

# MOTORCAR PARTS AMERICA INC

## FORM 10-K (Annual Report)

Filed 06/29/98 for the Period Ending 03/31/98

Address	2929 CALIFORNIA STREET TORRANCE, CA 90503
Telephone	3109724015
CIK	0000918251
Symbol	MPAA
SIC Code	3690 - Miscellaneous Electrical Machinery, Equipment,
Industry	Auto & Truck Parts
Sector	Consumer Cyclical
Fiscal Year	03/31

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 1998

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File No. 0-23538

## MOTORCAR PARTS & ACCESSORIES, INC.

(Exact name of Registrant as specified in its charter)

NEW YORK

-----  
(State or other jurisdiction of  
incorporation or organization)

2727 MARICOPA STREET, TORRANCE, CALIFORNIA

-----  
(Address of principal executive offices)

11-2153962

-----  
(I.R.S. Employer  
Identification No.)

90503

-----  
(Zip Code)

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

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act: Common Stock, \$.01 par value

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

Yes  No

Indicate by check mark 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.

Issuer's revenues for its most recent fiscal year: \$112,952,000.

The aggregate market value, calculated on the basis of the average bid and asked prices of such stock on the National Association of Securities Dealers Automated Quotation System, of Common Stock held by non-affiliates of the Registrant as of, June 26, 1998 was approximately \$81,642,451.

There were 6,433,455 shares of Common Stock outstanding as of June 26, 1998.

### DOCUMENTS INCORPORATED BY REFERENCE

Part III of the Registrant's Proxy Statement relating to its 1998 Annual Meeting of Shareholders is incorporated by reference herein

## **PART I**

### **ITEM 1. BUSINESS.**

#### **GENERAL**

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

The Company's products are sold throughout the United States to many of the nation's largest chains of retail automotive stores, including AutoZone, CSK Auto, The Pep Boys, O'Reilly Automotive and Trak Automotive, and throughout Canada to that country's largest chain of retail automotive stores, Canadian Tire. The Company also supplies remanufactured alternators and starters for imported vehicles to Delphi, a division of General Motors. During the last several years, the Company's marketing and sales of its products for imported vehicles principally has been to retail automotive chains, which the Company believes has been the fastest growing segment of the automotive aftermarket industry. During fiscal 1998, approximately 87% of the Company's sales were to retail automotive chains comprised of approximately 5,000 stores, with the balance of sales primarily to large warehouse distributors.

#### **THE AUTOMOTIVE AFTERMARKET INDUSTRY**

The Company's historical market, the import automotive aftermarket for alternators and starters, has experienced significant growth in recent years. The Company believes that this growth has resulted from, among other trends, (i) the proliferation of imported cars and light trucks in use, (ii) the increase in the number of miles driven each year and (iii) the growth in the number of imported vehicles at the prime repair age of four years and older. In addition, the Company recently entered the significantly larger domestic automotive aftermarket for alternators and starters, which the Company believes represents substantial growth opportunities.

Two distinct groups of end-users buy replacement automotive parts:

(i) individual "do-it-yourself" consumers; and (ii) professional "do-it-for-me" installers. The individual consumer market is typically supplied through retailers and through retail arms of warehouse distributors. Automotive repair shops generally purchase parts through local independent parts wholesalers, through national warehouse distributors and, at a growing rate, through automotive parts retailers.

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. The technology used in starters and alternators has become more advanced in response to the installation in vehicles of an increasing number of electrical components such as cellular telephones, electrically powered windows, air conditioning equipment, and radio and stereo systems. Consequently, per unit sale prices have increased for such alternators and starters.

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

## **COMPANY PRODUCTS**

The Company's primary products are remanufactured replacement alternators and starters for both imported and domestic cars and light trucks. The Company also assembles and distributes ignition wire sets for the automotive aftermarket for use in a wide variety of makes and models of foreign automobiles. Alternators, starters and ignition wire sets are essential components in all makes and models of automobiles. These products constitute non-elective replacement parts, which are required for a vehicle to operate. Most of the Company's products are sold for resale under customer private labels, with the remaining products being sold under the Company's brand name, which includes the use of its registered trademark, "MPA." Customers that sell the Company's products under private label include AutoZone, CSK Auto, The Pep Boys, Delphi, Canadian Tire and APS Holdings.

The Company's alternators and starters are produced to meet or exceed automobile manufacturer specifications depending upon the make and model of the automobile. The Company remanufactures a broad assortment of starters and alternators in order to accommodate the numerous and increasing varieties of these products currently in use. The Company currently provides a full line of approximately 1,100 different alternators and 800 different starters. The Company's import alternators and starters are provided for virtually all Japanese manufacturers, including Toyota, Honda, Nissan, Mazda and Mitsubishi, for certain European manufacturers, including Mercedes Benz, BMW, Volvo and Volkswagen, for vehicles manufactured by Chrysler, General Motors and Ford that are equipped with components produced by foreign manufacturers, and for manufacturers of transplants.

## **CUSTOMERS**

The Company's products are marketed throughout the United States and Canada. The Company's customers consist of many of the largest chains of retail automotive stores and automotive warehouse distributors in the United States. The Company also sells its products to Canada's largest chain of retail automotive stores, Canadian Tire. The Company services automotive retail chain store accounts servicing approximately 5,000 retail outlets and warehouse distributor accounts servicing approximately 6,000 jobbers. Each jobber in turn sells to various automotive repair facilities, such as garages, dealers and service stations, as well as to individual motorists.

Many of the largest chains of retail automotive stores in the United States obtain their imported car alternators and starters from the Company. Consequently, a significant percentage of the Company's sales has been concentrated among a relatively small number of customers. The Company's three largest customers accounted for approximately 43%, 17% and 15%, respectively, of net sales during fiscal 1998. The Company's three largest customers accounted for approximately 29%, 18% and 18%, respectively, of net sales during fiscal 1997. The Company's four largest customers accounted for approximately 21%, 20%, 18% and 11%, respectively, of the Company's net sales during fiscal 1996. There can be no assurance that this concentration of sales among customers will not continue in the future. The loss of a significant customer or a substantial decrease in sales to such a customer would have a material adverse effect on the Company's sales and operating results. The Company's arrangements with most of its customers are based principally on the receipt of purchase orders and any long-term written contracts generally may be terminated by customers upon short notice. In addition, customers may demand price concessions from the Company that could adversely affect profit margins.

## **OPERATIONS OF THE COMPANY**

### **CORES**

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

The majority of the cores remanufactured by the Company are obtained from customers as trade-ins, which are credited against future purchases. The Company's customers encourage consumers to exchange their used units at the time of purchase through the use of credits. To a lesser

extent, the Company also purchases cores in the open market from core brokers, who are dealers specializing in buying and selling cores. Although the Company believes that the open market does not and will continue not to represent a primary source of cores, this market offers a reliable source for maintaining stock balance. Other materials and components used in remanufacturing are also purchased in the open market. The ability to obtain cores of the types and quantities required by the Company is essential to the Company's ability to meet demand and expand production.

The price of a finished product generally is comprised of a separately invoiced amount for the core included in the product ("core value") and an amount for remanufacturing. Upon receipt of a core as a trade-in, credit generally is given to the customer for the amount originally invoiced with respect to that core. The Company limits trade-ins to cores for units included in its sales catalogs and in condition able to be remanufactured. Credit for cores is allowed only against purchases by a customer of similar remanufactured products within a specified time period. A customer's total allowable credit for core trade-ins is further limited by the dollar volume of the customer's purchases of similar products within such time period. Core values fluctuate on the basis of several economic factors, including market availability and demand and core prices then being paid by other remanufacturers and core brokers.

Beginning with fiscal 1997, the Company implemented a new accounting presentation with respect to its reporting of sales. In the past, the Company deducted the value of all cores returned from its customers in order to reach net sales. Under the new presentation, revenues are reported on a gross basis, that is core returns from customers are not deducted in order to reach net sales, but rather are included in cost of goods sold. Net sales and cost of goods sold for prior years have been reclassified to reflect this new presentation. The Company believes that this new presentation provides a truer depiction of actual sales and cost of goods sold. In addition, it reflects a more proper relationship between sales and inventory.

## **PRODUCTION PROCESS**

The initial step in the Company's remanufacturing process begins with the receipt in boxed quantities of cores from various sources, including trade-ins from customers and purchases in the open market. The cores are assessed and evaluated for inventory control purposes and then sorted by part number. Each core is then 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 units.

After the cleaning process is complete, the components are then inspected and tested as prescribed by the Company's rigorous quality control program. This program, which is implemented throughout the operational process, is known as statistical process control. Upon passage of all tests, the components are placed on an automatic conveyor for assembly into the required units. The assembly process is monitored by designated quality control personnel. Each fully assembled unit is then subjected to additional testing to ensure performance and quality. Finished products are then

either stored in the Company's warehouse facility or packaged for immediate delivery. To maximize efficiency, the Company stores in its warehousing facilities component parts ready for assembly. The Company's management information systems, including hardware and software, facilitate the remanufacturing process from cores to finished products. This process takes approximately four days.

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

The Company conducts business through two wholly owned foreign subsidiaries, MVR Products Pte Limited ("MVR"), which operates a shipping warehouse and testing facility and maintains office space and remanufacturing capability in Singapore, and Unijoh Sdn, Bhd ("Unijoh"), which conducts in Malaysia remanufacturing operations similar to those conducted by the Company at its remanufacturing facility in Torrance. These foreign operations are conducted with quality control standards and other internal controls similar to those currently implemented at the Company's remanufacturing facilities in Torrance. The facilities of MVR and Unijoh are located approximately one hour drive apart. The Company believes that the operations of its foreign subsidiaries are important because of the lower labor costs experienced by these subsidiaries in the same remanufacturing process.

In April 1997, the Company acquired all of the outstanding capital stock of MVR and Unijoh from its shareholders, Mel Marks, Richard Marks and Vincent Quek (each of whom owned one-third of each acquired entity), for an aggregate purchase price to all such selling shareholders for both acquired entities of 145,455 shares of Common Stock. The shares of Common Stock constituting the purchase price have not been registered for sale pursuant to the Securities Act of 1933 and are subject to a lock-up arrangement between the Company and each such selling shareholder releasing for public resale one-fourth of such shares on each of the first four anniversaries of the acquisitions. The purchase price and other terms of the acquisitions were determined by the Special Committee of the Board of Directors of the Company following negotiations with the selling shareholders. In connection with, and as a condition to, the acquisitions, the Special Committee received a fairness opinion from Houlihan Lokey Howard & Zukin, a specialty investment banking firm.

## **PRODUCT TRADE-INS**

The Company has a trade-in policy that it believes is typical for the remanufactured automotive replacement parts industry. A manufacturer typically provides a product warranty that is honored whether or not the purchaser continues to do business with the manufacturer. As the Company believes is the practice in its industry, however, the Company accepts product trade-ins only if the purchaser makes future purchases from the Company within a specified time period. Product trade-ins to the Company result only in credits against future purchases. If a customer ceases

doing business with the Company, the Company recognizes no further obligations to that customer with respect to product trade-ins and no additional product returns would be accepted by the Company. The customer would return any returnable products to a new remanufacturer maintaining the same policy, which remanufacturer would accept the product trade-ins and grant appropriate credits regardless of whether the units were originally purchased from that new remanufacturer.

