.

"PERMITTED GUARANTY OBLIGATIONS" shall mean:

(a) Guaranty Obligations of Borrower existing on the date of this Agreement, and refinancings, renewals, extensions or amendments that do not increase the amount thereof;

(b) Guaranty Obligations under the Loan Documents, if any; and

(c) Guaranty Obligations of Borrower under the Supplier Agreements.

"PERMITTED INDEBTEDNESS" shall mean:

(a) the Obligations;

(b) trade payables and other obligations of Borrower or any of its Subsidiaries to suppliers and customers incurred in the ordinary course of business;

(c) workers' compensation insurance arrangements in the nature of indebtedness and reimbursement obligations of Borrower to its employees for business expenses;

(d) Indebtedness of Borrower or any of its Subsidiaries incurred to finance the purchase of equipment constituting a Capital Expenditure permitted by Section 7.9 of this Agreement;

(e) other Indebtedness existing on the date of this Agreement and reflected in the unaudited consolidated Financial Statement of Borrower and its Subsidiaries for the fiscal year ended March 31, 2004 (including Capital Lease Obligations), and refinancings, renewals, extensions or amendments that do not increase the amount thereof;

(f) Indebtedness owing to Creditor under the Vendor Agreement in a principal amount not to exceed the New POS Product Credit Amount, so long as the Intercreditor Agreement is in full force and effect;

(g) other Indebtedness not described hereinabove incurred by Borrower or any of its Subsidiaries after the date of this Agreement in the ordinary course of business; provided, however, that the aggregate principal amount of such other Indebtedness at any one time outstanding shall not exceed Five Hundred Thousand Dollars ($500,000); and

(h) operating lease obligations of Borrower or any of its Subsidiaries that are permitted under Section 7.11 of this Agreement.

"PERMITTED LIENS" shall mean:

(a) Liens for taxes not yet payable or Liens for taxes being contested in good faith and by proper proceedings diligently pursued, provided that adequate reserves shall have been made therefor on the applicable Financial Statement, the Lien shall have no effect on the priority of Bank's security interest in the Collateral and a stay of enforcement of any such Lien shall be in effect;

(b) Liens in favor of Bank;

(c) Liens upon equipment granted in connection with the acquisition of such equipment by Borrower or any of its Subsidiaries after the date hereof (including, without limitation, pursuant to Capital Leases); provided, however, that (i) the cost of such acquisition constitutes a Capital Expenditure permitted by Section 7.9 of this Agreement, (ii) the Indebtedness incurred to finance each such acquisition is permitted

by this Agreement and (iii) each such Lien attaches only to the equipment acquired with the Indebtedness secured thereby, and the proceeds and products thereof;

(d) reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions or encumbrances affecting real property which do not in the aggregate materially detract from the value of the real property or materially interfere with their use in the ordinary conduct of the business of Borrower or any of its Subsidiaries;

(e) deposits under workmen's compensation, unemployment insurance, social security and other similar laws applicable to Borrower or any of its Subsidiaries;

(f) Liens relating to statutory obligations of Borrower or any of its Subsidiaries with respect to surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(g) Liens existing on the date of this Agreement in favor of BALC and covering certain non-fixture equipment of Borrower; and

(h) a Lien in favor of Creditor covering the New POS Product, and the proceeds therefrom, which shall secure the payment by Borrower of the New POS Product Credit Amount under the Vendor Agreement and constitute Permitted Indebtedness hereunder, so long as the Intercreditor Agreement is in full force and effect.

"PERSON" shall mean any natural person, corporation, partnership, joint venture, limited liability company, firm, association, government, governmental agency, court or any other entity.

"QUICK RATIO" shall mean, with respect to any fiscal quarter of Borrower and its Subsidiaries, the ratio of (a) cash, Accounts and marketable securities of Borrower and its Subsidiaries as of the close of such fiscal quarter to (b) the consolidated current liabilities of Borrower and its Subsidiaries as of the close of such fiscal quarter (including, in the calculation of such consolidated current liabilities, the aggregate principal amount of all Revolving Loans outstanding on the date of calculation).

"RESTRICTED PAYMENT" shall mean (a) the declaration or payment of any dividend or the occurrence of any liability to make any other payment or distribution of cash or other property or assets on or in respect of Borrower's or any of its Subsidiaries' stock, (b) any payment on account of the purchase, redemption, defeasance or other retirement of Borrower's or any of its Subsidiaries' stock or Indebtedness, other than (i) the Obligations arising under this Agreement or
(ii) so long as no Event of Default has occurred and is continuing, or shall be caused thereby, principal and interest, when due, under Permitted Indebtedness, without acceleration or modification of the amortization as in effect on the date of this Agreement, or any other payment or distribution made in respect thereof, either directly or indirectly, or (c) any payment, loan, contribution or other transfer of funds or other property to any stockholder of Borrower (made by virtue of the fact that the recipient of such payment, loan, contribution or other transfer of

funds or other property is a stockholder of Borrower) or any of its Subsidiaries, other than, with respect to subparagraphs (a), (b) and (c) hereinabove, (i) interest payments on account of Subordinated Indebtedness, and
(ii) such other amounts, if any, which are expressly and specifically permitted in this Agreement; provided, however, that no payment to Bank shall constitute a Restricted Payment.

"REVOLVING CREDIT COMMITMENT" shall have the meaning assigned to that term in Section 2.1 hereof.

"REVOLVING CREDIT COMMITMENT TERMINATION DATE" shall mean October 2, 2006.

"REVOLVING LOANS" and "REVOLVING LOAN" shall have the meanings assigned to such terms in Section 2.1 hereof.

"REVOLVING NOTE" shall have the meaning assigned to such term in Section 2.1 hereof.

"SECURITY AGREEMENT" shall mean that certain Security Agreement, on Bank's standard form therefor, duly executed by Borrower, as debtor, in favor of Bank, as secured party, pursuant to which Borrower shall grant to Bank a security interest in all of Borrower's personal property, as security for the payment and performance of Borrower's Obligations hereunder and under the other Loan Documents.

"SUBORDINATED INDEBTEDNESS" shall mean the Indebtedness of Borrower to Creditor, which Indebtedness shall be subordinated in right of payment to the Obligations of Borrower to Bank pursuant to the terms and conditions of the Intercreditor Agreement.

"SUBSIDIARY" of a Person shall mean any corporation, association, partnership, limited liability company, joint venture or other business entity, whether foreign or domestic, of which more than fifty percent (50%) of the voting stock or other equity interests (in the case of Persons other than corporations), is owned or controlled directly or indirectly by the Person, or one or more of the Subsidiaries of the Person, or a combination thereof. Immediately prior to the date of this Agreement, the existing Subsidiaries of Borrower were MVR and Unijoh. Unless the context otherwise requires, references herein to a "Subsidiary" shall refer to a Subsidiary of Borrower.

"SUNTRUST" shall mean SunTrust Bank, a Georgia banking corporation.

"SUNTRUST DRAFT" shall have the meaning assigned to such term in the O'Reilly Supplier Agreement or the AutoZone Supplier Agreement, as applicable.

"SUPPLIER AGREEMENTS" and "SUPPLIER AGREEMENT" shall mean, respectively, (a) the O'Reilly Supplier Agreement, the AutoZone Supplier Agreement and any other supplier agreement or equivalent agreement entered into from time to time after the date of this Agreement, and (b) any one of such Supplier Agreements.

"TANGIBLE NET WORTH" shall mean, as of the last day of any fiscal period, (a) the consolidated net worth of Borrower and its Subsidiaries on such date, less
(b) the book

value of patents, licenses, trademarks, trade names, goodwill and other similar intangible assets (provided, however, that neither (i) the outstanding amount of the marketing fee arising from the purchase by Borrower of New POS Product under the Vendor Agreement nor (ii) the amount of any deferred tax assets shall be deemed to be an intangible asset for this purpose), organizational expenses, and expenses and monies due from Affiliates (including officers, shareholders and directors) on such date, in each case with respect to Borrower and its Subsidiaries, plus (c) the principal amount of Subordinated Indebtedness of Borrower and its Subsidiaries on such date.

"UCC" shall mean the Uniform Commercial Code as in effect in the State of California.

"UNIJOH" shall mean Unijoh Sdn. Bhd., a Malaysian corporation and wholly-owned Subsidiary of Borrower.

"VENDOR AGREEMENT" shall mean that certain Vendor Agreement dated April 6, 2004, by and between Borrower and Creditor, as amended by that certain Addendum to Vendor Agreement and that certain Pay On Scan Addendum, both dated as of May 8, 2004, pursuant to which Creditor has agreed to sell to Borrower, and Borrower has agreed to purchase from Creditor, certain starter and alternator products, which starter and alternator products shall immediately become New POS Product of Borrower held by Creditor, as such Vendor Agreement, as amended by such Addendum to Vendor Agreement and such Pay On Scan Addendum, is in effect on the date of this Agreement.

SECTION 2. AMOUNT AND TERMS OF CREDIT

2.1 REVOLVING CREDIT COMMITMENT. Subject to the terms and conditions of this Agreement, from the date of this Agreement to but excluding the Revolving Credit Commitment Termination Date, provided that no Event of Default then has occurred and is continuing, Bank will make one or more revolving loans (collectively, the "Revolving Loans" and individually, a "Revolving Loan") to Borrower as Borrower may request from time to time; provided, however, that the aggregate outstanding principal amount of all such Revolving Loans at any one time shall not exceed Fifteen Million Dollars ($15,000,000) (the "Revolving Credit Commitment"). Each Revolving Loan requested and made hereunder which bears interest at a rate based upon the Base Interest Rate (as such term is defined in the Revolving Note) shall be in a principal amount of not less than Five Hundred Thousand Dollars ($500,000). Each Revolving Loan requested and made hereunder which bears interest at a rate based upon the Reference Rate (as such term is defined in the Revolving Note) shall be in a principal amount of not less than One Hundred Thousand Dollars ($100,000). Within the limits of time and amount set forth in this Section 2.1, Borrower may borrow, repay and reborrow Revolving Loans under the Revolving Credit Commitment. All Revolving Loans shall be requested before the Revolving Credit Commitment Termination Date, on which date all outstanding principal of and accrued but unpaid interest on all Revolving Loans shall be due and payable. Borrower's obligation to repay the outstanding principal amount of all Revolving Loans, together with accrued but unpaid interest thereon, shall be evidenced

by a promissory note issued by Borrower in favor of Bank (the "Revolving Note") on the standard form used by Bank to evidence its commercial loans. Bank shall enter the amount of each Revolving Loan, and any payments thereof, in its books and records, and such entries shall be prima facie evidence of the principal amount outstanding under the Revolving Credit Commitment. The failure of Bank to make any notation in its books and records shall not discharge Borrower of its obligation to repay in full with interest all amounts borrowed hereunder. The proceeds of the Revolving Loans shall be disbursed pursuant to an Authorization to Disburse, on Bank's standard form therefor, executed and delivered by Borrower to Bank, and used by Borrower for any of the purposes set forth in Section 2.3(a) hereinbelow.

2.2 LETTER OF CREDIT SUBLIMIT.

(a) Subject to the terms and conditions of this Agreement, and as a sublimit of the Revolving Credit Commitment, during the period from the date of this Agreement to but excluding the Revolving Credit Commitment Termination Date, provided that no Event of Default then has occurred and is continuing, Bank shall issue, for the account of Borrower, one or more irrevocable commercial or standby letters of credit (collectively, the "Letters of Credit" and individually, a "Letter of Credit") upon Borrower's request. The sum of (a) the aggregate amount available to be drawn under all outstanding Letters of Credit plus (b) the aggregate amount of unpaid reimbursement obligations under drawn Letters of Credit shall not exceed Seven Million Dollars ($7,000,000) at any one time (the "Letter of Credit Sublimit") and shall reduce, Dollar for Dollar, the amount available to be borrowed under the Revolving Credit Commitment.

(b) In the case of any commercial Letter of Credit, such commercial Letter of Credit shall be issued for the purpose of financing the importation or purchase of goods in the normal course of business of Borrower or any of its Subsidiaries or for any other purpose acceptable to Bank. Each such commercial Letter of Credit shall provide for transport documents to be presented in a full set to Bank (and, in the case of airway bills, consigned to Bank) and/or at Bank's option, with transport documents presented in less than a full set to Bank and/or consigned to Borrower or to any Person other than Bank and calling for drafts at sight covering the importation or purchase of goods in the normal course of business. In the case of any standby Letter of Credit, such standby Letter of Credit shall be issued for the purpose of providing credit enhancements with respect to Borrower's workers' compensation insurance arrangements or for any other purpose acceptable to Bank.

(c) Each Letter of Credit shall be drawn on such terms and conditions as are acceptable to Bank and shall be governed by the terms of (and Borrower agrees to execute) Bank's standard form Letter of Credit Agreement in connection therewith. No commercial Letter of Credit shall have an expiration date more than one (1) year from its date of issuance or shall expire after the Revolving Credit Commitment Termination Date. No standby Letter of Credit shall have an expiration date more than one (1) year from its date of issuance or shall expire more than one (1) year after the Revolving Credit Commitment Termination Date.

2.3 PURPOSES OF THE REVOLVING LOANS AND LETTERS OF CREDIT.

(a) The proceeds of each Revolving Loan made by Bank to Borrower under the Revolving Credit Commitment shall be used only for the general working capital and corporate purposes of Borrower.

(b) Each Letter of Credit to be issued by Bank on the account of Borrower shall be issued only for a permitted purpose as set forth in Section 2.2(b) hereinabove.

2.4 INTEREST.

(a) Each Revolving Loan shall bear interest at the rate or rates provided for in the Revolving Note and selected by Borrower.

(b) Interest on the Revolving Loans shall be computed on the basis of the actual number of days during which the principal is outstanding thereunder divided by 360, which shall, for the purposes of computing interest, be considered one (1) year.

(c) Interest shall be payable on the outstanding principal amount of each Revolving Loan as set forth in the Revolving Note in accordance with Section 2.8 hereof.

(d) There shall be no more than four (4) Revolving Loans bearing interest at a rate based upon the Base Interest Rate (as such term is defined in the Revolving Note) outstanding at any one time under the Revolving Note.

2.5 VOLUNTARY PREPAYMENT. The principal Indebtedness evidenced by the Revolving Note may, at any time and from time to time, voluntarily be paid or prepaid in whole or in part without penalty or premium in accordance with the terms of the Revolving Note, except that, with respect to any voluntary prepayment under this Section 2.5, (a) the amount of any partial prepayment of a Revolving Loan shall not be less than Five Hundred Thousand Dollars ($500,000) and shall be in an integral multiple of One Hundred Thousand Dollars ($100,000) in excess thereof and (b) any payment or prepayment of all or any part of any Base Interest Rate Loan under and as defined in the Revolving Note on a day, other than the last day of the applicable Interest Period under and as defined in the Revolving Note, shall be subject to the payment of a prepayment fee as provided for in the Revolving Note. No prepayment fee shall be payable by Borrower in connection with the prepayment of any Revolving Loan bearing interest at a rate based upon the Reference Rate (as such term is defined in the Revolving Note).

2.6 DEFAULT RATE OF INTEREST. If all or any portion of the principal amount of any Revolving Loan or any other payment due under this Agreement or any of the other Loan Documents shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue principal amount, and to the extent permitted by law overdue interest thereon, shall be payable on demand at a rate per annum equal to the rate which would otherwise be applicable plus three percent (3%) (the "Default

Rate of Interest"), effective from the date that such amounts become overdue until paid in full.

2.7 FEES.

(a) On or before the date of this Agreement, Borrower shall pay to Bank a fee in connection with the Revolving Credit Commitment in the amount of Thirty-Seven Thousand Five Hundred Dollars ($37,500), which fee shall be nonrefundable.

(b) On the last Business Day of each fiscal quarter of each fiscal year of Borrower and its Subsidiaries, commencing June 30, 2004, and on the Revolving Credit Commitment Termination Date, Borrower shall pay to Bank a fee in respect of the Revolving Credit Commitment equal to three-eighths of one percent (3/8 of 1%) per annum of the average daily unutilized amount of the Revolving Credit Commitment during such fiscal quarter or portion thereof.