As a result of the product trade-in policy in the Company's industry, the Company accounts for product trade-ins on a current basis. No reserve is made for future product trade-ins since there is no on-going obligation to accept such trade-ins in the absence of continuing sales to the returning customer. The Company believes that its return rate has been consistent with the return rates generally experienced in its industry. In addition, the obligation to accept trade-ins is only recognized as a credit against future sales in the form of a reduction in the purchase price for those sales.

## **MARKETING AND DISTRIBUTION**

The Company markets and distributes its products regionally through salaried personnel and independent sales representatives. The Company's products are sold under either its registered name and trademark, "MPA," or private label names.

Approximately 87% of the Company's sales are to chains or retail stores, which, the Company believes, constitute the dominant distribution channel in the Company's market. Sales to chains or retail stores involve fewer tiers in the distribution process. Products are delivered directly by or on behalf of the Company to the chain's distribution centers, which then deliver the merchandise directly to the retail stores for purchase by consumers. By contrast, sales to warehouse distributors involve more participants in the distribution network. Products are delivered to warehouse distributors, which then deliver the merchandise to jobbers, which then sell the merchandise to automotive repair facilities as well as to individual motorists. The Company believes that it has obtained significant marketing and distribution, as well as manufacturing, efficiencies through its focus on sales efforts to chains of automotive retail stores.

Each year, the Company exhibits its products at customer-sponsored trade shows and several major national trade shows, including the trade shows of the Automobile Parts and Accessories Association, Automotive Parts and Rebuilders Association, the Automotive Service Industries Association and the Automotive Warehouse Distributors Association. The Company believes that its brand name is recognized throughout its industry. The Company prepares and publishes a comprehensive catalog of its starters and alternators, including a pictorial product identification guide and a detailed technical glossary and explanation guide. The Company believes that it maintains one of its market's most extensive catalog and product identification systems, offering one of the widest varieties of alternators and starters available in that market. The Company further believes that certain of its customers' use of and reliance on the catalog and product identification system provide incentives to those customers to continue to purchase products from the Company.



## **COMPETITION**

The automotive aftermarket industry of remanufacturers and rebuilders of alternators and starters for both imported cars and light trucks is highly competitive. The Company's competitors include several other relatively large sources of remanufactured units and numerous smaller, regional rebuilders. Certain of the Company's competitors sell a wide variety of other automotive parts, thereby establishing broader name recognition in the entire automotive aftermarket. In addition, certain of the Company's competitors are divisions or subsidiaries of entities also engaged in other businesses which have substantially greater resources than those of the Company. The Company also competes with several large regional remanufacturers and with remanufacturers which are franchised by certain original equipment manufacturers to remanufacture their products for regional distribution. Alternators and starters produced by regional and other small rebuilders typically are not processed and finished to the same extent as, and do not compete directly with, the Company's products. The Company also competes with numerous rebuilders which serve comparatively local areas.

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

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

## **GOVERNMENTAL REGULATION**

The Company's operations are subject to federal, state and local laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. The Company is not subject to any such laws and regulations which are specific to the automotive aftermarket industry. The Company believes that its business, operations and facilities have been and are being operated in compliance in all material respects with applicable environmental and health and safety laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. Potentially significant expenditures, however, could be required in order to comply with evolving

environmental and health and safety laws, regulations or requirements that may be adopted or imposed in the future.

## **EMPLOYEES**

The Company has approximately 690 full time employees. Of the Company's employees, 30 are considered administrative personnel and eight are sales personnel. None of the Company's employees is a party to any collective bargaining agreement. The Company has not experienced any work stoppages and considers its employee relations to be satisfactory.

## **ITEM 2. PROPERTIES.**

The Company maintains facilities in Torrance, California, Roslyn Heights, New York and Nashville, Tennessee. The Torrance facilities contain an aggregate of approximately 352,000 square feet and accommodate most of the Company's corporate headquarters and remanufacturing, warehousing and other office requirements. The Company moved into its initial Torrance facility, consisting of approximately 125,000 square feet, in September 1993. The lease for the initial facility provides for a monthly rental of \$44,280 through September 1999, increasing thereafter to \$47,601 through March 31, 2002, the termination date of the lease. In September 1995, the Company entered into a lease for an additional approximately 80,000 square feet in a second facility in the same industrial area in Torrance and, in April 1997, increased its leased space in the second facility to a total of approximately 227,000 square feet. The lease for the second facility provides for a base monthly rental of \$60,252 through September 1999, increasing thereafter to \$64,771 through March 31, 2002, the termination date of the lease. The Company's facilities were designed and equipped according to specifications generated by the Company in order to accommodate the Company's current and projected needs. The Company believes that its facilities are sufficient to satisfy its foreseeable production requirements. The Company also maintains an East Coast administrative and sales office in Roslyn Heights, New York. This site contains approximately 1,000 square feet of office space. In October 1995, the Company opened a 31,000-square foot warehouse and distribution facility in Nashville, Tennessee to service the Company's growing East Coast and Southern market. The lease for this facility expires on October 31, 1998 and provides for a monthly rental of \$9,331. In addition, the Company has facilities at its subsidiaries' locations in Malaysia and Singapore.

## **ITEM 3. LEGAL PROCEEDINGS.**

There are no pending material legal proceedings to which the Company or any of its properties is subject nor, to the knowledge of the Company, are any such legal proceedings threatened.

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

None.

## PART II

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

The Company's Common Stock, par value \$0.01 per share (the "Common Stock"), is quoted on the National Association of Securities Dealers' Automated Quotation ("NASDAQ") National Market under the symbol MPAA. The following table sets forth the high and low bid prices for the Common Stock during each quarter of fiscal 1997 and fiscal 1998 as reported by NASDAQ. The prices reported reflect inter-dealer quotations, may not represent actual transactions and do not include retail mark-ups, mark-downs or commissions.

	FISCAL 1997		FISCAL 1998	
	HIGH	LOW	HIGH	LOW
First Quarter	19	14.250	18.50	13.250
Second Quarter	15.750	9.375	20.50	16.750
Third Quarter	15	11.875	20.250	16.250
Fourth Quarter	17.625	13.250	18	14.750

As of June 26, 1998, there were 6,433,455 shares of Common Stock outstanding held by 47 holders of record.

The Company has not declared or paid dividends on the Common Stock during the last two fiscal years.

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

## ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data has been derived from the Company's audited financial statements. The Income Statement Data relating to the fiscal years 1998, 1997 and 1996 and the Balance Sheet Data as of March 31, 1998 and 1997 should be read in conjunction with the Company's audited consolidated financial statements and notes thereto appearing elsewhere herein.

	FISCAL YEAR ENDED MARCH 31,				
	1998	1997	1996	1995	1994
	(in thousands, except per share data)				
<b>INCOME STATEMENT DATA (1):</b>					
Net sales .....	\$ 112,952	\$ 86,872	\$ 64,358	\$ 39,235	\$ 29,018
Cost of goods sold .....	91,317	69,255	50,965	30,690	21,816
Research and development .....	549	185	--	--	--
Selling expenses .....	2,417	2,305	1,984	1,498	2,117
General and administrative expenses .....	6,298	4,974	4,577	3,704	2,593
Moving expenses .....	--	--	--	--	256
Operating income .....	12,371	10,153	6,832	3,343	2,236
Interest expense (net of interest income) .....	(1,577)	(1,090)	(833)	(540)	(453)
Income before income taxes .....	10,794	9,063	5,999	2,803	1,783
Provision for income taxes (pro forma for fiscal 1994) (2) .....	4,192	3,529	2,353	1,197	728
Net income .....	\$ 6,602	\$ 5,534	\$ 3,646	\$ 1,606	\$ 1,055
Basic income per share (pro forma for fiscal 1994) (3) .....	\$ 1.20	\$ 1.14	\$ 0.96	\$ 0.50	\$ 0.52
Diluted income per share (pro forma for fiscal 1994) (3) .....	\$ 1.16	\$ 1.11	\$ 0.93	\$ 0.49	\$ 0.52
Weighted average common shares outstanding - basic income per share (pro forma for fiscal 1994) (3) .....	5,521	4,859	3,812	3,208	2,018
Weighted average common shares outstanding - diluted income per share (pro forma for fiscal 1994) (3) .....	5,693	5,007	3,939	3,295	2,018
	MARCH 31,				
	1998	1997	1996	1995	1994
	(in thousands)				
<b>BALANCE SHEET DATA:</b>					
Total assets .....	\$ 98,245	\$ 75,510	\$ 60,189	\$ 25,823	\$ 16,871
Working capital .....	75,333	51,800	44,254	18,096	12,041
Long-term debt and capitalized lease obligations -- less current portions .....	14,585	17,839	15,135	9,502	4,920
Shareholders' equity .....	68,127	40,108	34,031	10,016	8,410

(1) Net sales and cost of goods sold for fiscal 1996, 1995 and 1994 have been reclassified to increase cost of goods sold, rather than decrease net sales, by core trade-ins. See Note A[8] to the financial statements contained herein.

(2) From January 1, 1987 through December 31, 1993, the Company was subject to taxation as an "S" corporation in accordance with the Code. As a result, the net income of the Company during that time was taxed for federal (and some state) income tax purposes directly to the Company's shareholders rather than to the Company. Pro forma data reflects the income tax expense that would have been recorded had the Company not been exempt from the payment of such taxes.

(3) Pro forma data for fiscal 1994 reflects the stock split effected by the Company in January 1994, which increased the number of issued and outstanding shares of Common Stock from 54,3428 shares to 2,000,000 shares.

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

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

**RESULTS OF OPERATIONS****FISCAL YEAR ENDED MARCH 31,**

	1998	1997	1996
	-----	-----	-----
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	80.8	79.7	79.2
	-----	-----	-----
Gross profit	19.2	20.3	20.8
Research and development	0.4	0.2	0.0
Selling expenses	2.1	2.7	3.1
General and administrative expenses	5.6	5.7	7.1
	-----	-----	-----
Operating income	10.9	11.7	10.6
Interest expense, net of interest income	1.4	1.3	1.3
	-----	-----	-----
Income before income taxes	9.5	10.4	9.3
Provision for income taxes	3.7	4.1	3.7
	-----	-----	-----
Net income	5.8%	6.4%	5.7%
	=====	=====	=====

In its remanufacturing operations, the Company obtains used alternators and starters, commonly known as "cores," from its customers as trade-ins and by purchasing them from vendors. Such trade-ins are recorded when cores are received from customers. Credits for cores are allowed only against purchases of similar remanufactured products and generally are used within 60 days of issuance by the customer. Due to this trade-in policy, the Company does not reserve for trade-ins. In addition, since it is unlikely that a customer will not utilize its trade-in credits, the credit is recorded when the core is returned as opposed to when the customer purchases new products. The Company believes that this policy is consistent throughout the remanufacturing and rebuilding industry.

Beginning with fiscal 1997, the Company implemented a new accounting presentation with respect to its reporting of sales. In the past, the Company deducted the value of all cores returned from its customers in order to reach net sales. Under the new presentation, net sales are reported on a gross basis, that is core returns from customers are not deducted in order to reach net sales, but rather are included in cost of goods sold. The Company's financial information has been reclassified to reflect this new presentation. The Company believes that this new presentation provides a truer depiction of actual sales and cost of goods sold and reflects a more proper relationship between sales and inventory.

### Fiscal 1998 compared to Fiscal 1997

Net sales for fiscal 1998 increased \$26,080,000 or 30.0%, from \$86,872,000 to \$112,952,000, over net sales for fiscal 1997. The increase in net sales is primarily attributable to sales to one of the Company's largest customers of alternators for domestic vehicles in connection with the recent expansion of the Company's product line to include remanufactured products for domestic vehicles.

Cost of goods sold for fiscal 1998 increased \$22,062,000 or 31.9%, from \$69,255,000 to \$91,317,000. The increase primarily is attributable to additional costs incurred in connection with increased production. As a percentage of net sales, cost of goods sold increased to 80.8% for fiscal 1998 as compared to 79.7% for fiscal 1997. The increase as a percentage of net sales is attributable to (i) slightly reduced efficiencies resulting from increased labor and overtime costs in connection with increased production requirements in response to strong demand for the Company's products, (ii) lower gross margins relating to the Company's new product line, and, (iii) to a lesser extent, pricing pressures.

Selling expenses increased over the periods by \$112,000 or 4.9%, from \$2,305,000 to \$2,417,000. This increase resulted principally from an expansion of the Company's sales force and related travel expenses offset partially by reduced sales commissions to outside sales agents. As a percentage of net sales, selling expenses decreased from 2.7% to 2.1%, reflecting the leveraging of these expenses over the Company's increased net sales.

General and administrative expenses increased over the periods by \$1,324,000 or 26.6%, from \$4,974,000 to \$6,298,000. The increase over the periods resulted principally from the addition of certain management personnel in connection with the expansion of the Company's operations, an increase in certain compensation expense and the inclusion of general and administrative expenses related to the Company's ownership of MVR and Unijoh effective April 1997. Notwithstanding the increase, general administrative expenses as a percentage of net sales decreased over the periods from 5.7% to 5.6%, reflecting the leveraging of these expenses over the Company's increased net sales.

For fiscal 1998 interest expense net of interest income was \$1,577,000. This represents an increase of \$487,000 or 44.7% over net interest expense of \$1,090,000 for fiscal 1997. Interest expense was comprised principally of interest on the Company's revolving credit facility, borrowings under which increased over the periods but were significantly reduced by payments from the proceeds of the Company's public offering in November 1997.

### Fiscal 1997 compared to Fiscal 1996

Net sales for fiscal 1997 increased \$22,514,000 or 35.0%, from \$64,358,000 to \$86,872,000, over net sales for fiscal 1996. The increase is attributable to the general growth of business with existing customers, including the commencement of sales of alternators for domestic vehicles to one of the Company's largest customers, and an unusually large increase in the number of stock keeping

units ("SKUs") that these customers offer in their stores. In addition, the Company believes that the continued aging of the import vehicle fleet also contributed to its increased sales.

Cost of goods sold for fiscal 1997 increased \$18,290,000 or 35.9%, from \$50,965,000 to \$69,255,000, over cost of goods sold for fiscal 1996. The increase is primarily attributable to additional costs in connection with increased production. Cost of goods sold as a percentage of net sales increased over the periods from 79.2% to 79.7%. While the increase in cost of goods sold over the periods is minimal, it can be primarily attributed to pricing pressures experienced by the Company as offset by the continuing lowering of manufacturing costs by the Company.

Selling expenses for fiscal 1997 increased \$321,000 or 16.2%, from \$1,984,000 to \$2,305,000, over selling expenses for fiscal 1996. Selling expenses as a percentage of net sales decreased to 2.7% for fiscal 1997 from 3.1% for fiscal 1996. This decrease in selling expenses as a percentage of net sales represents the continued leveraging of selling costs over the Company's increased net sales.

General and administrative expenses for fiscal 1997 increased \$397,000 or 8.7%, from \$4,577,000 to \$4,974,000, over general and administrative expenses for fiscal 1996. As a percentage of net sales these expenses decreased over the periods from 7.1% to 5.7%. This decrease represents the continued leveraging of these costs over the Company's increased net sales. The increase over the periods was the result of additional insurance costs, general salary increases and certain non-income-based state and local taxes.

Interest expense net of interest income was \$1,090,000 for fiscal 1997. This represents an increase of \$257,000 or 30.9% over interest expense net of interest income for fiscal 1996. Interest expense was comprised principally of interest paid on the Company's revolving credit facility, borrowings under which increased over the periods. The balance of interest expense relates to the Company's capital leases.

### **Liquidity and Capital Resources**

The Company's recent operations have been financed principally from the net proceeds of the Company's public offering in November 1997, borrowings under its revolving credit facility and cash flow from operations. As of March 31, 1998, the Company's working capital was \$75,333,000, including \$3,108,000 of cash and cash equivalents.

Net cash used in operating activities during fiscal 1998, 1997 and 1996 was \$15,616,000, \$5,978,000 and \$15,344,000, respectively. The principal use of cash in fiscal 1998 related to an increase in inventory of \$12,850,000 and an increase in accounts receivable of \$7,263,000. The increase in inventory was due principally to the addition of inventory in connection with the Company's recent entrance into the business of remanufacturing alternators and starters for domestic vehicles. The increase in accounts receivable was due primarily to the increased net sales in fiscal



1998, although the days outstanding of the accounts receivable remained relatively constant over the periods. As of March 31, 1998, the current portion of capitalized lease obligations was \$395,000.

Net cash used in investing activities during fiscal 1998 was \$1,367,000 as compared to net cash provided by investing activities during fiscal 1997 of \$6,770,000 and net cash used in investing activities of \$10,770,000 during fiscal 1996. During fiscal 1998, the Company used \$1,874,000 of investments to fund its operations and purchased \$3,241,000 of property, plant and equipment in order to facilitate the continued expansion of the Company's manufacturing capacity.

Net cash provided by financing activities in fiscal 1998, 1997 and 1996 was \$16,431,000, \$2,583,000 and \$25,667,000, respectively. The net cash provided by financing activities in fiscal 1998 primarily was attributable to the net proceeds in the amount of \$19,807,000 from the Company's public offering in November 1997, the proceeds from which were used in part for a net reduction of borrowing during the year under the Company's revolving line of credit in the amount of \$3,513,000. The Company also received during fiscal 1998 \$911,000 from the exercise of stock options. The net cash provided by financing activities in 1997 primarily was attributable to an increase in borrowing over the year under the revolving line of credit and proceeds from the exercise of warrants and stock options as offset primarily by payments on a capital lease obligation. The increase in fiscal 1996 was primarily attributable to the net proceeds in the amount of \$19,501,000 from the Company's public offering in November 1995 and, to a lesser extent, an increase in borrowing of \$5,552,000 during the year under the Company's revolving line of credit and the exercise of warrants and stock options.

The Company has a credit agreement expiring in June 1999 with Wells Fargo Bank, National Association (the "Bank") that provides for a revolving credit facility in an aggregate principal amount not exceeding \$25,000,000, which credit facility is secured by a lien on substantially all of the assets of the Company. The credit facility provides for an interest rate on borrowings at the Bank's prime rate less .25% or LIBOR plus 1.25%. Under the terms of the credit facility and included in the maximum amount thereunder, the Bank will issue letters of credit and banker's acceptances for the account of the Company in an aggregate amount not exceeding \$2,500,000. At March 31, 1998, the outstanding balance on the credit facility was approximately \$13,983,000.

The Company's accounts receivable as of March 31, 1998 was \$29,591,000, representing an increase of \$7,263,000 or 32.5% over accounts receivable on March 31, 1997. This increase compares to the 30.0% increase in net sales from fiscal 1997 to fiscal 1998. In addition, the Company occasionally extends payment terms with certain customers. The Company partially protects itself from losses due to uncollectible accounts receivable through an insurance policy with an independent credit insurance company at an annual premium of approximately \$90,000. The Company's policy generally has been to issue credit to new customers only after the customers have been included to some extent under the coverage of its accounts receivable insurance policy. As of March 31, 1998, the Company's accounts receivable from its largest customer represented approximately 49% of all accounts receivable.

The Company's inventory as of March 31, 1998 was \$54,736,000, representing an increase of \$12,874,000 or 30.7% over inventory as of March 31, 1997. This increase, as discussed above, primarily reflects the Company's anticipated growth in net sales in connection with domestic vehicles and, to a lesser extent, increased business from existing customers and the need to have sufficient inventory to support shorter lead times for deliveries to customers. Also, the Company continues to increase the number of SKUs sold requiring the Company to carry raw materials for this wider variety of parts.

The Company currently expects that its capital expenditures (exclusive of any potential acquisitions) will be approximately \$3,500,000 in fiscal 1999. However, the Company's capital expenditures will be affected by, and may be greater than currently anticipated depending upon, the size and nature of new business opportunities.

#### **Disclosure Regarding Private Securities Litigation Reform Act of 1995**

This report contains certain forward-looking statements with respect to the future performance of the Company that involve risks and uncertainties. Various factors could cause actual results to differ materially from those projected in such statements. These factors include, but are not limited to, the uncertainty of long-term results from the Company's recent entrance into the business of remanufacturing alternators and starters for domestic vehicles, concentration of sales to certain customers, the potential for changes in consumer spending, consumer preferences and general economic conditions, increased competition in the automotive parts remanufacturing industry, unforeseen increases in operating costs and other factors discussed herein and in the Company's other filings with the Securities and Exchange Commission.

**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.**

Not applicable.

### **PART III**

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

The information required by this item is incorporated by reference herein in the "Election of Directors" section of the Company's Proxy Statement to be filed pursuant to Regulation 14A.

#### **ITEM 11. EXECUTIVE COMPENSATION.**

The information required by this item is incorporated by reference herein in the "Executive Compensation" section of the Company's Proxy Statement to be filed pursuant to Regulation 14A.

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

The information required by this item is incorporated by reference herein in the "Security Ownership of Management" section of the Company's Proxy Statement to be filed pursuant to Regulation 14A.

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

The information required by this item is incorporated by reference herein in the "Certain Transactions" section of the Company's Proxy Statement to be filed pursuant to Regulation 14A.

**PART IV**

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

a. EXHIBITS:

Number -----	Description of Exhibit -----	Method of Filing -----
3.1	Certificate of Incorporation of the Company.	Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 (No. 33-74528) declared effective on March 22, 1994 (the "1994 Registration Statement").
3.2	Amendment to Certificate of Incorporation of the Company.	Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-97498) declared effective on November 14, 1995 (the "1995 Registration Statement").
3.3	Amendment to Certificate of Incorporation of the Company.	Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997 (the "1997 Form 10-K").
3.4	Amendment to Certificate of Incorporation of the Company.	Filed herewith.
3.5	By-Laws of the Company.	Incorporated by reference to Exhibit 3.2 to the 1994 Registration Statement.
4.1	Specimen Certificate of the Company's Common Stock.	Incorporated by reference to Exhibit 4.1 to the 1994 Registration Statement.
4.2	Form of Underwriter's Common Stock Purchase Warrant.	Incorporated by reference to Exhibit 4.2 to the 1994 Registration Statement.