(c) Borrower shall pay Bank's standard fees and commissions with respect to the issuance, negotiation and amendment of Letters of Credit, as such fees and commissions may change at any time and from time to time. Bank shall provide written notice of any change in such fees or commissions to Borrower. Bank shall not be obligated to refund any portion of any commission or fee if any Letter of Credit shall expire or terminate prior to its stated expiration date.

2.8 BANK'S RIGHT TO CHARGE DEPOSIT ACCOUNT. Borrower authorizes Bank (irrevocably until the Obligations are paid in full and Bank's commitments to extend the Revolving Loans and issue the Letters of Credit hereunder are terminated) from time to time to charge against the business checking account bearing account number 3030160435 maintained by Borrower with Bank any principal and/or interest due or past due in respect of the Obligations under this Agreement; provided that Bank shall not have any obligation to charge past due payments against such business checking account.

SECTION 3. COLLATERAL

3.1 COLLATERAL PROVIDED BY BORROWER. Borrower shall execute and deliver a Security Agreement to Bank, pursuant to which Borrower shall grant to Bank a security interest in all of Borrower's present and hereafter acquired personal property, including but not limited to all accounts receivable, chattel paper, instruments, contract rights, general intangibles, goods, equipment, inventory, documents, certificates of title, deposit accounts, returned or repossessed goods, fixtures, commercial tort claims, insurance claims, rights and policies, letter-of-credit rights, investment property, supporting obligations, and the proceeds, products, parts, accessories, attachments, accessions, replacements, substitutions, additions, and improvements of or to each of the foregoing, as security for the payment and performance of all Obligations of Borrower to Bank under this Agreement and the other Loan Documents to which Borrower is a party. The security interest granted to Bank pursuant to the Security

Agreement shall be a first priority security interest, or such lesser priority as may be permitted by this Agreement. Each classification of personal property used hereinabove shall have the meaning given to it in the UCC.

3.2 POWER OF ATTORNEY. Until the Obligations of Borrower are paid in full and Bank has no commitment to make further Revolving Loans or issue further Letters of Credit hereunder, Borrower hereby irrevocably makes, constitutes and appoints Bank (and any officers, employees or agents of Bank designated by Bank) as the true and lawful attorney of Borrower, with power to sign the name of Borrower on any documents or instruments which Bank believes should be executed, recorded and/or filed in order to perfect, or continue the perfection, of Bank's security interest in the Collateral or to liquidate or realize value from the Collateral after the occurrence of an Event of Default; provided, however, that such liquidation or realization is effected in a commercially reasonable manner.

SECTION 4. CONDITIONS

4.1 CONDITIONS PRECEDENT TO INITIAL REVOLVING LOAN. The obligation of Bank to make its initial Revolving Loan hereunder is subject to the fulfillment, to the satisfaction of Bank and its counsel, of each of the following conditions:

(a) REVOLVING NOTE. Bank shall have received the Revolving Note, duly executed by Borrower to the order of Bank;

(b) AUTHORIZATION TO OBTAIN CREDIT (BORROWER). Bank shall have received an Authorization to Obtain Credit, Grant Security, Guarantee or Subordinate, on Bank's standard form therefor, duly executed by the secretary or an assistant secretary of Borrower, attesting to the resolution of the board of directors of Borrower authorizing the execution and delivery of this Agreement, the Revolving Note, the Security Agreement, the Consent Agreements, the Intercreditor Agreement and all other Loan Documents required hereunder to which Borrower is a party and authorizing one or more specific responsible officers of Borrower to execute same;

(c) ALTERNATIVE DISPUTE RESOLUTION AGREEMENT. Bank shall have received the Alternative Dispute Resolution Agreement, duly executed by Borrower;

(d) ARTICLES OF INCORPORATION. Bank shall have received articles of incorporation with respect to Borrower and the articles of incorporation (or their equivalents) with respect to each of its Subsidiaries, and any amendments thereto or restatements thereof, certified by the applicable secretary of state or similar official of the jurisdiction of incorporation of each such corporation;

(e) CERTIFICATE OF GOOD STANDING (BORROWER). Bank shall have received a certificate of good standing for Borrower, showing that Borrower is in good standing under the laws of the State of New York;

(f) AUTHORIZATION TO DISBURSE. Bank shall have received an Authorization to Disburse, on Bank's standard form therefor, duly executed by Borrower, directing Bank to disburse the proceeds of the Revolving Loans as provided for in Section 2.3(a) hereof;

(g) COLLATERAL DOCUMENTS. Bank shall have received the Security Agreement, together with such UCC-11 searches, tax lien and litigation searches, insurance binders and certificates and other similar documents as Bank may require, and in such form as Bank may require, in order to evidence the perfection (in the priority required hereunder) of Bank's security interest in the Collateral;

(h) AGREEMENT TO FURNISH INSURANCE. Bank shall have received an Agreement to Furnish Insurance, on Bank's standard form therefor, duly executed by Borrower;

(i) FINANCIAL STATEMENTS. Bank shall have received (i) the unaudited consolidated Financial Statement of Borrower and its Subsidiaries for the fiscal year ended March 31, 2004, prepared by Borrower (which Bank acknowledges remains subject to audit adjustments), and (ii) the audited consolidated Financial Statement of Borrower and its Subsidiaries for the fiscal year ended March 31, 2003;

(j) INTERCREDITOR AGREEMENT. Bank shall have received the Intercreditor Agreement, duly executed by Creditor, and acknowledged by Borrower;

(k) REVOLVING CREDIT COMMITMENT FEE. Bank shall have received the nonrefundable fee in respect of the Revolving Credit Commitment, as provided for in Section 2.7(a) hereof;

(l) NO MATERIAL ADVERSE CHANGE. No material adverse change shall have occurred in the business, operations, assets, prospects, earnings or condition (financial or otherwise) of Borrower or any of its Subsidiaries; and

(m) OTHER DOCUMENTS. Bank shall have received such other documents, instruments and agreements as Bank may reasonably require in order to effect fully the transactions contemplated by this Agreement and the other Loan Documents.

4.2 CONDITIONS PRECEDENT TO LETTERS OF CREDIT. The obligation of Bank to issue the initial and each subsequent Letter of Credit hereunder is subject to the receipt by Bank, on or prior to the date of issuance of such Letter of Credit, of the following, each in form and substance reasonably satisfactory to Bank:

(a) LETTER OF CREDIT AGREEMENT. A Letter of Credit Agreement, duly executed by Borrower; and

(b) LETTER OF CREDIT COMMISSION. The commission payable with respect to the issuance of such Letter of Credit, in the amount provided for in Section 2.7(c) hereof.

4.3 CONDITIONS PRECEDENT TO SUBSEQUENT CREDIT. The obligation of Bank to make each Revolving Loan hereunder subsequent to the initial Revolving Loan and to issue each Letter of Credit is subject to the fulfillment, at or prior to the time of the making of such Revolving Loan or the issuance of such Letter of Credit, of each of the following further conditions:

(a) REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in this Agreement shall be true, complete and accurate in all material respects on and as of such date (except to the extent that such representations and warranties relate solely to any earlier date); and

(b) NO EVENT OF DEFAULT. No Event of Default or event which, with the lapse of time or notice, or both, would be an Event of Default shall have occurred and be continuing on the date of the making of such Revolving Loan or the issuance of such Letter of Credit, nor shall either result from the making of such Revolving Loan or the issuance of such Letter of Credit.

4.4 CONDITIONS SUBSEQUENT. The obligation of Bank to continue extending credit to Borrower hereunder is further subject to the fulfillment, to the satisfaction of Bank and its counsel, of each of the following conditions subsequent within thirty (30) days after the date of execution of this Agreement:

(a) CREDITOR RESOLUTION. Bank shall have received a resolution, duly executed by the secretary or an assistant secretary of Creditor, attesting to the resolution of the board of directors of Creditor authorizing the execution and delivery of the Intercreditor Agreement and authorizing one or more specific responsible officers of Creditor to execute same;

(b) UCC-2 TERMINATION STATEMENTS. Bank shall have received written authorization from Bank of America and such other secured creditors as may be identified by Bank, in the form required by Bank, authorizing Bank to file one or more UCC-2 termination statements with respect to any UCC-1 financing statements previously filed by Bank of America or such other secured creditors in connection with the Bank of America Loan or the applicable secured financing arrangement;

(c) CONSENT AGREEMENTS. Bank shall have received the Consent Agreements, duly executed by Borrower and SunTrust;

(d) SUPPLIER AGREEMENTS. Bank shall have received the Supplier Agreements, duly executed by Borrower and SunTrust;

(e) LANDLORD'S WAIVER. Bank shall have received a Landlord's Waiver, on Bank's standard form, duly executed by Golkar Enterprises Ltd., the owner of the real property located at 2929 California Street, Torrance, California 90503;

(f) CERTIFICATES OF GOOD STANDING (SUBSIDIARIES). Bank shall have received a certificate of good standing with respect to each of the Subsidiaries, issued by the

appropriate official of Malaysia or Singapore, as applicable, verifying that such Subsidiary is active and in good standing in the jurisdiction of its incorporation; and

(g) UCC-11 SEARCH REPORTS. Bank shall have received UCC-11 search reports reflecting the filing of its UCC-1 financing statements and UCC-1 fixture filings.

SECTION 5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants that:

5.1 PRINCIPAL BUSINESS ACTIVITY. The principal business of Borrower and its Subsidiaries is the remanufacturing of alternators and starters for domestic and imported automobiles and light trucks.

5.2 AUTHORITY TO BORROW. The execution, delivery and performance of this Agreement, the Revolving Note and all other Loan Documents to which Borrower or any of its Subsidiaries is a party are not in contravention of any of the terms of any indenture, agreement or undertaking to which Borrower or any of its Subsidiaries is a party or by which it or any of its property is bound or affected.

5.3 FINANCIAL STATEMENTS. The unaudited consolidated Financial Statement of Borrower and its Subsidiaries for the fiscal year ended March 31, 2004 has heretofore been furnished to Bank, and is true and complete and fairly represents the financial condition of Borrower and its Subsidiaries for the fiscal year covered thereby; provided, however, that Bank acknowledges that such Financial Statement remains subject to audit adjustments. Since March 31, 2004, there has been no material adverse change in the business, operations, assets, prospects, earnings or condition (financial or otherwise) of Borrower or any of its Subsidiaries.

5.4 TITLE TO PROPERTY. Except for assets which may have been disposed of in the ordinary course of business, Borrower and its Subsidiaries have good and marketable title to all of the property reflected in the unaudited consolidated Financial Statement of Borrower and its Subsidiaries for the fiscal year ended March 31, 2004 and to all property acquired by them since that date, free and clear of all Liens, except for (a) Permitted Liens and (b) Liens specifically set forth in such audited consolidated Financial Statement.

5.5 NO LITIGATION. Except as previously disclosed to Bank in writing, there is no litigation or proceeding pending or threatened against Borrower or any of its Subsidiaries, or any of their respective properties, the results of which, if decided adversely, are likely to have a material adverse effect on the financial condition, property or business of Borrower or any of its Subsidiaries or result in liability (other than deductibles) in excess of the insurance coverage of Borrower or any of its Subsidiaries.

5.6 NO EVENT OF DEFAULT. Neither Borrower nor any of its Subsidiaries is now in default in the payment of any of its material obligations, and there exists no event, condition or act which constitutes an Event of Default and no event, condition or act which with notice, the lapse of time, or both, would constitute an Event of Default.

5.7 ORGANIZATION. Each of Borrower and its Subsidiaries is duly organized and existing under the laws of the state or other jurisdiction of its incorporation, without limitation as to its existence, and has the power and authority to carry on the business in which it is engaged and proposes to engage.

5.8 POWER AND AUTHORITY. Borrower has the corporate power and authority to enter into this Agreement and to execute and deliver the Revolving Note and all of the other Loan Documents to which it is a party. To the best of Borrower's knowledge, Creditor has the corporate power and authority to enter into the Intercreditor Agreement.

5.9 QUALIFICATION. Each of Borrower and its Subsidiaries is duly qualified and in good standing as a foreign corporation wherever such qualification is required, except in those jurisdictions where the failure to so qualify would not have a material adverse effect on the business, operations, assets, prospects, earnings or condition (financial or otherwise) of Borrower or such Subsidiary.

5.10 ERISA. Each defined benefit pension plan (as such term is defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) of Borrower, if any, meets, as of the date hereof, the minimum funding standards of section 302 of ERISA, and no Reportable Event (as such term is defined in ERISA) or Prohibited Transaction (as such term is defined in ERISA) has occurred with respect to any such plan.

5.11 REGULATION U. No action has been taken or is currently planned by Borrower, or any agent acting on its behalf, which would cause this Agreement or any Revolving Loan to violate Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities and Exchange Act of 1934, in each case as in effect now or as the same may hereafter be in effect. Borrower is not engaged principally, or as one of its most important activities, in the business of extending credit for the purpose of purchasing or carrying "margin stock" as that term is defined in Regulation U and none of the proceeds of any Revolving Loan hereunder have been or shall be used for the purpose, directly or indirectly, of purchasing or carrying any such margin stock.

SECTION 6. AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, so long as this Agreement shall be in effect and until payment in full of all Obligations, including, without limitation, any accrued and unpaid interest thereon, and any other amounts due hereunder, Borrower shall perform each and all of the following covenants applicable to it, unless Bank otherwise consents in writing:

6.1 PAYMENT OF OBLIGATIONS. Borrower shall promptly pay and discharge, and cause each of its Subsidiaries to promptly pay and discharge, all taxes, assessments and other governmental charges and claims levied or imposed upon it or its property, or any part thereof; provided, however, that each of Borrower and its Subsidiaries shall have the right in good faith to contest any such taxes, assessments, charges or claims and, pending the outcome of such contest, to delay or refuse payment thereof, provided that such reserves as may be required by GAAP are established by it to pay and discharge any such taxes, assessments, charges and claims.

6.2 MAINTENANCE OF EXISTENCE. Each of Borrower and its Subsidiaries shall maintain and preserve its existence and assets and all rights, franchises and other authority materially necessary for the conduct of its business and shall maintain and preserve its property, equipment and facilities in good order, condition and repair. Bank may, at reasonable times, visit and inspect any of the properties of Borrower and its Subsidiaries.

6.3 RECORDS. Each of Borrower and its Subsidiaries shall keep and maintain full and accurate accounts and records of its operations in accordance with GAAP and shall permit Bank to have reasonable access thereto, to make examination thereof, and to audit same during regular business hours.

6.4 INFORMATION FURNISHED. Borrower shall furnish or cause to be furnished to Bank:

(a) MONTHLY FINANCIAL STATEMENTS. Within forty-five (45) days after the close of each fiscal month of Borrower and its Subsidiaries, except for the last fiscal month of each fiscal year, a copy of the unaudited consolidated Financial Statement of Borrower and its Subsidiaries as of the close of such fiscal month, prepared by Borrower in accordance with GAAP (except that such unaudited consolidated Financial Statements need not include footnotes and other informational disclosures);

(b) QUARTERLY FINANCIAL STATEMENTS. Within sixty (60) days after the close of each fiscal quarter of Borrower and its Subsidiaries, except for the last fiscal quarter of each fiscal year, a copy of the unaudited consolidated Financial Statement of Borrower and its Subsidiaries (on Form 10Q) as of the close of such fiscal quarter, prepared by Borrower in accordance with GAAP (except that such unaudited consolidated Financial Statements need not include footnotes and other informational disclosures);

(c) ANNUAL FINANCIAL STATEMENTS. Within one hundred twenty (120) days after the close of each fiscal year of Borrower and its Subsidiaries, a copy of the consolidated Financial Statement of Borrower and its Subsidiaries (on Form 10K) as of the close of such fiscal year, prepared in accordance with GAAP and audited by an independent certified public accountant selected by Borrower and reasonably satisfactory to Bank;

(d) COMPLIANCE CERTIFICATE. Concurrently with the delivery of the Financial Statements provided for in subsections (a), (b) and (c) of this
Section 6.4, a certificate of Borrower's chief financial officer or other duly authorized officer (i) setting forth in reasonable detail the calculations required to establish that Borrower was in compliance with its covenants set forth in Sections 6.5, 6.6, 6.7, 6.8, 7.8, 7.9 and 7.11 hereof during the period covered by such Financial Statement and (ii) stating that, except as explained in reasonable detail in such certificate, (A) all of the representations, warranties and covenants of Borrower contained in this Agreement and the other Loan Documents to which Borrower is a party are correct and complete as at the date of such certificate, except for those representations and warranties which relate to a particular date and (B) no Event of Default then exists or existed during the period covered by such Financial Statement. If such certificate discloses that a representation or warranty is not correct or complete, that a covenant has not been complied with, or that an Event of Default exists or existed, such certificate shall set forth the action, if any, that Borrower has taken or proposes to take with respect thereto;

(e) CERTAIN REPORTS. Within thirty (30) days after the filing thereof, copies of any reports filed with the Securities and Exchange Commission or any other governmental authority, and copies of any reports provided to its shareholders;

(f) ANNUAL BUSINESS PLAN. Within thirty (30) days after the close of each fiscal year, a copy of the regularly-prepared annual business plan of Borrower, in form and substance reasonably acceptable to Bank; and

(g) OTHER INFORMATION. Such other financial statements and information concerning Borrower or any of its Subsidiaries as Bank may reasonably request from time to time.