Number -----	Description of Exhibit -----	Method of Filing -----
4.3	1994 Stock Option Plan.	Incorporated by reference to Exhibit 4.3 to the 1994 Registration Statement.
4.4	Form of Incentive Stock Option Agreement.	Incorporated by reference to Exhibit 4.4 to the 1994 Registration Statement.
4.5	1994 Non-Employee Director Stock Option Plan.	Incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995.
4.6	1996 Stock Option Plan.	Incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-2 (No. 333-37977) declared effective on November 18, 1997 (the "1997 Registration Statement").
4.7	Executive and Key Employee Incentive Bonus Plan.	Incorporated by reference to Exhibit 4.6 to the 1995 Registration Statement.
4.8	Rights Agreement, dated as of February 24, 1998, by and between the Company and Continental Stock Transfer & Trust Company, as rights agent.	Filed herewith.
10.1	Credit Agreement, dated as of June 1, 1996, by and between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 (the "December 31, 1996 Form 10-Q").
10.2	First Amendment to Credit Agreement, dated as of November 1, 1996, by and between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.2 to the 1997 Form 10-K.

Number -----	Description of Exhibit -----	Method of Filing -----
10.3	Second Amendment to Credit Agreement, dated as of August 8, 1997, by and between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.3 to the 1997 Registration Statement.
10.4	Third Amendment to Credit Agreement, dated as of February 10, 1998, by and between the Company and Wells Fargo Bank, N.A.	Filed herewith.
10.5	Lease Agreement, dated March 9, 1993, by and between the Company and Maricopa Enterprises, Ltd., relating to the Company's initial facility located in Torrance, California.	Incorporated by reference to Exhibit 10.3 to the 1994 Registration Statement.
10.6	Second Amendment to Lease, dated October 1, 1996, by and between the Company and Maricopa Enterprises, Ltd., relating to the Company's initial facility located in Torrance, California.	Incorporated by reference to Exhibit 10.5 to the 1997 Form 10-K.
10.7	Amendment to Lease, dated October 3, 1996, by and between the Company and Golkar Enterprises, Ltd. relating to additional property in Torrance, California.	Incorporated by reference to Exhibit 10.17 to the December 31, 1996 Form 10-Q.
10.8	Amended and Restated Employment Agreement, dated as of September 1, 1995, by and between the Company and Mel Marks.	Incorporated by reference to Exhibit 10.7 to the 1995 Registration Statement.
10.9	First Amendment to Amended and Restated Employment Agreement, dated as of April 1, 1997, by and between the Company and Mel Marks.	Incorporated by reference to Exhibit 10.8 to the 1997 Form 10-K.
10.10	Amended and Restated Employment Agreement, dated as of September 1, 1995, by and between the Company and Richard Marks.	Incorporated by reference to Exhibit 10.8 to the 1995 Registration Statement.

Number -----	Description of Exhibit -----	Method of Filing -----
10.11	First Amendment to Amended and Restated Employment Agreement, dated as of April 1, 1997, by and between the Company and Richard Marks.	Incorporated by reference to Exhibit 10.10 to the 1997 Form 10-K.
10.12	Employment Agreement, dated as of February 1, 1994, by and between the Company and Steven Kratz.	Incorporated by reference to Exhibit 10.7 to the 1994 Registration Statement.
10.13	First Amendment to Employment Agreement, dated as of September 1, 1995, by and between the Company and Steven Kratz.	Exhibit 10.12 to the 1995 Registration Statement.
10.14	Second Amendment to Employment Agreement, dated as of April 1, 1997, by and between the Company and Steven Kratz.	Incorporated by reference to Exhibit 10.13 to the 1997 Form 10-K.
10.15	Employment Agreement, dated as of March 1, 1994, by and between the Company and Peter Bromberg.	Incorporated by reference to Exhibit 10.12 to the 1994 Registration Statement.
10.16	First Amendment to Employment Agreement, dated as of September 1, 1995, by and between the Company and Peter Bromberg.	Incorporated by reference to Exhibit 10.12 to the 1995 Registration Statement.
10.17	Second Amendment to Employment Agreement, dated as of April 1, 1997, by and between the Company and Peter Bromberg.	Incorporated by reference to Exhibit 10.16 to the 1997 Form 10-K.
10.18	Employment Agreement, dated as of September 1, 1995, by and between the Company and Eli Markowitz.	Incorporated by reference to Exhibit 10.13 to the 1995 Registration Statement.
10.19	Employment Agreement, dated as of April 1, 1997, by and among MVR, Unijoh and Vincent Quek.	Incorporated by reference to Exhibit 10.18 to the 1997 Form 10-K.
10.20	Form of Consulting Agreement, dated as of September 1, 1995, by and between the Company and Selwyn Joffe.	Incorporated by reference to Exhibit 10.14 to the 1995 Registration Statement.



Number -----	Description of Exhibit -----	Method of Filing -----
10.21	Form of Employment Agreement, dated as of October 1, 1997, by and	Incorporated by reference to Exhibit 10.20 to the
between the Company and Karen Brenner. 1997 Registration Statement.		
10.22	Lease Agreement, dated March 28, 1995, by and between the Company and Equitable Life Assurance Society of the United States, relating to the Company's facility located in Nashville, Tennessee.	Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 1995.
10.23	Lease Agreement, dated September 19, 1995, by and between Golkar Enterprises, Ltd. and the Company relating to the Company's facility located in Nashville, Tennessee.	Incorporated by reference to Exhibit 10.18 to the 1995 Registration Statement.
10.24	Agreement and Plan of Reorganization, dated as of April 1, 1997, by and among the Company, Mel Marks, Richard Marks and Vincent Quek relating to the acquisition of MVR and Unijoh.	Incorporated by reference to Exhibit 10.22 to the 1997 Form 10-K.
10.25	Form of Indemnification Agreement for officers and directors.	Incorporated by reference to Exhibit 10.25 to the 1997 Registration Statement.
21.1	List of Subsidiaries.	Filed herewith.
23.1	Consent of Richard A. Eisner & Company, LLP.	Filed herewith.
27.1	Financial Data Schedule.	Filed herewith.

**B. REPORTS ON FORM 8-K:**

No reports on Form 8-K were filed by the Company during the fiscal quarter ended March 31, 1998.

## SIGNATURES

Pursuant to the requirements of Section 13 or 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.

Date: June 29, 1998

MOTORCAR PARTS & ACCESSORIES, INC.

By: /s/ Mel Marks

-----  
Mel Marks,  
Chairman of the Board and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<i>Signature</i> -----	<i>Title</i> -----	<i>Date</i> ----
/s/ Mel Marks ----- Mel Marks	Chairman of the Board and Chief Executive Officer (principal executive officer)	June 29, 1998
/s/ Richard Marks ----- Richard Marks	President, Chief Operating Officer and Director	June 29, 1998
/s/ Peter Bromberg ----- Peter Bromberg	Chief Financial Officer (principal financial officer and principal accounting officer)	June 29, 1998
/s/ Karen Brenner ----- Karen Brenner	Director	June 29, 1998
----- Selwyn Joffe	Director	June 29, 1998
/s/ Mel Moskowitz ----- Mel Moskowitz	Director	June 29, 1998
/s/ Murray Rosenzweig ----- Murray Rosenzweig	Director	June 29, 1998
/s/ Gary Simon ----- Gary Simon	Director	June 29, 1998

# MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES

## CONTENTS

### PAGE

#### CONSOLIDATED FINANCIAL STATEMENTS

Independent auditors' report	F-2
Consolidated balance sheets as of March 31, 1998 and March 31, 1997	F-3
Consolidated statements of income for the years ended March 31, 1998, 1997 and 1996	F-4
Consolidated statements of changes in shareholders' equity for the years ended March 31, 1998, 1997 and 1996	F-5
Consolidated statements of cash flows for the years ended March 31, 1998, 1997 and 1996	F-6
Notes to consolidated financial statements	F-7

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Motorcar Parts & Accessories, Inc. and subsidiaries as of March 31, 1998 and 1997 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 enumerated above present fairly, in all material respects, the financial position of Motorcar Parts & Accessories, Inc. and subsidiaries as of March 31, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 1998, in conformity with generally accepted accounting principles.

*/s/ Richard A. Eisner & Company, LLP*

*Richard A. Eisner & Company, LLP*

*New York, New York  
May 19, 1998*

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

**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)

	MARCH 31,	
	1998	1997
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,108	\$ 3,539
Accounts receivable - net of allowance for doubtful accounts of \$250 and \$200, respectively	29,591	22,328
Inventory	54,736	41,862
Prepaid expenses and other current assets	1,862	593
Deferred income tax asset	--	142
	-----	-----
Total current assets	89,297	68,464
Long-term investments	--	1,874
Plant and equipment - net	7,141	4,291
Other assets	1,807	881
	-----	-----
	\$ 98,245	\$ 75,510
	=====	=====
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of capital lease obligations	\$ 395	\$ 743
Accounts payable and accrued expenses	11,816	13,777
Income taxes payable	1,592	2,005
Deferred income tax liability	161	--
Due to affiliate	--	139
	-----	-----
Total current liabilities	13,964	16,664
Long-term debt	13,983	17,496
Capitalized lease obligations - less current portion	602	343
Other liabilities	1,163	570
Deferred income tax liability	406	329
	-----	-----
	30,118	35,402
	-----	-----
Commitments and other matters		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued		
Series A Junior participating preferred stock; par value \$.01 per share, 20,000 shares authorized; none issued		
Common stock; par value \$.01 per share, 20,000,000 shares authorized; 6,428,000 and 4,868,000 shares issued and outstanding	64	49
Additional paid-in capital	50,927	28,973
Unearned portion of compensatory stock options	(48)	--
Accumulated foreign currency translation adjustment	(57)	--
Retained earnings	17,241	11,086
	-----	-----
Total shareholders' equity	68,127	40,108
	-----	-----
	\$ 98,245	\$ 75,510
	=====	=====

See notes to financial statements

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

**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

	YEAR ENDED MARCH 31,		
	1998	1997	1996
Income:			
Net sales	\$112,952	\$ 86,872	\$ 64,358
Operating expenses:			
Cost of goods sold	91,317	69,255	50,965
Research and development	549	185	--
Selling expenses	2,417	2,305	1,984
General and administrative expenses	6,298	4,974	4,577
Total operating expenses	100,581	76,719	57,526
Operating income	12,371	10,153	6,832
Interest expense (net of interest income of \$101, \$218 and \$219 for 1998, 1997 and 1996, respectively)	1,577	1,090	833
Income before income taxes	10,794	9,063	5,999
Provision for income taxes	4,192	3,529	2,353
NET INCOME	\$ 6,602	\$ 5,534	\$ 3,646
BASIC INCOME PER SHARE	\$ 1.20	\$ 1.14	\$ .96
DILUTED INCOME PER SHARE	\$ 1.16	\$ 1.11	\$ .93
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC			
INCOME PER SHARE	5,521	4,859	3,812
Effect of potential common shares	172	148	127
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	5,693	5,007	3,939