6.5 TANGIBLE NET WORTH. As of the last day of the fiscal year ended March 31, 2004, Borrower and its Subsidiaries shall achieve Tangible Net Worth of not less than Thirty-Nine Million Dollars ($39,000,000). As of the last day of each fiscal quarter thereafter, commencing with the fiscal quarter ending June 30, 2004, Borrower and its Subsidiaries shall achieve Tangible Net Worth that increases from the minimum Tangible Net Worth required hereunder as of the last day of the prior fiscal quarter by an amount not less than seventy-five percent (75%) of the positive Net Profit After Taxes of Borrower and its Subsidiaries for such prior fiscal quarter. Borrower acknowledges and agrees that there shall be no decrease in the minimum Tangible Net Worth required under this Section 6.5 in the event that the Net Profit After Taxes of Borrower and its Subsidiaries for any such prior fiscal quarter is less than Zero Dollars ($0).

6.6 EBITDA.

(a) Borrower and its Subsidiaries shall achieve EBITDA of not less than Three Million Dollars ($3,000,000) for each fiscal quarter of each fiscal year; and

(b) Borrower and its Subsidiaries shall achieve EBITDA, as of the last day of each fiscal quarter for the four (4) consecutive fiscal quarters ended on such date, of not less than Fourteen Million Dollars ($14,000,000).

6.7 FIXED CHARGE COVERAGE RATIO. Borrower and its Subsidiaries shall maintain a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00 as of the last day of each fiscal quarter.

6.8 QUICK RATIO. Borrower and its Subsidiaries shall maintain a Quick Ratio of not less than 0.65 to 1.00 as of the close of each fiscal quarter.

6.9 INSURANCE. Each of Borrower and its Subsidiaries shall keep all of its insurable property, whether real, personal or mixed, insured by good and responsible companies selected by Borrower and its Subsidiaries and approved by Bank against fire and such other risks as are customarily insured against by companies conducting similar business with respect to like properties. Each of Borrower and its Subsidiaries shall furnish to Bank a statement of its insurance coverage, shall promptly furnish other or additional insurance deemed reasonably necessary by and upon the reasonable request of Bank to the extent that such insurance may be available and hereby assigns to Bank, as security for the payment of its Obligations, the proceeds of any such insurance. Bank will be named loss payee on all policies insuring the Collateral. Each of Borrower and its Subsidiaries shall maintain adequate worker's compensation insurance or self-insurance arrangements and adequate insurance against liability for damage to persons or property. Each policy shall require ten (10) days' written notice to Bank before such policy may be altered or cancelled.

6.10 BANK EXPENSES. Borrower shall pay or reimburse Bank, and shall cause each of its Subsidiaries to pay and reimburse Bank, for all Bank Expenses as and when such Bank Expenses become due.

6.11 BROKERAGE FEES. Except as disclosed to Bank prior to the date of this Agreement, neither Borrower nor any of its Subsidiaries shall pay, directly or indirectly, any fee, commission or compensation of any kind to any Person for any services in connection with this Agreement.

6.12 NOTICE OF DEFAULT; NOTICE OF CERTAIN EVENTS. Borrower shall promptly notify Bank in writing of any Event of Default under this Agreement and of any default under any other Loan Document, and shall give prompt written notice to Bank of any change in management, change in name, liquidation and of any other matter which has resulted in a material adverse change in the business, operations, assets, prospects, earnings or condition (financial or otherwise) of Borrower or any of its Subsidiaries.

6.13 NOTICES TO BANK. Borrower shall promptly notify Bank in writing of
(a) any lawsuit or other proceeding involving a claim of more than One Million Dollars ($1,000,000) in excess of any insurance coverage against Borrower, (b) any substantial dispute between Borrower and any governmental authority, (c) any Event of Default under this Agreement or any other Loan Document, or any event which, with notice or

the lapse of time, or both, would constitute an Event of Default, (d) any material adverse change in Borrower's business condition (financial or otherwise), operations, properties or prospects, or in Borrower's ability to repay the Obligations, (e) any change in Borrower's legal structure, principal place of business or chief executive office, and (f) any actual contingent liabilities of Borrower, and any contingent liabilities which are reasonably foreseeable, if such contingent liabilities are in excess of Five Hundred Thousand Dollars ($500,000) in the aggregate in excess of any insurance coverage.

6.14 EXECUTION OF OTHER DOCUMENTS. Upon the demand of Bank, Borrower shall promptly execute, and cause each of its Subsidiaries to execute, all such additional agreements, contracts, documents and instruments in connection with this Agreement as Bank may reasonably request in order to effect fully the transactions contemplated herein.

6.15 REPORTS UNDER PENSION PLANS. Borrower shall furnish to Bank, as soon as possible and in any event within fifteen (15) days after Borrower knows or has reason to know that any event or condition described in Section 5.10 hereof has occurred, a statement of a responsible officer of Borrower describing such event or condition and the action, if any, which Borrower proposes to take with respect thereto.

6.16 DEPOSITORY RELATIONSHIP. Borrower shall maintain its principal operating and money market accounts with Bank during the term of this Agreement.

6.17 CREDITS FOR NEW POS PRODUCT CREDIT AMOUNT. Borrower shall insure that the aggregate amount of all monthly credits for the New POS Product Credit Amount taken by Creditor in any single month as provided for in the Vendor Agreement (including any credits carried over from any previous month as permitted by the Intercreditor Agreement) shall not exceed the aggregate amount of accounts receivable of Borrower arising from the sale of New POS Product during such month and during the three (3) month period preceding such month.

6.18 TO INFORMATION REGARDING NEW POS PRODUCT. Borrower hereby agrees that upon Borrower's receipt of any information from Creditor regarding the New POS Product pursuant to the Vendor Agreement, Borrower shall promptly forward such information to Bank.

SECTION 7. NEGATIVE COVENANTS

Borrower covenants and agrees that, so long as this Agreement shall be in effect and until payment in full of all Obligations, including, without limitation, any accrued and unpaid interest thereon, and any other amounts due hereunder, Borrower shall perform each and all of the following covenants applicable to it, unless Bank otherwise consents in writing:

7.1 LIENS. Borrower shall not create, incur, assume or permit to exist, or permit any of its Subsidiaries to create, incur, assume or permit to exist, directly or indirectly, any

Lien on or with respect to any of its property, whether real, personal or mixed, and whether now owned or hereafter acquired, or upon the income or profits therefrom, except for Permitted Liens.

7.2 DISPOSITIONS. Borrower shall not make, or permit any of its Subsidiaries to make, any Disposition of its property, whether now owned or hereafter acquired. Nothing in this Section 7.2 shall be deemed to prohibit or in any manner restrict the discount arrangement or other transactions contemplated by the Supplier Agreements.

7.3 INDEBTEDNESS. Borrower shall not create, incur or assume, or permit any of its Subsidiaries to create, incur or assume, any Indebtedness, other than Permitted Indebtedness.

7.4 GUARANTY OBLIGATIONS. Borrower shall not create, incur or assume, or permit any of its Subsidiaries to create, incur or assume, any Guaranty Obligations, other than Permitted Guaranty Obligations.

7.5 LIQUIDATION OR MERGER. Borrower shall not and shall not permit any of its Subsidiaries to liquidate, dissolve or enter into any consolidation, merger, partnership or other combination, or purchase or lease all or the greater part of the assets or business of another Person.

7.6 LOANS AND ADVANCES. Borrower shall not make, or permit any of its Subsidiaries to make, any loans or advances or otherwise extend credit to any other Person, other than (a) loans, in an aggregate principal amount at any one time outstanding not to exceed Two Hundred Fifty Thousand Dollars ($250,000), to any of Borrower's executives, officers, directors or shareholders (or any relatives of any of the foregoing), or to any Affiliates, and (b) extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or the rendition of services in the ordinary course of business to non-Affiliates.

7.7 INVESTMENTS. Borrower shall not purchase the debt or equity of another Person except for (a) investments in its Subsidiaries, so long as no Event of Default has occurred and is continuing at the time of the proposed investment, and no Event of Default results from the making thereof, (b) savings accounts and certificates of deposit of Bank and (c) direct U.S. Government obligations and commercial paper issued by corporations with the top ratings of Moody's Investors Service, Inc. or the Standard & Poor's Ratings Division of McGraw-Hill, Inc., provided that all such permitted investments shall mature within one (1) year of purchase.

7.8 RESTRICTED PAYMENTS. Borrower shall not make, or permit any of its Subsidiaries to make, directly or indirectly, any Restricted Payment, other than
(a) dividends payable in the capital stock of Borrower and (b) so long as no Event of Default has occurred and is continuing at the time thereof and no Event of Default results from the making thereof, redemptions or retirement of shares of Borrower's capital stock, in one or more transactions, in an aggregate amount not to exceed One Million Dollars ($1,000,000) during the term of this Agreement.

7.9 CAPITAL EXPENDITURES. Borrower and its Subsidiaries shall not in any fiscal year make or incur any Capital Expenditure if after giving effect thereto, the aggregate amount of all Capital Expenditures made or incurred by Borrower and its Subsidiaries in such fiscal year would exceed Two Million Five Hundred Thousand Dollars ($2,500,000).

7.10 TRANSACTIONS WITH AFFILIATES. Borrower shall not directly or indirectly enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any holder of ten percent (10%) or more of any class of equity securities of Borrower or with any Affiliate of Borrower on terms that are less favorable to Borrower or its Affiliates, as the case may be, than those terms which might be obtained at the time from third parties, or otherwise not obtained through good faith negotiation on an arm's length basis.

7.11 OPERATING LEASE OBLIGATIONS. Borrower and its Subsidiaries shall not permit their lease payments, as lessees, under existing and future operating leases to exceed Two Million Dollars ($2,000,000) in the aggregate in any one fiscal year. Each of such operating leases shall be of equipment or real property needed by Borrower or any of its Subsidiaries in the ordinary course of its business.

SECTION 8. EVENTS OF DEFAULT

8.1 EVENTS OF DEFAULT. The occurrence of any one or more of the following events, acts or occurrences shall constitute an event of default (collectively, "Events of Default" and individually, an "Event of Default") hereunder:

(a) FAILURE TO MAKE PAYMENTS WHEN DUE. Borrower shall fail to pay any amount owing under this Agreement or under any other Loan Document (including principal, interest, fees and Bank Expenses) when such amount is due, whether at stated maturity, as a result of any mandatory repayment or prepayment requirement, by acceleration, by notice of prepayment or otherwise; or

(b) BREACH OF REPRESENTATION OR WARRANTY. Any representation or warranty made by Borrower under this Agreement or any other Loan Document, or in any certificate or financial or other statement heretofore or hereafter furnished by Borrower, shall prove to have been false, incorrect or incomplete in any material respect when made, effective or reaffirmed, as the case may be; or

(c) VIOLATION OF COVENANTS. Borrower shall fail or neglect to perform, keep or observe any term, provision, condition, covenant, agreement, warranty or representation contained in this Agreement or any other Loan Document; or

(d) INSOLVENCY PROCEEDING. Borrower or any of its Subsidiaries shall become insolvent or shall fail generally to pay its Indebtedness as such Indebtedness becomes due; or an Insolvency Proceeding shall be commenced by or against Borrower

or any of its Subsidiaries and, in the case of an involuntary petition against Borrower or any of its Subsidiaries, such petition shall not be dismissed or discharged within ninety (90) days of commencement; or

(e) DISSOLUTION OR LIQUIDATION. Borrower or any of its Subsidiaries shall voluntarily dissolve, liquidate or suspend its business in whole or in part; or there shall be commenced against Borrower or any of its Subsidiaries any proceeding for the dissolution or liquidation of Borrower or such Subsidiary and such proceeding shall not be dismissed or discharged within sixty (60) days of commencement; or

(f) APPOINTMENT OF RECEIVER. Borrower or any of its Subsidiaries shall apply for or consent to the appointment, or commence any proceeding for the appointment, of a receiver, trustee, custodian or similar official for all or substantially all of its property; or any proceeding for the appointment of a receiver, trustee, custodian or similar official for all or substantially all of the property of Borrower or such Subsidiary shall be commenced against Borrower or such Subsidiary and shall not be dismissed or discharged within sixty (60) days of commencement; or

(g) JUDGMENTS AND ATTACHMENTS. Borrower or any of its Subsidiaries, or any of their respective properties, shall suffer any money judgment, writ, warrant of attachment or similar process involving the payment of money in excess of One Million Dollars ($1,000,000) in excess of any insurance coverage (provided, however, that Borrower shall furnish Bank with written evidence that the applicable insurance company has paid or will pay the related claim) and such judgment, writ, warrant of attachment or similar process shall remain undischarged in accordance with its terms and the enforcement thereof shall be unstayed and either (i) an enforcement proceeding shall have been commenced and be pending by any creditor thereon or (ii) there shall have been a period of ninety (90) consecutive calendar days during which stays of such judgment, writ, warrant of attachment or similar process, by reason of pending appeals or otherwise, were not in effect; or

(h) FAILURE TO COMPLY. Borrower or any of its Subsidiaries shall fail to comply with any material order, non-monetary judgment, injunction, decree, writ or demand of any court or other public authority, and such order, non-monetary judgment, injunction, decree, writ or demand shall continue unsatisfied and in effect for a period of thirty (30) days without being vacated, discharged, satisfied or stayed or bonded pending appeal; or

(i) NOTICE REGARDING TAXES. A notice of levy, notice to withhold or other legal process for taxes (other than property taxes) shall be filed or recorded against Borrower or any of its Subsidiaries, or any of their respective properties, and such notice or other legal process shall not be released, stayed, vacated, bonded or otherwise dismissed within sixty (60) days after the date of its filing or recording; or

(k) MANAGEMENT CHANGE. Selwyn H. Joffe shall at any time cease to be the chief executive officer of Borrower; or

(l) BREACH OF ANY LOAN DOCUMENT. Any Loan Document (including, without limitation, the Intercreditor Agreement) shall be breached or become ineffective, or Borrower or Creditor shall disavow or attempt to revoke or terminate any Loan Document to which it is a party; or

(m) DEFAULT UNDER OTHER AGREEMENTS. Borrower or any of its Subsidiaries shall (i) fail under any agreement, document or instrument to pay the principal, or any principal installment, of any present or future Indebtedness for borrowed money of Five Hundred Thousand Dollars ($500,000) or more, or any guaranty of present or future Indebtedness for borrowed money of Five Hundred Thousand Dollars ($500,000) or more, when due (or within any stated grace period), whether at the stated maturity, upon acceleration, by reason of required prepayment or otherwise or (ii) fail to perform or observe any other term, covenant or other provision of any agreement, document or instrument binding upon Borrower if, as a result of such failure, any Person has the right to accelerate the indebtedness of Borrower or such Subsidiary in an amount in excess of Five Hundred Thousand Dollars ($500,000) or otherwise require the payment of any amount in excess of Five Hundred Thousand Dollars ($500,000) to be paid prior to the date when such amount would otherwise become due; or

(n) DEFAULT UNDER VENDOR AGREEMENT. A breach or default by Borrower under the Vendor Agreement shall occur and be continuing; or

(o) CREDITOR'S DEBT RATING. Creditor shall fail to maintain at all times a debt rating of at least BBB- or better from Standard & Poor's Ratings Division of McGraw-Hill, Inc.; or

(p) CHANGE OF CONTROL. There shall occur a Change of Control.