See notes to financial statements

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

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(in thousands)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	UNEARNED PORTION OF COMPENSATORY STOCK OPTIONS	ACCUMULATED FOREIGN CURRENCY TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL
	NUMBER OF SHARES	AMOUNT					
BALANCE - MARCH 31, 1995	3,208	\$ 32	\$ 8,078	--	--	\$ 1,906	\$ 10,016
Proceeds from exercise of warrants and options	112	1	867	--	--	--	868
Proceeds from public offering (net of costs of \$ 1,874)	1,500	15	19,486	--	--	--	19,501
Net income	--	--	--	--	--	3,646	3,646
-----							
BALANCE - MARCH 31, 1996	4,820	48	28,431	--	--	5,552	34,031
Proceeds from exercise of options	48	1	355	--	--	--	356
Tax benefit from exercise of options	--	--	187	--	--	--	187
Net income	--	--	--	--	--	5,534	5,534
-----							
BALANCE - MARCH 31, 1997	4,868	49	28,973	--	--	11,086	40,108
Issuance of shares for MVR and Unijoh	145	1	679	--	--	(447)	233
Proceeds from public offering (net of costs of \$ 1,806)	1,300	13	19,794	--	--	--	19,807
Proceeds from exercise of warrants and options	115	1	910	--	--	--	911
Tax benefit from exercise of stock options	--	--	381	--	--	--	381
Compensatory stock options issued	--	--	190	\$ (48)	--	--	142
Translation adjustment	--	--	--	--	\$ (57)	--	(57)
Net income	--	--	--	--	--	6,602	6,602
-----							
BALANCE - MARCH 31, 1998	6,428	\$ 64	\$ 50,927	\$ (48)	\$ (57)	\$ 17,241	\$ 68,127
=====							

See notes to financial statements

**MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	YEAR ENDED MARCH 31,		
	1998	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 6,602	\$ 5,534	\$ 3,646
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	1,237	717	429
Noncash charge for compensatory stock options issued	142	--	--
Changes in:			
Accounts receivable	(7,263)	(5,064)	(6,589)
Inventory	(12,850)	(13,311)	(16,434)
Prepaid expenses and other current assets	(1,195)	44	(300)
Other assets	(926)	(732)	(50)
Deferred income taxes	380	314	(82)
Accounts payable and accrued expenses	(2,295)	5,134	3,094
Income taxes payable	(32)	861	785
Due to affiliate	7	(45)	157
Other liabilities	577	570	--
Net cash used in operating activities	(15,616)	(5,978)	(15,344)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	(3,241)	(2,085)	(657)
Change in investments	1,874	8,855	(10,113)
Net cash (used in) provided by investing activities	(1,367)	6,770	(10,770)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase (decrease) in borrowings under line of credit	(3,513)	2,955	5,552
Payments on capital lease obligation	(774)	(728)	(254)
Proceeds from public offerings	19,807	--	19,501
Proceeds from exercise of warrants and options	911	356	868
Net cash provided by financing activities	16,431	2,583	25,667
Effect of exchange rate change on cash	(3)	--	--
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(555)	3,375	(447)
Cash and cash equivalents - beginning of year	3,539	164	611
Beginning cash balance of pooled entity	124	--	--
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,108	\$ 3,539	\$ 164
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest	\$ 1,717	\$ 1,262	\$ 1,035
Income taxes	3,844	2,354	1,590
Noncash investing and financing activities:			
Property acquired under capital lease	685	454	707
Property acquired included in accounts payable and accrued expense at March 31, 1996 and financed through a capitalizable lease during fiscal 1997	--	212	212

See notes to financial statements



# MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1998 AND 1997

### NOTE A - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

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

[1] PRINCIPLES OF CONSOLIDATION:

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries as of March 31, 1998 and for the year then ended. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company had no subsidiaries at March 31, 1997.

[2] CASH EQUIVALENTS:

The Company considers all highly liquid short-term investments purchased with a maturity of three months or less to be cash equivalents.

[3] INVESTMENTS:

The Company's marketable securities are classified as available-for-sale and reported at fair value. Unrealized gains or losses are classified as a separate component of shareholders' equity.

[4] INVENTORY:

Inventory is stated at the lower of cost or market; cost is determined by the average cost method.

[5] INCOME TAXES:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" which requires the use of the liability method of accounting for income taxes. The liability method measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax bases 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.

[6] DEPRECIATION AND AMORTIZATION:

Property and equipment are depreciated on the straight-line method over their estimated useful lives. Leasehold improvements are amortized by the straight-line method over the shorter of their estimated useful lives or the term of the lease.

# MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1998 AND 1997

### NOTE A - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] FOREIGN CURRENCY TRANSLATION:

Results of the Company's foreign operations are translated using average exchange rates during the period, while the related assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Gains or losses from translating foreign currency financial statements are accumulated in a separate component of stockholders' equity.

[8] REVENUE RECOGNITION:

The Company recognizes sales when products are shipped. The Company obtains used alternator and starter units, commonly known as cores, from its customers as trade-ins and by purchasing them from vendors. Cores are an essential material needed for remanufacturing operations. During the year ended March 31, 1997, the Company implemented a new accounting presentation with respect to its reporting of sales. In the past, net sales were reduced by the core inventory value to reflect deductions for cores returned for credit from customers ("core trade-ins") and by the value of the credits issued in excess of core inventory value ("product trade-ins"). As reclassified, net sales are reduced by product trade-ins and other deductions and allowances only and core trade-ins are included in cost of goods sold. Net sales and cost of goods sold for the year ended March 31, 1996 were reclassified to reflect this change.

Trade-ins are recorded upon receipt of cores from customers. Credits for core and product trade-ins are allowed only against future purchases of similar remanufactured products and are generally used by the customer within sixty days of issuance. Accordingly, the Company does not provide a reserve for trade-ins. In addition, since it is remote that a customer will not utilize its trade-in credits, the credit is recorded when the core is returned as opposed to when the customer purchases new products. This policy is consistent throughout the remanufacturing and rebuilding industry.

[9] EARNINGS PER SHARE:

The Company calculates its income per share under the provisions of SFAS No. 128, "Earnings Per Share". SFAS No. 128 requires a dual presentation of "basic" and "diluted" income per share on the face of the statements of operations. Basic income per share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during each 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.

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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE A - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

[10] USE OF ESTIMATES:

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

[11] IMPAIRMENT OF LONG-LIVED ASSETS:

The Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" during the year ended March 31, 1997. SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable assets, and goodwill related to those assets. There was no effect of adoption of SFAS 121 on the financial statements.

[12] FINANCIAL INSTRUMENTS:

The carrying amounts of cash and cash equivalents, investments, accounts receivable, accounts payable, accrued expenses, other liabilities, capitalized lease obligations and long-term debt approximate their fair value.

Estimated fair value of these financial instruments, some of which are for short durations, has been determined using available market information. In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

[13] STOCK-BASED COMPENSATION:

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

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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE A - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

[14] RECENT ACCOUNTING PRONOUNCEMENTS:

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes 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 of a business enterprise during a period, resulting from transactions and other events and circumstances from nonowner sources. The Company is reviewing the impact of adopting SFAS No. 130, which will be effective for the Company for the year ending March 31, 1999.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS No. 131 requires publicly-held companies to report financial and other information about key revenue-producing segments of the entity for which such information is available and is utilized by the chief operating decision maker. Specific information to be reported for individual segments includes profit or loss, certain revenue and expense items and total assets. A reconciliation of segment financial information to amounts reported in the financial statements would be provided. SFAS No. 131 is effective for the Company for the year ending March 31, 1999. The Company currently evaluates its operations as one segment.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 ("SOP 98-5"), "Reporting on the Costs of Start-Up Activities," which requires costs of start-up activities and organization costs to be expensed as incurred. The Company believes that SOP 98-5 would not have a material effect on its financial statements as of March 31, 1998. SOP 98-5 becomes effective for the Company during the year ending March 31, 2000.

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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE B - INVESTMENTS**

The estimated fair value of available-for-sale investments at March 31, 1997 was \$1,874,000 and consisted of mortgage-backed securities and municipal bonds due after one year.

The estimated fair value of each investment was approximately equal to the amortized cost at March 31, 1997 and, therefore, there were no unrealized gains or losses at that date. The Company did not hold any investments at March 31, 1998.

**NOTE C - INVENTORY**

Inventory is comprised of the following (in thousands):

	<u>MARCH 31,</u>	
	1998	1997
	-----	-----
Raw material	\$28,609	\$24,046
Work-in-process	7,066	4,270
Finished goods	19,061	13,546
	-----	-----
	\$54,736	\$41,862
	=====	=====

**NOTE D - PLANT AND EQUIPMENT**

Plant and equipment, at cost, are summarized as follows (in thousands):

	<u>MARCH 31,</u>	
	1998	1997
	-----	-----
Machinery and equipment	\$ 7,346	\$ 4,362
Office equipment and fixtures	2,031	1,272
Leasehold improvements	1,211	472
	-----	-----
	10,588	6,106
Less accumulated depreciation and amortization	(3,447)	(1,815)
	-----	-----
	\$ 7,141	\$ 4,291
	=====	=====

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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE E - OBLIGATIONS UNDER CAPITAL LEASES**

The Company has various capital leases for machinery and computer equipment. The gross amount of such assets recorded under capital leases was \$2,240,000 and \$2,338,000 at March 31, 1998 and 1997, respectively.

Future minimum lease payments at March 31, 1998 for the capitalized leases are as follows (in thousands):

1999	\$	478
2000		233
2001		172
2002		172
2003		135
		-----
		1,190
Amount representing imputed interest		193
		-----
Present value of future minimum lease payments		997
Less current maturities		395
		-----
Long-term obligation at March 31, 1998	\$	602
		=====

**NOTE F - LONG-TERM DEBT**

In November 1996, the Company amended its revolving line of credit agreement. The agreement provides for a credit facility in an aggregate principal amount not exceeding \$25,000,000 and is collateralized by a lien on substantially all of the assets of the Company. The agreement expires on June 1, 1998 and provides for interest on borrowings at a fluctuating rate per annum .25% below the bank's prime rate or at a fixed rate at 1.65% above LIBOR. The agreement allows the Company to obtain from the bank letters of credit, and banker's acceptances in an aggregate amount not exceeding \$2,500,000 and requires the Company to maintain certain financial ratios. As of March 31, 1998 balances due under this agreement amounted to \$13,983,000.

In August 1997, the Company further amended its revolving line of credit agreement. The agreement provides for a credit facility in an aggregate principal amount not exceeding \$30,000,000 until December 31, 1997, reducing to \$25,000,000 on January 1, 1998, and is collateralized by a lien on substantially all of the assets of the Company. The agreement expires on June 1, 1999 and provides for interest on borrowings at a fluctuating rate per annum .25% below the bank's prime rate or at a fixed rate at 1.25% above LIBOR, as further amended in February 1998. The agreement also amends the requirements of certain financial ratios.

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

### **NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

#### **NOTE G - RELATED PARTIES**

In April 1997, MVR Products Co. PTE, Ltd. ("MVR") and Unijoh Sdn, Bhd ("Unijoh") became wholly owned subsidiaries of the Company in a stock-for-stock merger which has been accounted for in a manner similar to a pooling of interests. Under the terms of the merger agreement, the Company issued 145,455 shares of its common stock. The financial statements prior to the date of combination have not been restated as the effect is not material to the Company's financial condition and results of operations. The combined assets and combined liabilities of MVR and Unijoh aggregated approximately \$632,000 and \$399,000, respectively, at the date of combination.

Prior to the merger, the Company conducted business with MVR, which operates a shipping warehouse and which conducts business with Unijoh. Unijoh operates a remanufacturing facility similar to the Company. MVR's warehouse is located in Singapore and Unijoh's factory is located in Malaysia. Two shareholders/officers/directors of the Company owned 70% of both MVR and Unijoh, with the remaining 30% owned by an unrelated third party. All of the cores processed by Unijoh were produced for the Company on a contract remanufacturing basis. The cores and other raw materials used in production by Unijoh were supplied by the Company and were included in the Company's inventory. Inventory owned by the Company and held by MVR and Unijoh was \$762,000 at March 31, 1997. The Company incurred costs of approximately \$1,574,000 and \$1,432,000 from the affiliates for the years ended March 31, 1997 and 1996, respectively. The amount reported as due to affiliate at March 31, 1997 was due to MVR.

#### **NOTE H - EMPLOYMENT AGREEMENTS AND BONUS PLAN**

The Company has employment agreements with eight officers, expiring at various dates through September 1, 2000, which provide for annual base salaries aggregating \$1,473,000. In addition, six of the officers were granted options pursuant to the Company's stock option plans for the purchase of 270,000 shares of common stock (88,000, 92,000 and 90,000 granted in fiscal years 1998, 1997 and 1996, respectively). Of these options, 49,000, 25,000 and 10,000 were exercised during the years ended March 31, 1998, 1997 and 1996, respectively.

The Company has established a bonus plan for the benefit of executives and certain key employees. The bonus is calculated as a percentage of the base salary ranging from 14% to 50%. The bonus percentage varies according to the percentage increase in earnings before income taxes and other predetermined parameters.

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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE I - COMMITMENTS**

The Company leases offices and warehouse facilities in New York, California and Tennessee under operating leases expiring through 2002. The aggregate rentals under these leases and leases which have been terminated was \$1,175,000, \$819,000 and \$609,000 for the years ended March 31, 1997, 1996 and 1995, respectively. Certain leases contain escalation clauses for real estate taxes and operating expenses.

Effective December 31, 1996, the Company amended a lease to acquire additional space at one of its existing warehouse facilities.

The Company also leases office equipment and machinery under noncancellable operating leases having remaining terms in excess of one year.

At March 31, 1998, the future minimum rental payments under the above operating leases are as follows (in thousands):

	TOTAL	REAL ESTATE	MACHINERY
	-----	-----	-----
1999	\$1,464	\$1,339	\$ 125
2000	1,393	1,321	72
2001	1,381	1,352	29
2002	1,364	1,348	16
2003	5	--	5
	-----	-----	-----
	\$5,607	\$5,360	\$ 247
	=====	=====	=====

**NOTE J - MAJOR CUSTOMERS AND CREDIT CONCENTRATION**

The Company partially protects itself from losses due to uncollectible accounts receivable through the purchase of credit insurance. Accounts receivable balances not covered by credit insurance are primarily due from leading automotive parts retailers.

The Company's four largest customers accounted for the following percentage of net sales:

CUSTOMER	YEAR ENDED MARCH 31,		
	1998	1997	1996
-----	-----	-----	-----
A	17%	18%	21%
B	15	18	11
C	43	29	20
D	5	8	18



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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE J - MAJOR CUSTOMERS AND CREDIT CONCENTRATION (CONTINUED)**

Customer A accounted for approximately 17% and 13%, customer B accounted for approximately 18% and 11% and customer C accounted for approximately 49% and 57% of the accounts receivable at March 31, 1998 and 1997, respectively.

**NOTE K - INCOME TAXES**

The provision for income taxes consists of the following (in thousands):

	<u>YEAR ENDED MARCH 31,</u>		
	1998	1997	1996
	-----	-----	-----
Current:			
Federal	\$ 3,100	\$ 2,750	\$ 1,913
State	712	465	522
Deferred	380	314	(82)
	-----	-----	-----
	\$ 4,192	\$ 3,529	\$ 2,353
	=====	=====	=====

The difference between the tax provision and the amount that would be computed by applying the statutory federal income tax rate to income before taxes is attributable to the following (in thousands):

	<u>YEAR ENDED MARCH 31,</u>		
	1998	1997	1996
	-----	-----	-----
Income tax provision at 34%	\$ 3,628	\$ 3,081	\$ 2,040
State and local taxes, net of federal benefit	469	307	345
Permanent differences	23	(20)	18
Other	72	161	(50)
	-----	-----	-----
	\$ 4,192	\$ 3,529	\$ 2,353
	=====	=====	=====

The deferred income tax asset of \$142,000 at March 31, 1997 is comprised of temporary differences in tax and financial reporting resulting primarily from capitalization of certain inventory costs for tax purposes. Deferred tax liabilities of \$567,000 and \$329,000 at March 31, 1998 and 1997, respectively, are comprised of differences resulting from using accelerated depreciation rates for tax purposes and from certain expenses for tax purposes which have been capitalized in the Company's financial statements.

# MOTORCAR PARTS & ACCESSORIES, INC. AND SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1998 AND 1997

### NOTE L - SHAREHOLDERS' EQUITY

#### [1] COMMON STOCK:

In November 1995, the Company effected a public offering of its common stock. The Company issued 1,500,000 shares for \$14.25 per share, yielding net proceeds of \$19,501,000 after underwriting commissions and expenses totalling \$1,874,000. In addition, two principal shareholders sold an aggregate of 344,500 shares in connection with this offering.

In November 1997, the Company effected a public offering of its common stock. The Company issued 1,300,000 shares for \$16.625 per share, yielding net proceeds of \$19,807,000 after underwriting commissions and expenses totalling \$1,806,000. In addition, two principal stockholders sold an aggregate of 250,000 shares in connection with this offering.

#### [2] PREFERRED STOCK:

In a Rights Agreement, dated as of February 24, 1998, between the Company and Continental Stock Transfer & Trust Company, the Company authorized 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 declared a dividend distribution to the holders of record at the close of business on March 12, 1998 of one Right on each share of Common Stock. Each Right, when exercisable, entitles the registered holder thereof to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock at a price of \$65 per one one-thousandth of a share (subject to adjustment).

The Rights will not be exercisable or transferable apart from the Common Stock until an Acquiring Person, as defined in the Rights Agreement, without the prior consent of the Company's Board of Directors, acquires 20% or more of the outstanding shares of the Common Stock or announces a tender offer that would result in 20% ownership. The Company is entitled to redeem the Rights, at \$.001 per Right, any time until ten days after a 20% position has been acquired. Under certain circumstances, including the acquisition of 20% of the Common Stock, each Right 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 shares of Common Stock, the Company is involved in a merger or other business combination transaction with another person in which it is not the surviving company, its common shares are changed or converted, or the Company sells 50% or more of its assets or earning power to another person. The Rights expire on March 12, 2008 unless earlier redeemed by the Company.

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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE L - SHAREHOLDERS' EQUITY (CONTINUED)**

[3] STOCK OPTION PLAN:

In January 1994, the shareholders approved the 1994 Stock Option Plan (the "1994 Plan"), which was amended in October 1996, to provide for the granting of options to purchase a total of 720,000 common shares to key employees and directors. Options granted may be either "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code or nonqualified options. The 1994 Plan is administered by the Board of Directors, which determines the terms of options exercised, including the exercise price, the number of shares subject to the option and the terms and conditions of exercise.

In August 1995, the shareholders approved a Nonemployee Director Stock Option Plan (the "Directors Plan") which provides for the granting of options to purchase a total of 15,000 common shares to directors. The Directors Plan is administered by the Board of Directors.

In September 1997, the shareholders approved the 1996 Stock Option Plan (the "1996 Plan") which provides for the granting of options to purchase a total of 30,000 common shares to key employees, consultants and directors. The 1996 Plan is administered by the Board of Directors.

The following table summarizes the activity under these Plans (in

thousands, except for per share data):

	YEAR ENDED MARCH 31,					
	1998		1997		1996	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at beginning of year	489	\$10.31	335	\$ 9.23	250	\$ 7.40
Granted	117	17.34	382	12.98	109	12.96
Exercised	(101)	7.99	(48)	7.46	(23)	7.19
Cancelled	--	--	(180)	14.69	(1)	8.13
Options outstanding at end of year	505	12.40	489	10.31	335	9.23
Options exercisable at end of year	383	11.95	290	9.34	278	8.83

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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE L - SHAREHOLDERS' EQUITY (CONTINUED)**

**[3] STOCK OPTION PLAN: (CONTINUED)**

The following table presents information relating to stock options outstanding at March 31, 1998 (in thousands, except per share data):

RANGE OF EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING LIFE IN YEARS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
\$ 6.00 - \$ 8.13	96	\$ 7.66	6	96	\$ 7.66
\$ 9.00 - \$10.63	174	10.60	8	125	10.59
\$11.88 - \$13.44	58	12.48	8	37	12.75
\$14.69 - \$19.13	177	16.72	9	125	16.41
	-----			-----	
	505	12.40	8	383	11.95
	=====			=====	

As of March 31, 1998, 66,000 options are available for future grant under the 1994 Plan, 7,500 options are available for future grant

under the Directors Plan and 15,000 options are available for future grant under the 1996 Plan.

The weighted-average fair value at date of grant for options granted during the years ended March 31, 1998, 1997 and 1996 was \$9.68, \$5.50 and \$5.63 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes option pricing model utilizing the following assumptions:

	<u>MARCH 31,</u>		
	1998	1997	1996
	----	----	----
Risk-free interest rates	6.5%	5.8%-6.5%	6.1%-6.9%
Expected option life in years	5	5	5
Expected stock price volatility	55%	36%	38%
Expected dividend yield	0%	0%	0%

Had the Company elected to recognize compensation cost based on the fair value of the options at the date of grant as prescribed by SFAS 123, net income for the years ended March 31, 1998, 1997 and 1996 would have been approximately \$5,952,000, \$5,180,000 and \$3,425,000 or \$1.04 per share, \$1.03 per share and \$.87 per share, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 1998 AND 1997

**NOTE L - SHAREHOLDERS' EQUITY (CONTINUED)**

The effect of applying SFAS 123 for providing proforma disclosures for each of the years in the three-year period ended March 31, 1998 is not likely to be representative of the effect on future years.