8.2 REMEDIES. Upon the occurrence of an Event of Default, unless such Event of Default shall have been remedied or waived in writing by Bank, Bank may, at its option, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, do one or more of the following at any time or times and in any order: (a) reduce the amount of or refuse to make any Revolving Loan under this Agreement; (b) declare any and all Obligations outstanding under this Agreement to be immediately due and payable, notwithstanding anything contained herein or in the Revolving Note or other Loan Document to the contrary (provided, however, that upon the occurrence of any Event of Default described in Section 8.1(d), (e) or (f) hereof, all Obligations shall automatically become due and payable); and (c) enforce payment of all Obligations of Borrower under this Agreement and the other Loan Documents. Notwithstanding anything to the contrary contained herein, Bank shall have no obligation to make any Revolving Loan to, or issue any Letter of Credit on the account of, Borrower during any cure period provided for in Section 8.1 hereof.

SECTION 9. MISCELLANEOUS PROVISIONS

9.1 ADDITIONAL REMEDIES. The rights, powers and remedies given to Bank hereunder shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Bank by law against Borrower or any other Person, including but not limited to Bank's rights of setoff or banker's lien.

9.2 NONWAIVER. Any forbearance or failure or delay by Bank in exercising any right, power or remedy hereunder shall not be deemed a waiver thereof and any single or partial exercise of any right, power or remedy shall not preclude the further exercise thereof. No waiver shall be effective unless it is in writing and signed by an officer of Bank.

9.3 INUREMENT. The benefits of this Agreement shall inure to the successors and assigns of Bank and the permitted successors and assigns of Borrower. Borrower shall not assign any of its rights or obligations under this Agreement to any Person without Bank's prior written consent, and any assignment attempted without Bank's prior written consent shall be void.

9.4 APPLICABLE LAW; JURISDICTION. This Agreement and all other Loan Documents shall be governed and construed in accordance with the laws of the State of California. Borrower and Bank hereby submit to the jurisdiction of any court having jurisdiction in the matter in accordance with the Alternative Dispute Resolution Agreement.

9.5 SEVERABILITY. Should any one or more provisions of this Agreement be determined to be illegal or unenforceable, all other provisions nevertheless shall be effective.

9.6 INTEGRATION CLAUSE. Except for the other Loan Documents to which Borrower is a party, this Agreement constitutes the entire agreement between Bank and Borrower, and all prior communications, whether verbal or written, between Borrower and Bank shall be of no further effect or evidentiary value.

9.7 CONSTRUCTION. The Section and subsection headings herein are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

9.8 AMENDMENTS. This Agreement may be amended only in writing signed by all parties hereto.

9.9 DOCUMENTATION. All documentation evidencing or pertaining to the Obligations under this Agreement and the other Loan Documents shall be on Bank's standard forms or otherwise in form and content reasonably acceptable to Bank. To the extent that the terms or conditions of this Agreement are inconsistent with the terms or conditions of such documentation, the terms and conditions of this Agreement shall prevail.

9.10 COUNTERPARTS. This Agreement may be executed in as many counterparts as may be deemed necessary or convenient, and by the different parties hereto on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement. This

Agreement shall become effective upon the receipt by Bank and Borrower of executed counterparts signed by each of them.

9.11 SETOFF. Borrower hereby acknowledges and specifically grants Bank a security interest in, banker's lien upon, and right of recoupment and setoff respecting any and all deposit or other accounts maintained by Borrower with Bank, whether held in a general or special account or deposited for safekeeping or otherwise, and regardless of how such account may be titled, and any other property of Borrower held in the possession or custody of Bank or its agents. Borrower further acknowledges that the exercise of setoff, if any, shall require, and only be deemed to occur upon, the affirmative action of Bank. Bank agrees to notify Borrower promptly after any such setoff and application; provided, however, that the failure to give such notice shall not affect the validity of such setoff and application.

9.12 HAZARDOUS SUBSTANCES. Borrower will indemnify and hold harmless Bank from any loss or liability that Bank may incur in connection with or as a result of this Agreement, which directly or indirectly arises out of the use, generation, manufacture, production, storage, release, threatened release, discharge, disposal or presence of a hazardous substance. This indemnity will apply whether the hazardous substance is on, under or about Borrower's property or operations or property leased by Borrower. This indemnity includes, but is not limited to, attorneys' fees (including the reasonable estimate of the allocated cost of in-house counsel and staff). This indemnity extends to Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys and assigns. As used in this Section 9.12, the term "hazardous substance" means any substance, material or waste that is or becomes designated or regulated as "toxic," "hazardous," "pollutant," or "contaminant" or a similar designation or regulation under any federal, state or local law (whether under common law, statute, regulation or otherwise) or judicial or administrative interpretation of such, including without limitation petroleum or natural gas. This indemnity will survive the repayment of the Obligations of Borrower to Bank.

SECTION 10. NOTICES

10.1 NOTICES. Any notice or other communication provided for or allowed hereunder shall be considered to have been validly given if delivered personally, and evidenced by a receipt signed by an authorized agent or addressee, or 72 hours after being deposited in the United States mail, registered or certified, postage prepaid, return receipt requested, or 48 hours after being sent by Federal Express or other courier service, or, in the case of telecopied notice, when telecopied, receipt acknowledged, and addressed as provided below.

If to Borrower: Motorcar Parts of America, Inc.
2929 California Street
Torrance, California 90503
Attention: Selwyn H. Joffe
Chairman, President and Chief Executive Officer

Telephone No.: (310) 972-4006
Facsimile No.: (310) 212-7459

With a copy to: Michael M. Umansky
Vice President & General Counsel
Motorcar Parts of America, Inc.
2929 California Street
Torrance, California 90503
Telephone No.: (310) 972-4015
Facsimile No.: (310) 224-5128

If to Bank: Union Bank of California, N.A.
Commercial Banking Group--Greater Los Angeles Division
445 South Figueroa Street, 10th Floor
Los Angeles, California 90071
Attention: Philip M. Roesner
Vice President
Telephone No.: (213) 236-6456
Facsimile No.: (213) 236-7637

10.2 CHANGE OF ADDRESS. The addresses to which notices or demands are to be given may be changed from time to time by notice served as provided above.

THIS AGREEMENT is duly executed on behalf of the parties hereto as of the date first above written.

"Borrower"

MOTORCAR PARTS OF AMERICA, INC.

By: /s/ SELWYN H. JOFFE
---------- Selwyn H. Joffe
Chairman, President and
Chief Executive Officer

"Bank"

UNION BANK OF CALIFORNIA, N.A.

By: /s/ ROBERT W. TIETJEN
---------- Robert W. Tietjen
Vice President

EXHIBIT 10.15

ADDENDUM TO VENDOR AGREEMENT

This Addendum to Vendor Agreement (the "Addendum") is entered into by AutoZone Parts, Inc. ("AutoZone") and Motorcar Parts of America, Inc. ("MPA") as of the 8th day of May, 2004, and is attached to and made a part of the Vendor Agreement (the "Agreement") dated April 6, 2004, between AutoZone and MPA. All capitalized terms not defined herein shall have the meanings ascribed to them in the Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements of the parties set forth herein, and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. On May 8, 2004, AutoZone will sell approximately $24,000,000 of product to MPA, which product will immediately thereafter become POS inventory (the "New POS Product") under the terms of the POS Addendum dated May 8, 2004, between the parties (the "POS Addendum"). The New POS Product is identified as such in the POS Addendum. The title to the New POS Product will transfer to MPA on May 8, 2004. The final value of the New POS Product will be mutually agreed to by the parties no later than May 15, 2004 ("New POS Product Credit Amount").

2. AutoZone will take monthly credits for the New POS Product Credit Amount over a 24 month period as follows:

Date	Credit Amount	Date	Credit Amount
May 7, 2004	$ 100,000	June 1, 2005	$1,090,000
June 1, 2004	$ 200,000	July 1, 2005	$1,090,000
July 1, 2004	$ 300,000	August 1, 2005	$1,090,000
August 1, 2004	$ 500,000	September 1, 2005	$1,090,000
September 1, 2004	$ 700,000	October 1, 2005	$1,090,000
October 1, 2004	$ 800,000	November 1, 2005	$1,090,000
November 1, 2004	$ 900,000	December 1, 2005	$1,090,000
December 1, 2004	$ 900,000	January 1, 2006	$1,090,000
January 1, 2005	$ 900,000	February 1, 2006	$1,090,000
February 1, 2005	$ 900,000	March 1, 2006	$1,090,000
March 1, 2005	$ 900,000	April 1, 2006	$3,910,000
April 1, 2005	$ 1,000,000		
May 1, 2005	$ 1,090,000	Total	$24,000,000

Any adjustment necessary to reflect the actual amount of the New POS Product Credit Amount shall be reflected in the April 1, 2006 Credit Amount. These credits memos shall be credited against MPA invoices for purchases by AutoZone, its subsidiaries and affiliates. These credits shall not be considered receivables when computing the "holdback" amount for future AutoZone payments through any Suppliers Confirmed Receivables Program. Also, there will be no "holdbacks" for POS transactions.

3. MPA grants to AutoZone a first lien purchase money security interest in all of the New POS Product and the proceeds therefrom (the "Security Interest"). The Security Interest shall secure the payment of the New POS Product Credit Amount by MPA. MPA hereby warrants and covenants: (a) MPA hereby authorizes (and will execute upon request) any financing statement or other document or procure any document in all public offices wherever filing is deemed by AutoZone to be necessary to create, evidence, perfect and/or protect AutoZone's Security Interest in the New POS Product, and (b) if AutoZone pays any taxes, liens, or other encumbrances at any time levied or placed on the New POS Product or the filing of any such financing statement, MPA agrees to reimburse AutoZone on demand for any such payment made. AutoZone and MPA agree that the aggregate value of New POS Product shall at all times equal or exceed the New POS Product Credit Amount then outstanding. MPA represents and warrants that, during the prior five (5) years, it has had offices and business operations only in the states of New York, Tennessee, North Carolina and California.

4. During the term of this Addendum, AutoZone hereby appoints MPA, and MPA hereby accepts such appointment, as the exclusive supplier for the following starters and alternators in the indicated Distribution Centers ("DC"):

AUTOZONE DC	ITEMS MPA WILL SUPPLY EXCLUSIVELY
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AutoZone segments its offerings of its private label starters and alternators as good, better and best. AutoZone and MPA agree that MPA shall be the exclusive supplier of AutoZone's private label starters and alternators in each of the segments and categories in the DCs to the extent as described above, throughout the term of this Addendum. Further, MPA shall have the right of first refusal to meet an offer to supply AutoZone with any additional starter or alternator product lines introduced in the segments and categories in the DC's to the extent described above during the term of this Addendum.

5. In addition to any other rights it may have under this Addendum, AutoZone shall have the option to (i) terminate MPA's rights to be the exclusive supplier of the parts set forth in Section 4 of this Addendum and/or (ii) terminate this

Addendum in the event any of the following events occurs and MPA does not fully cure such failure or event within thirty (30) days after receipt of written notice thereof from AutoZone:

(a) MPA fails to maintain a running fill rate of at least [ ]% on a rolling [ ] day basis. In calculating the running fill rate for purposes of the preceding sentence, the parties will not take into account (i) FOG, (ii) the addition of new part numbers added during such [ ] day period, (iii) VDP orders, and (iv) cross-dock orders. The fill rate shall be calculated as follows:

Actual product delivered during relevant [ ] day period * 100% Product ordered during relevant [ ] day period

(b) The rolling [ ] day damaged return rate for the entire product line manufactured and supplied by MPA to AutoZone under the Agreement exceeds the damaged return rate for the same period in the preceding year for the entire product line by at least [ ]%. These return rates will be generated by AutoZone's systems. This excludes damaged return rate increases caused by (i) seasonality, (ii) decreases in sales volume, or (iii) material changes in AutoZone's business practices.

(c) [

]

(d) The Pay On Scan Addendum dated May 8, 2004, between the parties is terminated by MPA.

6. In the event that MPA breaches the terms of this Addendum and fails to cure such breach in accordance with the terms of this Addendum, then, if AutoZone elects to terminate MPA's rights to be the exclusive supplier of the parts set forth in Section 4 ("Termination"), AutoZone shall [

] In the event of a Termination, MPA will issue credit memos equal to the purchases by AutoZone, its subsidiaries and affiliates, of New POS Product and other products offered under the POS Addendum until the balance of the New POS Product Credit Amount is equal to zero. Thereafter, all purchases of such product will be invoiced by and paid to MPA in accordance with the terms of the Agreement and the POS Addendum. If AutoZone ceases to purchase a product line from MPA, core and warranty returns relating to such product line will transition to the new vendor(s) of record for such product line on the same date that the new vendor(s) of record first receives orders from AutoZone for such product lines.

7. The term of this Addendum shall begin on May 8, 2004, and shall terminate on May 7, 2008.

8. MPA agrees to support AutoZone's merchandising initiatives, including, but not limited to, funding price shopping, product testing programs, and catalog efforts. MPA will cooperate with AutoZone to expand or contract then-current Pay On Scan ("POS") products into or out of AutoZone retail locations as AutoZone, in its sole opinion, deems necessary for its business operations. AutoZone and MPA agree to use reasonable commercial efforts to convert all products sold by MPA to AutoZone to POS under the Agreement and POS Addendum no later than April 30, 2006. If the parties are unable to achieve the conversion of all product sold by MPA to AutoZone to POS by April 30, 2006, AutoZone and MPA shall amend this Addendum, in terms substantially similar to those set forth, to provided that effective May 1, 2006, MPA will provide AutoZone with an additional $24,000,000 to be credited against POS product sales through May 8, 2008, in 24 monthly installments of $1,000,000 each and the term of this Agreement shall be extended through May 7, 2010.

9. Each of MPA and AutoZone agrees that it shall maintain the existence of this Addendum and any discussions relating hereto, as well as all of the terms and conditions hereof, strictly confidential and that each will use the same degree of care in maintaining such confidence as it uses to hold its own confidential information confidential, except as ordered by a court or as required by governmental regulation, including the rules and regulations of the Securities and Exchange Commission. This Addendum shall be considered Confidential Information under the Confidentiality Agreement existing between MPA and AutoZone.

10. The undersigned confirm that the Agreement and the POS Addendum remains in full force and effect without amendment or modification of any kind, except as set forth in this Addendum. In the event of a conflict between the terms and conditions of this Addendum and those appearing in the Agreement or the POS Addendum, the terms and conditions of this Addendum shall prevail.

11. Each of MPA and AutoZone warrants that this Addendum has been duly authorized by it and executed by a duly authorized officer thereof and that this Addendum does not violate or conflict with any existing agreements or laws applicable to it.

12. This Addendum is the first step in a long-term initiative whereby AutoZone and MPA agree to use all commercially reasonable efforts to convert all products sold by MPA to AutoZone to POS status under the terms of the Agreement and POS Addendum. The parties mutually agree to continue to work to execute a long term POS contract that encompasses the entire business between the parties.

IN WITNESS WHEREOF, the parties have signed this Addendum on the date first above written.

MOTORCAR PARTS OF AMERICA, INC. **AUTOZONE PARTS, INC.**

By: */s/ SELWYN JOFFE*

Name: *Selwyn Joffe*

Title: Chairman, President & CEO

Date: May 7, 2004

By: */s/ MICHAEL LONGO*

Name: *Michael Longo*

Title: Senior Vice President

Date: May 7, 2004

By: /s/ STEVE ODLAND

Name: Steve Odland

Title: Chairman, President & CEO

Date: May 7, 2004

EXHIBIT 10.16

EMPLOYMENT AGREEMENT

This employment agreement (this "AGREEMENT") dated as of November 1, 2003 (the "EFFECTIVE DATE"), is entered into by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation currently having an address at 2929 California Street, Torrance, California 90503 (together with its subsidiaries and affiliates, the "COMPANY"), and Bill Laughlin, an individual residing at 8709 Man of War Drive, Waxhaw, North Carolina 28173 ("EXECUTIVE").

WITNESSETH:

WHEREAS, the COMPANY desires to employ EXECUTIVE as its Vice President Sales, Traditional Aftermarket Group (or such other position as shall be determined by the Board of Directors of the COMPANY, or any duly authorized and acting committee thereof, the "BOARD OF DIRECTORS") and EXECUTIVE desires to be so employed by the COMPANY, all upon the terms and subject to the conditions contained herein.

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

1. EMPLOYMENT. Subject to and upon the terms and conditions contained in this AGREEMENT, the COMPANY hereby agrees to employ EXECUTIVE and EXECUTIVE agrees to continue in the employ of the COMPANY, for the period set forth in Paragraph 2 hereof, to render the services to the COMPANY, its Affiliates and/or subsidiaries.

2. TERM. EXECUTIVE'S term of employment under this AGREEMENT shall commence on the EFFECTIVE DATE and shall continue for a period through and including October 31, 2005 (the "EMPLOYMENT TERM") unless extended in writing by both parties or earlier terminated pursuant to the terms and conditions set forth herein.

3. DUTIES.

(a) Unless otherwise determined by the BOARD OF DIRECTORS, EXECUTIVE shall be employed as the COMPANY'S Vice President Sales, Traditional Aftermarket Group and shall report to the COMPANY'S Chairman, President and Chief Executive Officer. In this connection EXECUTIVE will serve as a member of the COMPANY'S Executive Committee, which is made up of its senior executives. It is agreed that EXECUTIVE shall perform his service from the COMPANY'S facility to be established by it in the Charlotte, North Carolina vicinity, or any other facility mutually agreeable to the parties.

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

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

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

(a) Base Salary and Signing Bonus. The COMPANY shall pay EXECUTIVE a base salary ("SALARY") of One Hundred Eighty Five Thousand Dollars ($185,000) per year. In addition, no later than November 30, 2003, COMPANY shall pay EXECUTIVE a one-time "signing bonus" of $18,000.

(b) Bonus. In addition to the Sales Bonus Plan described in Schedule A hereto, EXECUTIVE shall participate in the COMPANY'S Executive Bonus Program as and when adopted and amended from time to time by the BOARD OF DIRECTORS. In the event of any part-year service by the EXECUTIVE, any Bonus shall be prorated (as reasonably determined by the BOARD OF DIRECTORS) for any part year service by EXECUTIVE.

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

7. EMPLOYMENT BENEFITS AND OTHER ARRANGEMENTS.

(a) EXECUTIVE 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 Chairman, President and Chief Executive Officer, interfere with EXECUTIVE'S performance of his duties hereunder.

(b) EXECUTIVE shall be entitled to those benefits (including equity participation plan opportunities) usually provided from time-to-time to Vice President level employees of the COMPANY. During the term of this AGREEMENT, if EXECUTIVE does not elect or receive medical insurance coverage for himself and his eligible family through the COMPANY, he shall receive as an allowance for such medical insurance an amount equal to the then cost which would be incurred by the COMPANY in supplying such coverage for EXECUTIVE and his eligible family. The COMPANY may withhold from any benefits payable to EXECUTIVE 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 EXECUTIVE may be entitled may be changed from time to time or withdrawn at any time in the sole discretion of the COMPANY.

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

(d) EXECUTIVE shall have the benefit of at least six months notice of the termination of his employment under this Agreement, including at the end of the EMPLOYMENT TERM, provided the foregoing shall not apply in the event of a termination for cause pursuant to Paragraph 9.

(e) This AGREEMENT may be terminated by the COMPANY without Cause. In such event, EXECUTIVE shall continue to receive payments of SALARY and benefits as set forth in this AGREEMENT; provided, however, that EXECUTIVE shall be obligated to mitigate his damages as a result of the COMPANY'S termination of this AGREEMENT without Cause by seeking appropriate alternative paid employment, which employment shall be consistent with his expertise and employment history, and any SALARY otherwise payable to him thereafter shall be reduced by an amount equal to any amounts earned by EXECUTIVE from any person or entity during the period EXECUTIVE is to receive SALARY. In connection with EXECUTIVE'S obligation to mitigate his damages, EXECUTIVE shall use his best efforts to seek appropriate alternative employment and shall submit to COMPANY monthly reports as the COMPANY may reasonably request explaining Employee's efforts in connection therewith.

8. DEATH AND DISABILITY.

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

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

9. TERMINATION FOR CAUSE.

(a) The COMPANY may terminate the employment of EXECUTIVE for Cause (as hereinafter defined) without prior notice. Upon any such termination, the COMPANY shall be released from any and all further obligations under this AGREEMENT, except that the COMPANY shall be obligated to pay

EXECUTIVE his SALARY, reimbursable expenses and benefits owing to EXECUTIVE through the day on which EXECUTIVE is terminated. EXECUTIVE will not be entitled to any other compensation upon termination of this AGREEMENT pursuant to this Paragraph 9 (a).

(b) As used herein, the term "Cause" shall mean: (i) the willful failure of EXECUTIVE to perform his duties pursuant to Paragraph 3 hereof, which failure is not cured by EXECUTIVE within ten (10) days following notice thereof from the COMPANY; (ii) any other material breach of this AGREEMENT by EXECUTIVE, including any of the material representations or warranties made by EXECUTIVE; (iii) any act, or failure to act by EXECUTIVE in bad faith or to the detriment or to the detriment of the COMPANY; (iv) the commission by EXECUTIVE 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 EXECUTIVE of any material fact in seeking or continuing employment hereunder, or (vi) any other occurrence or circumstance generally recognized a "cause" for employment termination under applicable law.

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

(a) EXECUTIVE will not, during the term of this AGREEMENT or at any time thereafter, use, or disclose to any third party, trade secrets or confidential information of the COMPANY, including but not limited to, confidential information or trade secrets belonging or relating to the COMPANY, its subsidiaries, affiliates, customers and clients or proprietary processes or procedures of the COMPANY, its subsidiaries, affiliates, customers and clients. Proprietary processes and procedures shall include, but shall not be limited to, all information which is known or intended to be known only to executives of the COMPANY, 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) EXECUTIVE will not, during the term of the AGREEMENT, directly or indirectly, under any circumstance other than at the direction and for the benefit of the

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

(c) EXECUTIVE will not, during the term of this AGREEMENT 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, EXECUTIVE or agent of the COMPANY or any of its subsidiaries or affiliates to sever its relationship with or leave the employ of any such entities.

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

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

11. COMPANY PROPERTY.

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

(b) All records, files, lists, including computer generated lists, drawings, documents, equipment and similar items relating to the COMPANY'S business which EXECUTIVE shall prepare or receive from the COMPANY shall remain the COMPANY'S sole and exclusive property. Upon termination of this

AGREEMENT, EXECUTIVE shall promptly return to the COMPANY all property of the COMPANY in his possession. EXECUTIVE further represents that he will not copy or cause to be copied, print out or cause to be printed out any software, documents or other materials originating with or belonging to the COMPANY. EXECUTIVE additionally represents that, upon termination of his employment with the COMPANY, he will not retain in his possession any such software, documents or other materials.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MOTORCAR PARTS & ACCESSORIES, INC.

By: /s/ SELWYN JOFFE

Name/Date: Selwyn Joffe

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

/S/ BILL LAUGHLIN

Bill Laughlin/October 2, 2003

SCHEDULE A
SALES BONUS PLAN

[EXECUTIVE SHALL BE ELIGIBLE FOR AN ANNUAL SALES BONUS PLAN BONUS OF UP TO 25% OF HIS SALARY, THE TERMS OF WHICH ARE TO BE AGREED TO BY DECEMBER 31, 2003 THROUGH NEGOTIATION BETWEEN EXECUTIVE AND THE COMPANY'S CHAIRMAN OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER.]

Orbian Discount Service

Supplier Service Activation Package

Orbian System Release 4.5

Document Version 1.3

This document forms part of Orbian's policies and procedures. All defined terms used in this document shall have the meanings given to them in the Service Agreement, except where they are re-defined in this document or where their meanings must, necessarily, be varied by the context in which they arise in this document. In the event of conflict between this document and the Service Agreement, the Service Agreement shall control.

Except as permitted by the Service Agreement, this document must not be disclosed outside of your organization and you are not authorized to duplicate or distribute it (whether electronically or otherwise) in whole or in part.

ORBIAN DISCOUNT AGREEMENT

Dated as of June 18, 2004, between Motorcar Parts of America, Inc., a New York corporation, whose address is 2929 California Street, Torrance, California 90503 (" **Supplier** "), and Orbian Corp., a Delaware company (" **Orbian** "), (collectively, the " **Parties** ").

Background

A. From time to time, Supplier enters into commercial trade transactions with various buyers (each, a " **Buyer** ") for the sale of goods and/or services, resulting in accounts receivable owed by the respective Buyers to Supplier. Such accounts receivable represent the Buyers' payment obligations as specified in the Payment Notification (" **Receivables** ").

B. To facilitate the processing of such Receivables, Supplier and Buyers intend to utilize a certain computerized settlement system, including related services, equipment and software (collectively, the " **Orbian System** ").

C. From time to time, Supplier wishes to sell to Orbian, and Orbian wishes to purchase from Supplier, the Receivables.

NOW, THEREFORE, in consideration of the mutual covenants, terms, conditions, representations and warranties contained herein, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, Supplier and Orbian agree as follows:

1. Definitions.

In this Agreement:

" **Agreement** " means this Discount Agreement, as such may be amended from time to time in accordance with its terms.

"Business Day " means a day on which The Federal Reserve Bank of New York is open for business.

" **Discount** " means the non-recourse purchase by Orbian and the simultaneous irrevocable sale by Supplier of Receivables at a price that is equal to the Discount Proceeds and is calculated as set out in this agreement.

" **Discount Proceeds** " means the amount of the Receivable less the applicable fees and charges specified in the attached Fee Schedule.

" **Equipment** " means all equipment provided by or on behalf of Orbian for the purpose of accessing or using the Orbian System, including all authentication products.

" **Licensed Resources** " means the Equipment, Software and Orbian's Policies and Procedures.

" **Payment Notification** " means, with respect to a Receivable, the notification sent to the Supplier through the Orbian System, notifying the Supplier that Buyer has instructed Orbian to make payment from Buyer's account of a specified amount on a specified date in full payment of such Receivable.

" **Policies & Procedures** " means all tangible printed information (including any in electronic form) provided by or on behalf of Orbian in connection with use of the Orbian System.

" **Software** " means all software, programming or object code provided by Orbian to Buyer for utilizing a computer or like device to use the Orbian System.

2. License Grant. Orbian grants Supplier a non-exclusive, nontransferable license for the duration of this Agreement to access and use the Orbian System and the Licensed Resources solely for the purposes contemplated by this Agreement and subject to the terms and conditions of this Agreement. Such license shall terminate upon termination of this Agreement. Orbian, its parent, subsidiaries, affiliated companies, assigns and licensors retain title to, and ownership of all proprietary rights in the Licensed Resources (including but not limited to copyright, patent and trademark rights as well as revisions, upgrades, updates, derivative works and other improvements to the Orbian System). All such rights are reserved, except that Supplier may use the Orbian System, including the Licensed Resources, only as expressly granted in this Agreement. Supplier agrees that in the event a claim is asserted for infringement of the proprietary rights of a third party, it will cooperate with Orbian in connection with defending against that claim.

3. Usage. Supplier agrees to comply with all instructions for the Licensed Resources and all updates/upgrades provided by Orbian. Supplier is permitted to print copies of reasonable extracts from the Licensed Resources and to save reasonable copies on their hard drive solely for the purpose of exercising their respective rights and fulfilling their obligations under this Agreement. All other copying, distribution or commercial use of any of the Licensed Resources is strictly forbidden. Supplier agrees that it will not alter or modify any Licensed Resources or attempt to

reverse compile, reverse engineer, reverse assemble or disassemble the Software.

4. Security. The parties agree to use the Orbian System to send all communications under this Agreement. Supplier undertakes to implement appropriate security relating to use by Supplier of the Orbian System. Orbian shall be entitled to rely upon a communication by Supplier irrespective of any error or fraud contained in the communication or the identity of the individual who sent the communication. Supplier knowingly and voluntarily waives the right to contest the validity or enforceability of such communication.

5. System Availability. Supplier acknowledges and agrees that: (i) there will be downtime from time to time when the Orbian System cannot be accessed; and (ii) Supplier is responsible for providing and maintaining, and Orbian has no liability or responsibility in respect of, equipment not supplied by or on behalf of Orbian, or utility services that Supplier utilizes as a result of its participation in the Orbian System and maintaining a link to the Orbian System.

6. Offer for Discount . Supplier may either at its option, or automatically, (depending on the option selected) offer to sell to Orbian the Receivables (a " **Discount Offer** ") at a price equal to the Discount Proceeds.

7. Acceptance of Discount Offer . Orbian, at its option, may accept Supplier's Discount Offer by executing a Discount and depositing the Discount Proceeds in Supplier's designated bank account. If Orbian has not deposited the Discount Proceeds with respect to a Receivable before the close of business on the second Business Day following its receipt of the Discount Offer (unless otherwise notified in writing by Orbian of an extension, not to exceed 2 Business Days), the Discount Offer shall be deemed not accepted by Orbian and rescinded by Supplier.

8. Net Settlement . Unless Orbian has executed a Discount, Orbian. will make payment to Supplier's designated bank account (less applicable fees and charges as specified in the attached Fee Schedule) on the payment date specified in the Payment Notification solely from funds deposited therein by the relevant Buyer.

9. Purchase of Receivables . Supplier hereby agrees that, simultaneously with the Discount, Supplier will be deemed to have (i) transferred to Orbian all of Supplier's present and future right, title and interest in, to and under the Receivables to which such Discount Offer relates, and (ii) provided notice to Buyer, through the Orbian System, of Supplier's designation of Orbian as the business entity to receive payment of the amount specified in Buyer's Payment Notification with respect to such Receivables. No further writing shall be necessary to evidence such transfer of ownership. Notwithstanding the foregoing, Supplier agrees to sign all such other documents, and take all such further actions, as Orbian may reasonably request from time to time to evidence this transfer of ownership. Supplier hereby agrees that its obligations under this Agreement and any Discount Offers issued by it shall not be affected by the invalidity, unenforceability, existence, performance or non-performance of the relevant underlying transaction, which (and any liability for which) shall be between Supplier and the relevant Buyer only. It is the intention of Supplier and Orbian that each purchase and sale of Receivables shall constitute a true sale, which sale will be absolute and irrevocable and provide Orbian with the full benefits of ownership of such Receivables. The Discount does not constitute and is not intended to result in an assumption by Orbian of any obligation of Supplier or any other person arising in connection with the Receivables or any other obligations of Supplier.

10. Representations and Warranties . Supplier hereby agrees that, by issuing a Discount Offer, Supplier will be deemed to have made each of the following representations and warranties, both as of the date of the Discount Offer and as of the date such offer is accepted by Orbian: Each such Receivable (i) is the exclusive property of Supplier, free and clear of all security interests, liens or claims of any kind; (ii) is based on a sale of goods and/or services that have been delivered to and accepted by the relevant Buyer, and complies with all applicable legal requirements; (iii) to the best of Supplier's knowledge, constitutes a valid, binding and unconditional obligation of the relevant Buyer to pay the full amount of such Receivable, free of any defense, set-off or counterclaim; and (iv) to the best of Supplier's knowledge, is not disputed by Buyer or any other person, and is not the subject of any legal or arbitral proceeding. Supplier agrees that Orbian, at its discretion, may submit UCC filings to secure a perfected ownership of all or any part of the Receivables purchased by Orbian.