[4]

WARRANTS:

In connection with the Company's initial public offering the Company issued to the underwriter 105,000 warrants to purchase common stock at an exercise price of \$7.20 per share. In connection with a public offering in November 1995, 90,000 warrants were exercised. 14,000 additional warrants were exercised during the year ended March 31, 1998.

**CERTIFICATE OF AMENDMENT OF THE  
CERTIFICATE OF INCORPORATION**

of

**MOTORCAR PARTS & ACCESSORIES, INC.**

Under Section 805 of the Business Corporation Law of the State of New York

We the undersigned, Richard Marks, President, and Peter Bromberg, Assistant Secretary of Motorcar Parts & Accessories, Inc., a corporation organized and existing under the laws of the State of New York, in accordance with the provisions of Section 104 of the Business Corporation Law of the State of New York, DO HEREBY CERTIFY:

1. The name of the corporation is Motorcar Parts & Accessories, Inc. (hereinafter called the "Corporation"). The name under which the Corporation was formed was Motorcar Parts Associates, Inc.
2. The Certificate of Incorporation was filed by the Department of State of the State of New York on April 2, 1968.
3. The Certificate of Incorporation of the Company, as amended heretofore (the "Certificate of Incorporation"), is further amended by the addition of the following provisions stating the number, designation, relative rights, preferences and limitations of a series of Preferred Shares of the Company designated as "Series A Junior Participating Preferred Stock."
4. To accomplish the foregoing amendment, a new section (c) of Article FOURTH is added to the Certificate of Incorporation, which section (c) of Article FOURTH reads in its entirety as follows:

**"(c) SERIES A JUNIOR PARTICIPATING PREFERRED STOCK**

(1) Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" and the number of shares constituting such series shall be 20,000.

(2) Dividends and Distributions.

(A) The holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a

"Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$0.01 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in Common Stock or a subdivision of the outstanding Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after February 24, 1998 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in Paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$0.01 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of

shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

(3) Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series A Junior Participating Preferred Stock and the holders of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C) (i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock (including holders of the Series A Junior Participating Preferred Stock) with dividends in arrears in an amount equal to six (6) quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect two (2) directors.

(ii) During any default period, such voting right of the holders of Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders, provided that such voting right shall not be exercised unless the holders of ten percent (10%) in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which the holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect



directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two (2) directors or, if such right is exercised at an annual meeting, to elect two (2) directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect directors in any default period and during the continuance of such period, the number of directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series A Junior Participating Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect directors, the Board of Directors may order, or, subject to the provisions of the Certificate of Incorporation, as amended, any stockholder or shareholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this Paragraph

(C)(iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him or her at his or her last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any shareholder or shareholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this Paragraph (C)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the shareholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of directors until the holders of Preferred Stock shall have exercised their right to elect two (2) directors voting as a class, after the exercise of which right (x) the directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in Paragraph (C)(ii) of this Section 3) be filled by vote of a majority of the remaining directors theretofore elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this Paragraph (C) to directors elected by the holders of particular class of stock shall include directors elected by such directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect directors shall cease, (y) the term of any directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of directors shall be such number as may be provided for in the Certificate of Incorporation or By-laws irrespective of any increase made pursuant to the provisions of Paragraph (C)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the Certificate of Incorporation or By-Laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining directors.

(D) Except as set forth herein, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(4) Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 of this Section (c) are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Paragraph (A) of this Section 3, purchase or otherwise acquire such shares at such time and in such manner.

(5) **Reacquired Shares.** Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

(6) **Liquidation, Dissolution or Winding Up.**

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received an amount equal to 1,000 times the Exercise Price, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing

(i) the Series A Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of Common Stock outstanding immediately after such event and the denominator of which is the number of Common Stock that were outstanding immediately prior to such event.

(7) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(8) No Redemption. The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

(9) Ranking. The Series A Junior Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

(10) Amendment. The Certificate of Incorporation, as amended, of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

(11) Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holders fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock."

5. The manner in which the foregoing amendment of the Certificate of Incorporation was authorized is as follows: The Board of Directors of the Corporation authorized the amendment under the authority vested in said Board under the provisions of the Certificate of Incorporation and of Section 502 of the Business Corporation Law.

IN WITNESS WHEREOF, we have subscribed this document on the date set opposite each of our names below and do hereby affirm, under the penalties of perjury, that the statements contained therein have been examined by us and are true and correct.

*Date: February 24, 1998*

*/S/ RICHARD MARKS*  
-----

Name: Richard Marks Title: President

*/S/ PETER BROMBERG*  
-----

*Name: Peter Bromberg  
Title: Chief Financial Officer  
and Assistant Secretary*

**MOTORCAR PARTS & ACCESSORIES, INC.**

and

**CONTINENTAL STOCK TRANSFER & TRUST COMPANY**

**Rights Agent**

**RIGHTS AGREEMENT**

**Dated as of February 24, 1998**

Table of Contents

	Page
	----
Section 1.	Certain Definitions..... 1
Section 2.	Appointment of Rights Agent..... 4
Section 3.	Issue of Rights Certificates..... 4
Section 4.	Form of Rights Certificates..... 6
Section 5.	Countersignature and Registration..... 7
Section 6.	Transfer, Split Up, Combination and Exchange of Rights Certificates; Mutilated, Destroyed, Lost or Stolen Rights Certificates..... 7
Section 7.	Exercise of Rights; Purchase Price; Expiration Date of Rights..... 8
Section 8.	Cancellation and Destruction of Rights Certificates.....10
Section 9.	Reservation and Availability of Capital Stock.....10
Section 10.	Preferred Stock Record Date.....12
Section 11.	Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights.....12
Section 12.	Certificate of Adjusted Purchase Price or Number of Shares....20
Section 13.	Consolidation, Merger or Sale or Transfer of Assets or Earning Power. ....21
Section 14.	Fractional Rights and Fractional Shares.....23
Section 15.	Rights of Action.....24
Section 16.	Agreement of Rights Holders.....25
Section 17.	Rights Certificate Holder Not Deemed a Shareholder.....25
Section 18.	Concerning the Rights Agent.....26

Section 19.	Merger or Consolidation or Change of Name of Rights Agent.....	26
Section 20.	Duties of Rights Agent.....	27
Section 21.	Change of Rights Agent.....	29
Section 22.	Issuance of New Rights Certificates.....	30
Section 23.	Redemption and Termination.....	30
Section 24.	Notice of Certain Events.....	31
Section 25.	Notices.....	31
Section 26.	Supplements and Amendments.....	32
Section 27.	Successors.....	33
Section 28.	Determinations and Actions by the Board of Directors, etc.....	33
Section 29.	Benefits of this Agreement.....	33
Section 30.	Severability.....	33
Section 31.	Governing Law.....	34
Section 32.	Counterparts.....	34
Section 33.	Descriptive Headings.....	34
Exhibit A --	Certificate of Amendment	
Exhibit B --	Form of Rights Certificate	
Exhibit C --	Form of Summary of Rights	



## RIGHTS AGREEMENT

RIGHTS AGREEMENT, dated as of February 24, 1998 (the "Agreement"), between Motorcar Parts & Accessories, Inc., a New York corporation (the "Company"), and Continental Stock Transfer & Trust Company, a New York corporation (the "Rights Agent"), as Rights Agent.

### WITNESSETH

WHEREAS, on February 24, 1998 (the "Rights Dividend Declaration Date"), the Board of Directors of the Company authorized and declared a dividend distribution of one Right for each share of common stock, par value \$0.01 per share, of the Company (the "Common Stock") outstanding at the close of business on March 12, 1998 (the "Record Date"), and has authorized the issuance of one Right (as such number may hereinafter be adjusted pursuant to the provisions of Section 11(p) hereof) for each share of Common Stock of the Company issued between the Record Date (whether originally issued or delivered from the Company's treasury) and the Distribution Date, each Right initially representing the right to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock (the "Preferred Stock") of the Company having the rights, powers and preferences set forth in the form of Certificate of Amendment attached hereto as Exhibit A, upon the terms and subject to the conditions hereinafter set forth (the "Rights");

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain definitions. For purposes of this Agreement, the following terms have the meanings indicated:

- (a) "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 20% or more of the shares of Common Stock then outstanding, but shall not include (i) the Company, (ii) any Subsidiary of the Company, (iii) any employee benefit plan of the Company or of any Subsidiary of the Company, (iv) any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan or (v) an Exempted Person.
- (b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Section 912 of the New York Business Corporation Law, as amended and in effect on the date of this Agreement.
- (c) A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own," any securities:
  - (i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether

such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," (A) securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange, or (B) securities issuable upon exercise of Rights at any time prior to the occurrence of a Triggering Event, or (C) securities issuable upon exercise of Rights from and after the occurrence of a Triggering Event which Rights were acquired by such Person or any of such Person's Affiliates or Associates prior to the Distribution Date or pursuant to Section 3(a) or Section 22 hereof (the "Original Rights") or pursuant to Section 11(i) hereof in connection with an adjustment made with respect to any Original Rights;

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subparagraph (ii) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (A) arises solely from a revocable proxy or consent given in response to a proxy or consent solicitation made in accordance with the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing), for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy or consent as described in the proviso to subparagraph (ii) of this paragraph (c)) or disposing of any voting securities of the Company; provided, however, that nothing in this paragraph (c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of, or to "beneficially own," any securities acquired through such person's participation in good faith in a firm commitment underwriting until the

expiration of forty days after the date of such acquisition; and provided further, however, that any shareholder of the Company, with Affiliates, Associates or other person(s) who may be deemed representatives of it serving as director(s) or officer(s) of the Company, shall not be deemed to beneficially own securities held by other Persons as a result of (i) persons affiliated or otherwise associated with such shareholder serving as director(s) or officer(s) or taking any action in connection therewith, (ii) discussing the status of its shares with the Company or other shareholders of the Company similarly situated or (iii) voting or acting in a manner similar to other shareholder(s) similarly situated, absent a specific finding by the Board of Directors of an express agreement among such shareholders to act in concert with one another as shareholders so as to cause, in the good faith judgment of the Board of Directors, each such shareholder to be the Beneficial Owner of the shares held by the other shareholder(s).

(d) "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

(e) "Close of business" on any given date shall mean 5:00 P.M., New York City time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., New York City time, on the next succeeding Business Day.

(f) "Common Stock" shall mean the Common Stock, except that "Common Stock" when used with reference to any Person other than the Company shall mean the capital stock of such Person with the greatest voting power, or the equity securities or other equity interest having power to control or direct the management, of such Person.

(g) "Exempted Person" shall mean Mel Marks, Richard Marks and any Affiliate or Associate thereof.

(h) "Person" shall mean any individual, firm, corporation, partnership or other entity.