11. Representations, Warranties and Covenants of Supplier. Supplier warrants to Orbian that the underlying transactions to each Receivable are genuine and lawful commercial trade transactions arising in the ordinary course of business, for the sale and purchase of goods and/or services. Supplier shall not use the Orbian System for investment or arbitrage functions or purposes, or for any money laundering purpose, or in contravention of any law or regulation. Supplier shall comply with all relevant laws and regulations applicable to this Agreement and transactions conducted using the Orbian System including, without limitation, all applicable sanctions and export control laws. Supplier agrees that its name or other identifiers may be made available to clients or prospects of Orbian for the purpose of furthering the transaction of business through the Orbian System.

12. Mutual Representations, Warranties and Covenants of the Parties. Except as expressly provided in this Agreement, no representation, warranty, term or condition, express or implied, statutory or otherwise, is given or assumed by Orbian in respect of (i) the Licensed Resources, (ii) Supplier's underlying commercial transactions, or (iii) the goods or services to which such underlying transactions relate (regardless of any assistance that Orbian may, in its sole discretion, provide to Supplier). All such representations, warranties, terms and conditions are excluded, except to the extent that this exclusion is prohibited by law. Without limiting the foregoing, Supplier understands that Orbian is not giving any representation or warranty as to condition, performance, fitness for purpose, suitability, merchantability, quality or otherwise, or of non-infringement, except as expressly provided herein.

13. Fees and Charges. Supplier shall pay Orbian such fees, commissions and other amounts with respect to the services of Orbian as detailed in the attached Fee Schedule.

14. Information, Data and Access. Supplier shall maintain and implement administrative and operating procedures, and keep and maintain all documents, books, records and other information reasonably necessary or advisable for the collection of all Receivables hereunder, and with respect to compliance of the underlying commercial transactions with applicable laws and regulations. Supplier shall retain each record required to be maintained under this clause 14 during the term of this Agreement and, if applicable, for such longer period as may be required by law or regulation. Supplier shall make such procedures, documents, books, records and other information available to Orbian and its agents, representatives and relevant authorities upon request, and shall allow copies or extracts thereof to be made as Orbian deems necessary. To the extent that Orbian has purchased Receivables pursuant to clause 9, Supplier (i) will mark its master data processing records relating to such Receivables with a legend properly evidencing that Orbian has purchased such Receivables as provided in this Agreement, and (ii) at Orbian's request, will transfer possession to Orbian of all receipts, order slips, acceptances, and other records or documentation in Supplier's possession pertaining to the sale of goods and/or services to which such Receivables relate. Supplier shall, at its expense, timely and fully perform and comply with all material provisions required to be observed by it under the contracts related to the Receivables.

15. Waivers; Severability. No failure or delay in exercising any right or remedy under this Agreement will constitute a waiver of that right. If any provision of this Agreement is or becomes illegal, invalid or unenforceable under any applicable law, the remaining provisions of this Agreement will remain in full force and effect.

16. Limitation on Liability. In the absence of gross negligence or willful misfeasance on its part in the performance of its duties hereunder, Orbian shall not be liable for any action taken, suffered, or omitted, or in accordance with any direction or request of the Supplier. Neither Supplier nor Orbian shall be liable to the other for any indirect, exemplary, special, punitive, incidental, or consequential damages or loss, even if advised of the possibility of such loss or damage. Neither Orbian nor Supplier shall be liable for any claims, liabilities, or expenses due to forces beyond their respective reasonable control, including without limitation strikes, work stoppages, acts of war or terrorism, insurrection, revolution, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services.

17. No Implied Duties, No Third Party Beneficiaries. Orbian owes no duties or obligations other than for the purpose stated in this agreement, and owes no duties or obligations to any person or entity that is not a Party to this Agreement. Nothing herein, express or implied, shall give to any Person, other than the Supplier and Orbian, as well as their respective successors and assigns to the extent permitted under this Agreement, any benefit of any legal or equitable right, remedy or claim hereunder.

18. No Assignment. Neither Supplier nor Orbian may assign any of its rights or obligations under this Agreement without the prior written consent of the other Party; provided, however, that Orbian may assign its rights and obligations under this Agreement in whole or in part to any of its subsidiaries or affiliates, or to any corporation into which Orbian may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which Orbian shall be a party upon written notice to Supplier.

19. Termination. Either party may terminate this Agreement upon prior written notice to the other with immediate effect upon 30 days' written

notice. However, any party may terminate this Agreement immediately upon notice of material breach of this Agreement by such other party. Upon notice of termination of this Agreement, Supplier shall no longer issue Discount Offers to Orbian and Orbian will no longer accept Discount Offers from the Supplier.

20. Survival. If this Agreement is terminated in accordance with clause 19, then this Agreement shall become null and void and of no further force and effect, except that all confidentiality, security, indemnity, payment and reimbursement obligations and all limitation of liability provisions contained in this Agreement shall survive and remain in full force and effect notwithstanding such termination and the payment of all amounts owing hereunder.

21. Governing Law; Jurisdiction, Waiver of Jury Trial This Agreement is governed by the laws of the State of New York, United States of America. The courts of New York have non-exclusive jurisdiction to hear any dispute arising out of or in conjunction with this Agreement and all parties irrevocably submit to the jurisdiction of such courts. The Parties waive any rights they may have to a jury trial of any claim or cause of action based on or arising from this Agreement.

22. Notices. Any notice to be given under this Agreement shall be sent to the address specified below. This Agreement may not be modified except in writing and signed by the Parties. This Agreement may be executed in counterparts, each of which shall be an original and all of which shall constitute the same instrument.

IN WITNESS WHEREOF, each of the Parties hereto has executed this Agreement as of the date and year first above written.

For	Motorcar Parts of America, Inc.	For	Orbian Corporation
By:	/s/ CHARLES YEAGLEY	By:	/s/ BILL FOLLINI
Name:	Charles Yeagley	Name:	Bill Follini
Title:	Chief Financial Officer	Title:	Senior Vice President, Strategic Marketing
Address:		Address:	200 Connecticut Avenue, Norwalk, CT 06854

PRICING SCHEDULE

This Pricing Schedule shall be incorporated by reference and made a part of the Orbian Discount Agreement. The following fees and charges are valid for a period of 36 months from the date of this Agreement. Orbian reserves the right to modify this Pricing Schedule upon 30 days written notice.

"Payment Fee" is **$10** for each payment credited to the Supplier's designated bank account. Payment of each Usage Fee shall be effected by Orbian transferring to Supplier's designated bank account the amount indicated in the Payment Notification, net of the Payment Fee. Orbian will **waive** the Payment Fee for any Discount Offer accepted by Orbian.

"Discount Transaction Fee" of **$5** will be charged for each Discount. The Discount Transaction Fee will be **waived** for all Discounts resulting from automatically generated Discount Offers

"Discount Charge" for each Discount is defined as the Payment Amount multiplied by the Discount Rate, where:

"Payment Amount" means the face amount of the Receivables in the Discount Offer that is due from a Buyer on the specified date, as contained in the Payment Notification.

"Discount Rate" means the rate percent per annum calculated as the sum of the Spread and the LIBOR rate prevailing on that day multiplied by the Discount Period and divided by 360.

Spread – The Spread is 1.50 % per annum.

LIBOR – "LIBOR" refers to the London Inter Bank Offered Rate as published daily by the British Banking Association. The LIBOR rate(s) applied will correspond to the period equivalent to the Payment Due Date(s) of the Payment Instruction(s) discounted.

Discount Period means the period starting from (and including) the date two (2) Business Days after the Discount Offer Date until (and excluding) the Payment Due Date.

Discount Offer Date means the day that the Orbian System accepts and processes each Discount Offer.

Payment Due Date means the later of: (i) the date of payment by a Buyer of the Payment Amount as specified in the Payment Notification, or (ii) the date two (2) Business Days after receipt of the Payment Notification.

Examples :

Indicative Discount Rate (*for example purposes only*) – At a 6 month LIBOR rate of 1.16% per annum, as was quoted by the British Banking Association on October 1, 2003 and published in the Wall Street Journal on October 2, 2003, the Discount Rate was 2.66 % per annum.

Indicative Discount Charge (*for example purposes only*) – Assuming a Discount Rate of 2.66% per annum, a Discount Period of 178 days and a Payment Amount of $100,000.00, the Discount Charge would be $1,315.22 (1.32%) and the Discount Proceeds would be $98,684.78 (98.68%).

$100,000 x (1.16% + 1.50%) x 178 / 360 = $1,315.22

$100,000 - $1,315.22 = $98,684.78

EXHIBIT 10.18

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - GROSS

AIR COMMERCIAL REAL ESTATE ASSOCIATION

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 PARTIES: This Lease ("Lease"), dated for reference purposes only May 25, 2004 , is made by and between GOLKAR ENTERPRISES, LTD

("Lessor") and MOTORCAR PARTS OF AMERICA, INC.

("Lessee"), (collectively the "Parties", or individually a "Party"),

1.2(a) PREMISES: That certain portion of the Project (as defined below). Including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 530 Maple Ave located in the City of Torrance, County of Los Angeles State of California, with zip Code 90503 , as outlined on exhibit A attached hereto ("Premises") and generally described as (describe briefly the nature of the Promises): an approximately 4,005 square foot free standing building, part of a larger industrial complex comprised of approximately 359,911 square feet

In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessen shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the building containing the Promises ("Building") or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and Improvements thereon, are herein collectively referred to as the "Project." (See also Paragraph 2.)

1.2(b) PARKING: as available unreserved vehicle parking spaces ("Unreserved Parking Spaces-); and n/a reserved vehicle parking spaces ("Reserved Parking Spacer"). (See also Paragraph 2.6.)

1.3 TERM: two (2) years and nine (9) months ("Original Term") commencing July 01, 2004 ("Commencement Date") and ending, March 31, 2007 ("Expiration Date").
(See also paragraphs 3.2 and 3.3)

1.4 EARLY POSSESSION: n/a ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3,)

1.5 BASE RENT $3,400.00 per month ("Base Rent"), payable an the first day of each month commencing July 1, 2004. (See also Paragraph 4.)

[ ] If this box is checked there are provisions in this Lease for the Base Rent to be adjusted.

1.6 LESSEE'S SHARE OF COMMON AREA OPERATING EXPENSES: July 01, 2004 percent
(1.11 %) ("Lessee's Share"), 1.7 Base Rent and Other Monies Paid Upon Execution:

(a) BASE RENT: $3, 400.00 for the period July 01, 2004, through July 31, 2004

(b) ESTIMATED COMMON AREA OPERATING EXPENSES: $16.21 for the period July 01-31, 2004

(c) SECURITY DEPOSIT: $ 3,400.00 ("Security Deposit"). (See also Paragraph 5.)

(d) OTHER: $n/a for n/a

(e) TOTAL DUE UPON EXECUTION OF THIS LEASE: $6,816.21

1.8 AGREED USE; general office and related activities for auto parts manufacturing and distribution (See also Paragraph 6.)

1.9 INSURING PARTY. Lessor is the -insuring Party. (See also Paragraph 8.)

1.10 REAL ESTATE BROKERS: (See also Paragraph 15.)

(a) REPRESENTATION: The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):
[ ] n/a represents Lessor exclusively ("Lessor's Broker"):
[ ] n/a represents Lessee exclusively ("Lessee's Broker"); or
[ ] n/a represents both Lessor and Lessee ("Dual Agency").

(b) PAYMENT TO BROKERS: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there 15 no such agreement, the sum of per agreement or per agmt % of the total Base Rent for the brokerage services rendered by the Brokers),

1.11 GUARANTOR. The obligations of the Lessee under this Lease are to be guaranteed by n/a ("Guarantor"), (See also Paragraph 37)

1.12 ADDENDA AND EXHIBITS. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 55 and Exhibits A through A, all of which constitute a part of this Lease.

2. PREMISES.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth In this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating Rent, is en approximation which the Parties agree Is reasonable and any payments based thereon are not subject to revision whether or not the actual size Is more or less

2.2 CONDITION. Lessor shall deliver that portion of the Premises contained within the Building ("Unit") to Lessee broom dean and free of debris on the Commencement Date or the Early Possession Date, Whichever first occurs ("Start Date"), and, so long as the required service contracts described In Paragraph 7.1(b) below are obtained by Lessee and In effect within thirty days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and

all other such elements In the Unit, other than those constructed by Lessee, shall be in good operating condition on sold date and that the structural elements of the roof, bearing walls and foundation of the Unit shall be free of material defects. If a non-compliance with such warranty exists as of the Start Date, or If one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessors sole obligation with respect to such matter, except as Initials otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity, the nature and extent of such non-compliance. malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Unit. If Lessee does not give Lessor the required notice within the appropriate warranty period. Correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense (except for the repairs to the fro sprinkler systems. roof, foundations, and/or bearing walls see Paragraph 7).

2.3 COMPLIANCE. Lessor warrants that the improvements on the Premises and the Common Areas comply with the building codes that were In effect at the time that each such Improvement, or portion thereof, was constructed, and also with all applicable laws, Covenants or restrictions of record, regulations, and ordinances in effect on the Start pate (Applicable Requirements"). Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a).) made or to be made by Lessee. NOTE: Lessee Is responsible for determining whether or not the zoning is appropriate for Lessee's Intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not Comply with said warranty. Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within 6 months following the Start Data, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expanse. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Unit, Premises and/or Building, the remediation of any Hazardous Substance. or the reinforcement or other physical modification of the Unit. Premises and/or Building ("Capital Expenditure-). Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Promises by Lessee as compared With uses by tenants in general, Losses shall be fully responsible for the cost thereof, provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may Instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, In no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure Is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for the portion of such costs reasonably attributable to the Premises pursuant to the formula sat out in Paragraph 7.1(d): provided, however, that if such Capital Expenditure Is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor. In writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor dogs not elect to terminate, and fails to tender Its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee Is unable to finance Lessor's share. or If the balance of the Rent due and payable for the remainder of this Lease Is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are Instead triggered by Lessee as a result of an actual or proposed change in use, change in Intensity of use, or modification to the Promises then, and in that event, Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

2.4 ACKNOWLEDGEMENTS. Lessee acknowledges that: (a) It has been advised by Lessor and/or Brokers to satisfy Itself with respect to the condition of the Promises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's Intended use, (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to Its occupancy of the Premises, and (c) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that (1) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) It is Lessor's sole responsibility to Investigate the financial capability and/or suitability of all proposed tenants.

2.5 Intentionally blank.

2.6 VEHICLE PARKING. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called Permitted Size Vehicles" Lessor may regulate the loading and unloading of vehicles by adopting Rules and Regulations as provided In Paragraph 2.9. No vehicles other than Permitted Size Vehicles may be parked in the Common Area without the prior written permission of Lessor.

(a) Losses shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked In areas other than those designated by Lessor for such activities.

(b) Lessee shall not service or store any vehicles in the Common Areas

(c) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, In addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.7 COMMON AREAS DEFINITION. The term Common Areas" is defined as all areas and facilities outside the Promises and within the exterior boundary line of the Project and interior utility raceways and installations within the Unit that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor. Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.

2.8 COMMON AREAS - Lessee's Rights. Lessor grants to Lessee, for the benefit of Lessee and Its employees, suppliers, shippers, contractors, customers and Invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such case, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Areas be deemed to Include the right to store any property, temporarily or permanently, in the Common Areas Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Lessor shall have the right, without notice, In addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 COMMON AREAS - Rules and Regulations. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations ("Rules and Regulations") for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause Its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said Rules and Regulations by other tenants of the Project.

2.10 COMMON AREAS - CHANGES. Lessor shall have the right, In Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, Including. without limitation, changes In the

location, size, shape and number of driveways, entrances, perking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas. walkways and utility raceways;

(b) To dose temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Promises remains available;

(c) To designate other land outside the boundaries of the Project to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas white engaged in making additions(improvements, repairs or alterations to the Project, or any portion thereof; and

(f) To do and perform such other acts and make such other changes In, to or with respect to the Common Areas and Project as Lessor may. In the exercise of sound business judgment, deem to be appropriate.

3. TERM.

3.1 TERM. The Commencement Data, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 EARLY POSSESSION. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this tease (Including but not limited to the obligations to pay Lessee's Share of Common Area Operating Expenses. Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be In effect during such period. Any such early possession shall not affect the Expiration Date.

3.3 DELAY IN POSSESSION. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however; be obligated to pay Rent or perform its other obligations until It receives possession of the Premises. If possession Is not delivered within 60 days after the Commencement Data, Lessee may, at Its option, by notice In writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period. Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within 4 months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee in writing.

3.4 LESSEE COMPLIANCE. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with Its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence. Lessee shall be required to perform all of Its obligations

under this Lease from and after the Start Date, Including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of Insurance. Further, if Lessee Is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. RENT.

4.1. RENT DEFINED. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("Rent").
4.2 Common Area Operating Expenses Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified In Paragraph 1.6.) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Common Area Operating Expenses" are defined, for purposes of this Lease, as all costs incurred by Lessor rotating to the ownership and operation of the Project, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, but not the replacement (see subparagraph (e)), of the following:

(aa) The Common Areas and Common Area improvements, including parking areas, loading and unloading areas, trash areas, roadways, parkways, walkways, driveways, landscaped areas, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators, roofs, and roof drainage systems.

(bb) Exterior signs and any tenant directories.

(cc) Any fire sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas and any utilities not separately metered.

(iii) Trash disposal, pest Control services, property management, security services, and the costs of any environmental inspections.

(iv) Reserves set aside for maintenance and repair of Common Areas.

(v) Any Increase above the Base Real Property Taxes (as defined In Paragraph 10).

(vi) Any "Insurance Cost Increase" (as defined In Paragraph 8).

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas,

(viii) The coat of any Capital Expenditure to the Building or the Project not covered under the provisions of Paragraph 2.3 provided; however, that Lessor shall allocate the cost of any such Capital Expenditure over a 12 year period and Lessee shall not be required to pay more than Lessee's Share of 1/144th of the Cost of such Capital Expenditure In any given month.

(ix) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Unit, the Building or to any other building in the Project or to the operation, repair and maintenance thereof, shall be allocated entirely to such Unit, Building, or other

building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Project.

(c) The inclusion of the Improvements, facilities and services set forth in Subparagraph 4.2(e) shall not be deemed to Impose an obligation upon Lessor to either have said Improvements or facilities or to provide those services unless the Project already has the same. Lessor already provides the services, or Lessor has agreed elsewhere In this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within 10 days after a reasonably detailed statement of actual expenses Is presented to Lessee. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12 month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within 60 days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses Incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during the preceding year exceed Lessee's Share as indicated an such statement, Lessor shall credit the amount of such overpayment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during the preceding year were less than Lessee's Share as Indicated on such statement, Lessee shall pay to Lessor the amount of the deficiency within 10 days after delivery by Lessor to Lessee of the statement.

(e) When a Capital component such as the roof, foundations, exterior walls or a Common Area capital Improvement, such as the parking lot paving, elevators, fences, ate. requires replacement, rather than repair or maintenance. Lessor shall, at Lessor's expense, be responsible for such replacement. Such expenses and/or costs are not Common Area Operating Expanses.

4.3 Payment. Lessee shall cause payment of Rent to be received by Lessor In lawful money of the United States, Without offset or deduction (except as specifically permitted in this Lease), on or before the day on Which It is due. Rent for any period during the term hereof which Is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other Instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of $25.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of Its obligations under this Lease. If Lessee falls to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability. expense, loss or damage which Lessor may suffer or Incur by reason thereof. If Lessor uses or applies all or any portion of the Security

Deposit. Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the Initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to Increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. It a change in control of Lessee occurs during this Lease and following such change the financial condition of Lassos Is, in Lessor's reasonable judgment, significantly reduced. Lessee shell deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be et a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 14 days after the expiration or termination of this Lease, If Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within 30 days after the Premises have been vacated pursuant to Paragraph 7.4(c) below. Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit -Shall be considered to be held In trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. USE.

6.1 USE. Lessee shall use and occupy the Premises Only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage. Waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so tong as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within 7 days after such request give written notification of same. which notice shall Include an explanation of Lessors objections to the change In the Agreed Use.

6.2 HAZARDOUS SUBSTANCES

(a) REPORTABLE USES REQUIRE CONSENT. The term "Hazardous Substance" as used In this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by Itself or in combination with other materials expected to be on the Premises, Is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or
(iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or Common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage In any activity In or on the Promises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "Reportable Use" shall moan (i) the installation or use of any above or below ground storage tank, (ii) the

generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be tiled with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing. Lessee may use any ordinary and customary materials reasonably required to be used In the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination. Injury and/or liability, including, but not limited to. the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) DUTY TO INFORM LESSOR. If Lessee knows. or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises. other than as previously consented to by Lessor. Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which It has concerning the presence of such Hazardous Substance.

(c) LESSEE REMEDIATION. Lessee shall not cause or permit any Hazardous Substance to be spilled or released In, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or Involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) LOSSES INDEMNIFICATION. Lessee shall indemnify, defend and hold Lessor, Its agents, employees, lenders and ground lessor, if any, harmless from and against any and 211 loss of rants and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Promises from areas outside of the Project). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation. removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) LESSOR INDEMNIFICATION. Lessor and Its successors and assigns shall indemnify, defend,

reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, Including the cost of remediation, which existed as a result of Hazardous Substances on the Premises prior to the Start Date or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessors obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) INVESTIGATIONS AND REMEDIATIONS. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Data, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises. in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully In any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) LESSOR TERMINATION OPTION. If a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this Lease, unless Lessee Is legally responsible therefor (In which case Lessee shall make the Investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue In fun force and effect, or (ii) If the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or $100,000, whichever Is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 60 days following the date of such notice. In 'the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days following such commitment. In Such event, this Lease shall continue In full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available, If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination, 6.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided In this Lease. Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire Insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate In any manner to the Promises, without regard to whether said requirements are now in effect or become effective after the Start Data_ Lessee shall, within 10 days after receipt of Lessor's written request. provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor In writing (with copies of any

documents involved) of any threatened or actual claim, notice, citation, warning. complaint or report pertaining to or Involving the failure of Lessee or the Promises to comply with any Applicable Requirements.

6.4 INSPECTION; COMPLIANCE. Lessor and Lessor's' "Lender" (as defined In Paragraph 30) and consultants shall have the right to enter into Promises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such Inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination Is found to exist or be imminent, or the Inspection Is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the Cost of such Inspection, so long as such Inspection is reasonably related to the violation or contamination.

7. MAINTENANCE; REPAIRS; UTILITY INSTALLATIONS; TRADE FIXTURES AND ALTERATIONS,

7.1 LESSEE'S OBLIGATIONS.

(a) IN GENERAL. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance). 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations In good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights but excluding any Items which are the responsibility of Lessor pursuant to Paragraph 7.2 Lessee, in keeping the Promises In good order, condition and repair, shall exercise and perform good maintenance practices, specifically Including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall Include restorations. replacements or renewals when necessary to keep the Premises and all Improvements thereon or a part thereof in good order, condition and state of repair.

(b) SERVICE CONTRACTS. Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, In customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, If any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler and pressure vessels, (iii) clarifiers. and (iv) any other equipment. if reasonably required by Lessor. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) FAILURE TO PERFORM. If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 10 days' prior written notice to Losses (except In the case of an emergency, in which case no notice shall be required). perform such obligations on

Lessee's behalf, and put the Promises In good order, condition and repair, and Lessee shall promptly reimburse Lessor for the cost thereof.

(d) REPLACEMENT. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices. If an Item described In Paragraph 7.1(b) cannot be repaired other than at a cost which Is in excess of 50% Of the cost of replacing such item. then such Item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which Is one, and the denominator of which is 144 (i.e. 1/144th of the cost per month). Lessee shall pay Interest on the unamortized balance at a rate that is commercially reasonable in the judgment of Lessor's accountants. Lessee may, however, prepay its obligation et any time.

7.2 LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 4.2 (Common Area Operating Expenses), 6 (Use).
7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler system, Common Area fire alarm and/or smoke detection systems, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 42 Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain. repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in affect to the extent it is inconsistent with the terms of this Lease.

7.3 UTILITY INSTALLATIONS; TRADE FIXTURES; ALTERATIONS.

(a) DEFINITIONS. The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing In or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Promises. The term 'Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lasses Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) CONSENT. Lessee shall not make any Alterations or Utility Installations to the Promises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the Interior of the Promises (excluding the roof) without such consent but upon notice to Lessor, as long as they are riot visible from the outside, do not Involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 month's Base Rent in the aggregate or a sum

equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor In written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits,
(ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements In a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications_ For work which costs an amount in excess of one month's Base Rent, Lessor may condition its consent upon Lessee providing a [(on and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) INDEMNIFICATION. Lessee shall pay, when due. all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materlalmen's lien against the Premises or any Interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the game and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessen shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessors attorneys' fees and coats.

7.4 OWNERSHIP; REMOVAL; SURRENDER; AND RESTORATION,

(a) OWNERSHIP. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, air Alterations and Utility Installations made by Lasses shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, alert in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise Instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the premises.

(b) REMOVAL. By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) SURRENDER, RESTORATION. Lessee shall surrender the Premises by the Expiration Date or

any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease Is for 12 months or less, then Lessee shall surrender the Premises In the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the Installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as wall as the removal of any storage tank Installed by or for Lessee. Lessee shall also completely remove from the Promises any and all Hazardous Substances brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Project) even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements. Trade Fixtures shall remain the property of Lessen and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. INSURANCE; INDEMNITY.

8.1 PAYMENT OF PREMIUM INCREASES

(a) As used herein, the term 'insurance Cost Increase" Is defined as any increase In the actual cost of the Insurance applicable to the Building and/or the Project and required to be carried by Lessor, pursuant to Paragraphs 6.2(b). 8.3(a) and 8.3(b), ("Required Insurance"), over and above the Base Premium, as hereinafter defined, calculated on an annual basis. Insurance Cost Increase shall include, but not be limited to, requirements of the holder of a mortgage or deed of trust covering the Premises, Building and/or Project, increased valuation of the Premises. Building and/or Project, and/or a general premium rate Increase. The term Insurance Cost Increase shall not, however, Include any premium increases resulting from the nature of the occupancy of any other tenant of the Building. If the parties Insert a dollar amount in Paragraph 1.9, such amount shall be considered the "Base Premium." The Base Premium shall be the annual premium applicable to the 12 month period Immediately preceding the Start Date. If, however, the Project was not insured for the entirety of such 12 month period, then the Base Premium shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the Start Date, assuming the most nominal use possible of the Building. In no event, however, shall Lessee be responsible for any portion of the premium cost attributable to liability insurance coverage in excess of $2,000,000 procured under Paragraph 8.2(b).

(b) Losses shall pay any Insurance Cost Increase to Lessor pursuant to Paragraph
4.2. Premiums for policy periods commencing prior to. or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Start Date or Expiration Date.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep In force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional Insured against claims for bodily Injury, personal injury and property damage based upon or arising out of the

ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such Insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an annual aggregate of not less than $2,000,000, an "Additional Insured-Managers or Lessors of Promises Endorsement' and contain the "Amendment of the Pollution Exclusion Endorsement" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall Include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All Insurance Carried by Lessee shall be primary to and not contributory with any similar Insurance carried by Lessor. whose insurance shall be considered excess Insurance only.

(b) CARRIED BY LESSOR. Lessor shall maintain liability Insurance as described in Paragraph 8.2(a), in addition to, and not In lieu of, the Insurance required to be maintained by Losses. Lessee shell not be named as an additional Insured therein.

8.3 PROPERTY INSURANCE - BUILDING, IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. Lessor shall obtain and keep in force a policy or policies of Insurance in the name of Lesser. with loss payable to Lessor, any ground-lessor, and to any Lender Insuring loss or damage to the Premises. The amount of such Insurance shall be equal to the full replacement cost of the Promises, as the same shall exist from time to time, or the amount required by any Lender, but In no event more than the commercially reasonable and available Insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be Insured by Losses under Paragraph 8.4. If the coverage is available and Commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lander), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Promises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision In lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an Increase In the annual property insurance coverage amount by a factor of not lass than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence.

(b) RENTAL VALUE. Lessor shall also obtain and keep in force a policy or policies In the name of Lessor with loss payable to Lessor and any Lender, Insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Rental Value Insurance"). Said insurance shall contain an agreed valuation provision In lieu of any coinsurance clause. and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period.

(c) ADJACENT PROMISES. Lessee shall pay for any Increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings In the Project If said

increase is caused by Lesses's acts, omissions, use or occupancy of the Premises.

(d) LESSEE'S IMPROVEMENTS. Since Lessor Is the Insuring Party, Lessor shall not be required to Insure Lessee Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 LESSEE'S PROPERTY; BUSINESS INTERRUPTION INSURANCE.

(a) PROPERTY DAMAGE Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $1,000 per occurrence. The proceeds firm any such Insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such Insurance Is In force.

(b) BUSINESS INTERRUPTION. Lessee shall obtain and maintain loss of Income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to ell perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) NO REPRESENTATION OF ADEQUATE COVERAGE. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 INSURANCE POLICIES. Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least G-, V. as set forth in the most current issue of Beat's Insurance Guide', or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be Cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, at least 30 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever Is less. If either Party shall fail to procure and maintain the Insurance required to be carried by It, the other Party may, but shall not be required to, procure and maintain the same.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies. Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to Its property arising out of or Incident to the perils required to be Insured against herein. The affect of such releases and waivers Is not limited by the amount of Insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage Insurance carriers Waive any right to subrogation

that such companies may have against Lessor or Lessee, as the case may be, so long as the Insurance Is not Invalidated thereby.

8.7 INDEMNITY. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Losses shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee In such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessor shall riot be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person In or about the Premises, whether such damage or Injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause. whether the said Injury or damage results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor nor from the failure of Lessor to enforce the provisions of any other lease In the Project Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for Injury to Lessee's business or for any loss of income or profit therefrom.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS,

(a) "Premises Partial Damage" shall mean damage or destruction to the Improvements on the Promises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired In 3 months or less from the data of the damage or destruction, and the cost thereof does not exceed a sum equal to 6 month's Base Rent Lessor shall notify Lessee In writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) "Premises Total Destruction" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired In 3 months or less from the date of the damage or destruction and/or the cost thereof exceeds a sum equal to 0 month's Base Rent Lessor shall notify Lessee In writing within 30 days from the date 'of the damage or destruction as to whether or not the damage is Partial or Total.

(c) "Insured Loss" shall mean damage or destruction to Improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described In Paragraph 8.3(a), irrespective of

any deductible amounts or coverage limits Involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the Improvements owned by Lessor at the time of the occurrence to their condition existing Immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation,

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition Involving the presence of, or a contamination by, a Hazardous Substance as defined In Paragraph 8.2(a), in, on, or under the Premises.

9.2 PARTIAL DAMAGE - Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's' expense. repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue In full force and effect; provided, however, that Lessee shall, at Lassoes election, make the repair of any damage or destruction the total cost to repair of which is $5,000 or less, and, in such event, Lessor shall make any applicable Insurance proceeds available to Lessee an a reasonable basis for that purpose. Notwithstanding the foregoing, if the required Insurance was not In force or the Insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage In proceeds as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement coat insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in Insurance proceeds or to fully restore the unique aspects of the Promises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of Written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 pays thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, In which case this Lease shall remain In full force and effect, or
(ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Promises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some Insurance coverage, but the net proceeds of any ouch insurance shall be made available for the repairs if made by either Party.

9.3 PARTIAL DAMAGE - UNINSURED LOSS_ If a Premises Partial Damage that Is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either ()) repair such damage as soon as reasonably possible at Lessors expense, In which event this Lease shall continue In full force and effect, or (Ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor or Lessee's commitment to pay for the repair of such damage without

reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof Within 30 days after making such commitment. In such event this Lease shell continue In full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last B months of this Lease there Is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing. if Lessee at that time has an exercisable option to extend this Lease or to purchase the Promises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in Insurance proceeds (Or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (II) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessors commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue In full force and affect. If Losses fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified In the termination notice and Lesses's option shall be extinguished.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) ABATEMENT In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value Insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation. repair or restoration except as provided herein.

(b) REMEDIES. If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue. Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration Is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified In said notice. It the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence' shall mean either the unconditional authorization of the preparation of the required plans, or the beginning Of the actual work on the Premises,

whichever first occurs.

9.7 TERMINATION; ADVANCE PAYMENTS. Upon termination of this Lease pursuant to Paragraph 6.2(g) Or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, In addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not than required to be, used by Lessor.

9.8 WAIVE STATUTES. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. REAL PROPERTY TAXES

10.1 DEFINITIONS.

(a) "Read Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (Other than inheritance, personal income or estate taxes); improvement bond; and/or license fee Imposed upon or levied against any legal or equitable Interest of Lessor in the Project. Lessors right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or Indirect power to tax and where the funds are generated with reference to the Project address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Project is located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any Increase therein. Imposed by reason of events occurring during the term of this Lease, including but not limited to, a change In the ownership of the Project or any portion thereof ore change In the improvements thereon.

(b) "Bass Real Property Taxes." As used herein, the term "Base Real Property Taxes" shall be the amount of Real Property Taxes, which are assessed against the Premises, Building, Project or Common Areas in the calendar year during which the Lease is executed. In Calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be Included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have In common.

10.2 PAYMENT OF TAXES Lessor shall pay the Real Property Taxes applicable to the Project, and except as otherwise provided In Paragraph 10.3, any increases in such amounts over the Base Real Property Taxes shall be included In the calculation of Common Area Operating Expenses In accordance with the provisions of Paragraph 4.2.

10.3 ADDITIONAL IMPROVEMENTS Common Area Operating Expenses shall not Include Real Property Taxes specified in the tax assessors records and work sheets as being caused by additional Improvements placed upon the Project by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.2 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under

Paragraph 4.2, the entirety of any increase In Real Property Taxes If assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 JOINT ASSESSMENT, If the Building Is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements Included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned In the assessors work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises. When possible. Lessee shall cause its Lessee Owned Alterations and Utility Installations. Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property. Lass" shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. Notwithstanding the provisions of Paragraph 4.2, if at any time In Lessor's sole judgment, Lessor determines that Lessee is using a disproportionate amount of water, electricity or other commonly metered utilities, or that Lessee Is generating such a large volume of trash as to require an increase in the size of the dumpster and/or an Increase in the number of times per month that the dumpster is emptied, then Lessor may Increase Lessee's Base Rent by an amount equal to such increased costs.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively. "assign or assignment") or sublet all or any part of Lessee's Interest in this Lease or In the Premises without Lessors prior written consent.

(b) A change In the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the voting control of Lessee shall constitute a change In control for this purpose.

(c) The Involvement of Lessee or Its assets In any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise). whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Not Worth of Lessee by an amount greater than 25% of such Net Worth as It was represented at the time of the execution Of this Lease or at the time of the most

recent assignment to which Lessor has consented, or as it exists Immediately prior to-said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold Its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c). or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach. Lessor may either. (i) terminate this Lease, or (ii) upon 30 days written notice. increase the monthly Be" Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or Injunctive relief.

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not (I) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Losses of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment Neither a delay In the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise Its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) in the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, Including any assignee or subleases. Without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be In writing, accompanied by Information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of $1.000 or 10% of the current monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever Is greater, as

consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

(f) Any assignee of, or subleases under, this Lease shall, by reason of accepting such assignment or entering Into such sublease, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of Sold assignment or sublease, other than such obligations as are contrary to or Inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

12.3 ADDITIONAL TERM AND CONDITIONS APPLICABLE TO SUBLETTING. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed Included in all subleases under this Lease whether or not expressly Incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's Interest In all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur In the performance of Lessee's obligations. Lessee may collect said Rent, Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such subleases. Lessee hereby irrevocably authorizes and directs any such subleases, upon receipt of a written notice from Lessor stating that a Breach exists In the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease_ Subleases shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to Inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee. Lessor may, at its option, require subleases to attorn to Lessor, in which event Lessor shall undertake the obligations Of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease: provided. however, Lessor shall not be liable for any prepaid rents or security deposit paid by such subleases to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No subleases shall further assign or sublet all or any part of the Promises without Lessors prior written consent

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period. if any, specified In such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublease.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. A "Default" Is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach Is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Promises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described In Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee.

(c) The failure by Lessee to provide (I) reasonable written evidence of compliance with Applicable Requirements. (ii) the service Contracts, (iii) the rescission of an unauthorized assignment or subletting. (iv) an Estoppel Certificate, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor. (vii) any document requested under Paragraph 41 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 2.9 hereof, other than those described In subparagraphs 13,1(a), (b) or (c), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default Is such that more than 3D days are reasonably required for Its cure, then it shall not be deemed to be a Breach If Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. $101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days);
(iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's Interest in this Leas*, where such seizure Is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph (a) Is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(g) If the performance of Lessee's obligations under this Lease Is guaranteed:
(i) the death of a Guarantor, (ii) the termination of a Guarantors liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming Insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of Its guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease,

13.2 REMEDIES. If Lessee fails to perform any of Its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice). Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, Insurance policies, or governmental licensee, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it Is drawn. Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lease's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessen: (1) the unpaid Rent which had been earned at the time of termination;
(ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (Ill) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom. Including but not limited to the coat of recovering possession of the Promises, expenses of reletting, Including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor In connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to In provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Promises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease Is obtained through the provisional remedy of unlawful detainer. Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof In a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful

detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's Interests, shall not Constitute a termination of the Lessee's right to possession,

(c) Pursue any other remedy now or hereafter available under the laws or Judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any Indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 INDUCEMENT RECAPTURE. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus. Inducement or consideration for Lessee's entering Into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions", shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rant, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be Immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessen. The acceptance by Lessor of rent or the cure of the Breach which Initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated In writing by Lessor at the time of such acceptance.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain, Such Costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, If any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lasses shall pay to Lessor a one-time late Charge equal to 10% of each such Overdue amount or $100, whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance or such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder. whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessors option, become due and payable quarterly in advance.

13.5 INTEREST Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The Interest ("Interest") charged shall be equal to the prime rate reported In the Wall Street Journal as published closest prior to the date when due plus 4%, but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for In Paragraph 13.4.

13.6 BREACH BY LESSOR.

(a) NOTICE OF BREACH. Lessor shall not be deemed In breach of this Lease unless Lessor falls within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall In no event be 1466 than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee In writing for such purpose, of written notice specifying wherein such obligation of Lessor has not boon performed; provided, however, that If, the nature of Lessors obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be In breach If performance Is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) PERFORMANCE BY LESSEE ON BEHALF OF LESSOR. In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay en excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of Said power (collectively "Condemnation"). this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Unit, or more than 25% of Lessee's Reserved Parking Spaces, Is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession, If Lessee does not terminate this Lease In accordance with the foregoing, this Lease shall remain in full force and affect as to the portion of the Premises remaining, except that the Base Rent shall be reduced In proportion to the reduction In utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease Is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility

Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. BROKERAGE FEES.

15.1 REPRESENTATIONS AND INDEMNITIES OF BROKER RELATIONSHIPS. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) In connection with this Lease, and that no one other then said named Brokers is entitled to any commission or finders fee In connection herewith. Lessee and Lessor do each hereby agree to Indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other Similar party by reason of any dealings or actions of the Indemnifying Party, Including any costs, expenses, attorneys' fees reasonably Incurred with respect thereto.

16 ESTOPPEL CERTIFICATES.

(a) Each Party (as "Responding Party") shall within 10 days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing In form similar to the then most current "Estoppel Certificate" form published by the AIR Commercial Real Estate Association, plus such additional Information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fall to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease Is In full force and effect without modification except as may be represented by the Requesting Party. (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) If Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrances may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained In said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof. Lease* and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. DEFINITION OF LESSOR. The term "Lessor" as used herein shall mean the owner or owners at the time In question of the fee title to the Promises, or, If this is a sublease, of the Lessee's interest In the prior lease. In the event of a transfer of Lessor's title or Interest in the Premises or this Lease. Lessor shall deliver to the transferee or assignee (In cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be

performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessors Interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6-2 above.

18. SEVERABLLITY. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way effect the validity of any other provision hereof.

19. DAYS. Unless otherwise specifically Indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. LIMITATION ON LIABILITY. Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or Its or their Individual partners, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the Individual partners of Lessor, or Its or their Individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. TIME OF ESSENCE. Time is of the essence with respect to the performance of oil obligations to be performed or observed by the Parties under this Lease.

22. NO PRIOR OR OTHER AGREEMENTS; This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective.

23. NOTICES.

23.1 NOTICE REQUIREMENTS. All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Promises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate, in writing.

23.2 DATE OF NOTICE. Any notice sent by registered or certified mall, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. WAIVERS. No waiver by Lessor of the Default or Breach of any term. Covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessors consent to, or approval of. any act Shall not be deemed to render unnecessary the obtaining of Lessors consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to In writing by Lessor at or before the time of deposit of such payment.

25. DISCLOSURES REGARDING THE NATURE OF A REAL ESTATE AGENCY RELATIONSHIP.

(a) When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows;

(i) Lessor's Agent. A Lessor's agent under a listing agreement with the Lessor acts as the agent for the Lessor only. A Lessor's agent or subagent has the following affirmative obligations: To the Lessor: A fiduciary duty of utmost care, integrity, honesty and loyalty in dealings with the Lessor. To the Lessee and the Lessor: a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent Is riot obligated to reveal to either Party any confidential Information obtained from the other Patty which does not involve the affirmative duties get forth above.

(ii) Lessee's Agent. An agent can agree to act as agent for the Lessee only. In these situations, the agent Is not the Lessors agent, even If by agreement the agent may receive compensation for services rendered, either In full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations. To the Lessee. A fiduciary duty of utmost care, integrity, honesty, and royalty In dealings with the Losses. To the Lessee and the Lessor; a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of. the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(iii) Agent Representing Both Lessor and Lessee. A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the

Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Lessor or the Lessee. b. Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party. disclose to the other Party that the Lessor will accept rent in an amount less than that Indicated In the listing or that the Lessee Is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own Interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent Is a person qualified to advise about real estate. If legal or tax advice Is desired, consult a competent professional.

(b) Brokers have no responsibility with respect to any default or breach hereof by either Party. The liability (including court costs and attorneys' fees), of any Broker with respect to any breach of duty, error or omission relating to this Lease shall not exceed the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

(c) Buyer and Seller agree to identify to Brokers as "Confidential" any communication or information given Brokers that Is considered by such Party to be confidential.

26. NO RIGHT TO HOLDOVER. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lasses holds over, then the Base Rent shall be Increased to 150% of the Base Rent applicable Immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall. wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS; CONSTRUCTION OF AGREEMENT. All provisions of this Lease to be observed or performed by Losses are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to Its fair meaning as a Whole, as If both Parties had prepared it.

29. BINDING EFFECT; CHOICE OF LAW. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State In which the Premises are located. Arty litigation between the Parties hereto concerning this Lease shall be Initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORNMENT; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Promises, to any and

all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (In this Lease together referred to as "Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee. whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 ATTORNMENT. Subject to the non-disturbance provisions of Paragraph 30.3. Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not; (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lease* might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor.

30.3 NON-DISTURBANCE. With respect to Security Devices entered Into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "Non-Disturbance Agreement") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease. Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing security Device which is secured by the Promises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that. upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises. Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. ATTORNEYS' FEES. If any Party or brings an action or proceeding involving the Premises whether founded In tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) In any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, 'Prevailing Party' shall include, without limitation, a Party who substantially obtains or defeats the relief &ought, as the case may be, whether by compromise, settlement, judgment. or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed In accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably Incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred In the preparation and service of notices of Default

and consultations in connection therewith, whether or not a legal action is subsequently commenced In connection with such Default or resulting Breach ($200 is a reasonable minimum par occurrence for such services and consultation).

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS. Lessor and Lessors agents shall have the right to enter the Premises at any time. in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, Improvements or additions to the Premises as Lessor may deem necessary. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the Premises any ordinary "For Sale" signs and Lessor may during the last 8 months of the term hereof place on the Premises any ordinary "For Lease" signs. Lessee may at any time place On the Promises any ordinary "Far Sublease" sign.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent Lessor shall not be obligated to exercise any standard of reasonableness In determining whether to permit an auction.

34. SIGNS. Except for ordinary For Sublease" signs which may be placed only on the Premises, Lessee shall not place any sign upon the Project without Lessor prior written consent. All signs must comply with all Applicable Requirements.

35. TERMINATION; MERGER. Unless specifically stated otherwise In writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser Interest, shall constitute Lessor's election to have such event constitute the termination of such Interest.

36. CONSENTS. Except as otherwise provided herein, wherever in this Lease the Consent of a Party In required to en act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessors actual reasonable costs end expenses (Including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred In the consideration of, or response to, a request by Lessee for any Lessor consent, Including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of en Invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute en acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated In writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable With reference to the particular matter for which consent Is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish Its reasons In writing and in reasonable detail within 10 business days following such request.

3.7 GUARANTOR.

37.1 QUIET POSSESSION. Subject to payment by Lessee of the Rent and performance of all of the covenants. conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. SECURITY MEASURES. Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, Its agents and invitees and their property from the acts of third parties.

40. RESERVATIONS. Lessor reserves the right: (i) to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary. (ii) to cause the recordation of parcel maps and restrictions, and
(iii) to create and/or install new utility raceways, so long as such easements, rights, dedications, maps, restrictions, and utility raceways do not unreasonably Interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate such rights.

41. PERFORMANCE UNDER PROTEST. It at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof. said Party shall be entitled to recover such sum or so much thereof as It was not legally required to pay.

42. AUTHORITY. If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each Individual executing this Lease on behalf of such entity represents and warrants that he or she Is duly authorized to execute and deliver this Lease on its behalf. Each party shall, within 30 days after request, deliver to the Other party satisfactory evidence of Such authority.

43. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

44. OFFER. Preparation of this Lease by either party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party- This Lease is not Intended to be binding until executed and delivered by all Parties hereto.

44. AMENDMENTS. This Lease may be modified only in writing, signed by the Parties in Interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal

financing or refinancing of the Premises.

45. MULTIPLE PARTIES. If more than one person or entity Is named herein as either Lessor or Lessee. Such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease

46. WAIVER OF JURY TRIAL. The Parties hereby waive their respective rights to trial by jury in any action or proceeding Involving the Property or arising out of this Agreement.

49. MEDIATION AND ARBITRATION OF DISPUTES. An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease [x] is [ ] is not attached to this Lease.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN. AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS To THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO. THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY. THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE,

WARNING: IF THE PREMISES ARE LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES ARE LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

MOTORCAR PARTS OF AMERICA, INC.

By /s/ CHARLES YEAGLEY

Charles Yeagley
Chief Financial Officer

GOLKAR ENTERPRISES, LTD.,
a California limited partnership

By /s/ DAVID V KARNEY

Trustee, General Partner

Exhibit 31.1

CERTIFICATIONS

I, Selwyn Joffe, certify that:

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

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

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

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

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

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

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

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

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

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

Date: June 29, 2004

/s/ Selwyn Joffe

Selwyn Joffe
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Charles Yeagley, certify that:

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

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

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

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

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

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

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

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

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

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

Date: June 29, 2004

/s/ Charles Yeagley

Charles Yeagley
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Annual Report of Motorcar Parts of America, Inc. (the "Company") on Form 10-K for the year ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Selwyn Joffe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ Selwyn Joffe

Selwyn Joffe
Chief Executive Officer
June 29, 2004

In connection with the Annual Report of Motorcar Parts of America, Inc. (the "Company") on Form 10-K for the year ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Charles Yeagley, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ Charles Yeagley

Charles Yeagley
Chief Financial Officer
June 29, 2004

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