(i) "Preferred Stock" shall mean shares of Series A Junior Participating Preferred Stock, par value \$0.01 per share, of the Company, and, to the extent that there are not a sufficient number of shares of Series A Junior Participating Preferred Stock authorized to permit the full exercise of the Rights, any other series of Preferred Stock, par value \$0.01 per share, of the Company designated for such purpose containing terms substantially similar to the terms of the Series A Junior Participating Preferred Stock.

(j) "Section 11(a)(ii) Event" shall mean any event described in Section 11(a)(ii) hereof.

(k) "Section 13 Event" shall mean any event described in clauses (x), (y) or (z) of Section 13(a) hereof.

(l) "Stock Acquisition Date" shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) under the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such.

(m) "Subsidiary" shall mean, with reference to any Person, any corporation of which an amount of voting securities sufficient to elect at least a majority of the directors of such corporation is beneficially owned, directly or indirectly, by such Person, or otherwise controlled by such Person.

(n) "Triggering Event" shall mean any Section 11(a)(ii) Event or any Section 13 Event.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights (who, in accordance with Section 3 hereof, shall prior to the Distribution Date also be the holders of the Common Stock) in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents as it may deem necessary or desirable.

Section 3. Issue of Rights Certificates.

(a) Until the earlier of (i) the close of business on the tenth day after the Stock Acquisition Date (or, if the tenth day after the Stock Acquisition Date occurs before the Record Date, the close of business on the Record Date), or (ii) the close of business on the tenth business day (or such later date as the Board shall determine) after the date that a tender or exchange offer by any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan) is first published or sent or given within the meaning of Rule 14d-2 (a) of the General Rules and Regulations under the Exchange Act, if, upon consummation thereof, such Person would be the Beneficial Owner of 20% or more of the shares of Common Stock then outstanding (the earlier of (i) and (ii) being herein referred to as the "Distribution Date"), (x) the Rights will be evidenced (subject to the provisions of paragraph (b) of this Section 3) by the certificates for the Common Stock registered in the names of the holders of the Common Stock (which certificates for Common Stock shall be deemed also to be certificates for Rights) and not by separate certificates, and (y) the Rights will be transferable only in connection with the transfer of the underlying shares of Common Stock (including a transfer to the

Company). As soon as practicable after the Distribution Date, the Rights Agent will send by first-class, insured, postage prepaid mail, to each record holder of the Common Stock as of the close of business on the Distribution Date, at the address of such holder shown on the records of the Company, one or more right certificates, in substantially the form of Exhibit B hereto (the "Rights Certificates"), evidencing one Right for each share of Common Stock so held, subject to adjustment as provided herein. In the event that an adjustment in the number of Rights per share of Common Stock has been made pursuant to Section 11(p) hereof, at the time of distribution of the Rights Certificates, the Company shall make the necessary and appropriate rounding adjustments (in accordance with Section 14(a) hereof) so that Rights Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. As of and after the Distribution Date, the Rights will be evidenced solely by such Rights Certificates.

(b) As promptly as practicable following the Record Date, the Company will send a copy of a Summary of Rights, in substantially the form attached hereto as Exhibit C (the "Summary of Rights"), by first-class, postage prepaid mail, to each record holder of the Common Stock as of the close of business on the Record Date, at the address of such holder shown on the records of the Company. With respect to certificates for the Common Stock outstanding as of the Record Date, until the Distribution Date, the Rights will be evidenced by such certificates for the Common Stock and the registered holders of the Common Stock shall also be the registered holders of the associated Rights. Until the earlier of the Distribution Date or the Expiration Date (as such term is defined in Section 7 hereof), the transfer of any certificates representing shares of Common Stock in respect of which Rights have been issued shall also constitute the transfer of the Rights associated with such shares of Common Stock.

(c) Rights shall be issued in respect of all shares of Common Stock which are issued (whether originally issued or from the Company's treasury) after the Record Date but prior to the earlier of the Distribution Date or the Expiration Date. Certificates representing such shares of Common Stock shall also be deemed to be certificates for Rights, and shall bear the following legend:

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in the Rights Agreement between Motorcar Parts & Accessories, Inc. (the "Company") and Continental Stock Transfer & Trust Company (the "Rights Agent") dated as of February 24, 1998 (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of Motorcar Parts & Accessories, Inc. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. Motorcar Parts & Accessories, Inc. will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is,

was or becomes an Acquiring Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void. With respect to such certificates containing the foregoing legend, until the earlier of (i) the Distribution Date or (ii) the Expiration Date, the Rights associated with the Common Stock represented by such certificates shall be evidenced by such certificates alone and registered holders of Common Stock shall also be the registered holders of the associated Rights, and the transfer of any of such certificates shall also constitute the transfer of the Rights associated with the Common Stock represented by such certificates.

#### Section 4. Form of Rights Certificates.

(a) The Rights Certificates (and the forms of election to purchase and of assignment to be printed on the reverse thereof) shall each be substantially in the form set forth in Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Section 11 and Section 22 hereof, the Rights Certificates, whenever distributed, shall be dated as of the Record Date and on their face shall entitle the holders thereof to purchase such number of one one-thousandths of a share of Preferred Stock as shall be set forth therein at the price set forth therein (such exercise price per one one-thousandth of a share, the "Purchase Price"), but the amount and type of securities purchasable upon the exercise of each Right and the Purchase Price thereof shall be subject to adjustment as provided herein.

(b) Any Rights Certificate issued pursuant to Section 3(a) or Section 22 hereof that represents Rights beneficially owned by: (i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect avoidance of Section 7(e) hereof, and any Rights Certificate issued pursuant to Section 6 or Section 11 hereof upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain (to the extent feasible) the following legend:

The Rights represented by this Rights Certificate are or were beneficially owned by a Person who was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement). Accordingly, this Rights Certificate and the Rights represented hereby may become null and void in the circumstances specified in Section 7(e) of such Agreement.

#### Section 5. Countersignature and Registration.

(a) The Rights Certificates shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman, its President or any Vice President, either manually or by facsimile signature, and shall have affixed thereto the Company's seal or a facsimile thereof which shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Rights Certificates shall be countersigned by the Rights Agent, either manually or by facsimile signature and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Rights Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Rights Certificates, nevertheless, may be countersigned by the Rights Agent and issued and delivered by the Company with the same force and effect as though the person who signed such Rights Certificates had not ceased to be such officer of the Company; and any Rights Certificates may be signed on behalf of the Company by any person who, at the actual date of the execution of such Rights Certificate, shall be a proper officer of the Company to sign such Rights Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its principal office or offices designated as the appropriate place for surrender of Rights Certificates upon exercise or transfer, books for registration and transfer of the Rights Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Rights Certificates, the number of Rights evidenced on its face by each of the Rights Certificates and the date of each of the Rights Certificates.

#### Section 6. Transfer, Split Up, Combination and Exchange of Rights Certificates; Mutilated, Destroyed, Lost or Stolen Rights Certificates.

(a) Subject to the provisions of Section 4(b), Section 7(e) and Section 14 hereof, at any time after the close of business on the Distribution Date, and at or prior to the close of business on the Expiration Date, any Rights Certificate or Certificates may be transferred, split up, combined or exchanged for another Rights Certificate or Certificates, entitling the registered holder to purchase a like number of one one-thousandths of a share of Preferred Stock (or, following a Triggering Event, Common Shares, other securities, cash or other assets, as the case may be) as the Rights Certificate or Certificates surrendered then entitled such holder (or former holder in the case of a transfer) to

purchase. Any registered holder desiring to transfer, split up, combine or exchange any Rights Certificate or Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Certificates to be transferred, split up, combined or exchanged at the principal office or offices of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Rights Certificate until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of such Rights Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request. Thereupon the Rights Agent shall, subject to Section 4(b), Section 7(e) and Section 14 hereof, countersign and deliver to the Person entitled thereto a Rights Certificate or Rights Certificates, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Rights Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Rights Certificate if mutilated, the Company will execute and deliver a new Rights Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered owner in lieu of the Rights Certificate so lost, stolen, destroyed or mutilated.

#### Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) Subject to Section 7(e) hereof, the registered holder of any Rights Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein including, without limitation, the restrictions on exercisability set forth in Section 9(c), Section 11(a)(iii) and Section 23(a) hereof) in whole or in part at any time after the Distribution Date upon surrender of the Rights Certificate, with the form of election to purchase and the certificate on the reverse side thereof duly executed, to the Rights Agent at the principal office or offices of the Rights Agent designated for such purpose, together with payment of the aggregate Purchase Price with respect to the total number of one one-thousandths of a share (or other securities, cash or other assets, as the case may be) as to which such surrendered Rights are then exercisable, at or prior to the earlier of (i) the close of business on March 12, 2008 (the "Final Expiration Date"), or (ii) the time at which the Rights are redeemed as provided in Section 23 hereof (the earlier of (i) and (ii) being herein referred to as the "Expiration Date").

(b) The Purchase Price for each one one-thousandth of a share of Preferred Stock pursuant to the exercise of a Right shall initially be \$65.00, and shall be subject to adjustment from time to time as provided in Sections 11 and 13(a) hereof and shall be payable in accordance with paragraph (c) below.



(c) Upon receipt of a Rights Certificate representing exercisable Rights, with the form of election to purchase and the certificate duly executed, accompanied by payment, with respect to each Right so exercised, of the Purchase Price per one one-thousandth of a share of Preferred Stock (or other shares, securities, cash or other assets, as the case may be) to be purchased as set forth below and an amount equal to any applicable transfer tax, the Rights Agent shall, subject to Section 20(k) hereof, thereupon promptly (i) (A) requisition from any transfer agent of the shares of Preferred Stock (or make available, if the Rights Agent is the transfer agent for such shares) certificates for the total number of one one-thousandths of a share of Preferred Stock to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, or (B) if the Company shall have elected to deposit the total number of shares of Preferred Stock issuable upon exercise of the Rights hereunder with a depositary agent, requisition from the depositary agent depositary receipts representing such number of one one-thousandths of a share of Preferred Stock as are to be purchased (in which case certificates for the shares of Preferred Stock represented by such receipts shall be deposited by the transfer agent with the depositary agent) and the Company will direct the depositary agent to comply with such request, (ii) requisition from the Company the amount of cash, if any, to be paid in lieu of fractional shares in accordance with Section 14 hereof, (iii) after receipt of such certificates or depositary receipts, cause the same to be delivered to, or upon the order of, the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder, and (iv) after receipt thereof, deliver such cash, if any, to, or upon the order of, the registered holder of such Rights Certificate. The payment of the Purchase Price (as such amount may be reduced pursuant to Section 11(a)(iii) hereof) shall be made in cash or by certified bank check or bank draft payable to the order of the Company. In the event that the Company is obligated to issue other securities (including shares of Common Stock) of the Company, pay cash and/or distribute other property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such other securities, cash and/or other property are available for distribution by the Rights Agent, if and when appropriate. The Company reserves the right to require prior to the occurrence of a Triggering Event that, upon any exercise of Rights, a number of Rights be exercised so that only whole shares of Preferred Stock would be issued.

(d) In case the registered holder of any Rights Certificate shall exercise less than all the Rights evidenced thereby, a new Rights Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent and delivered to, or upon the order of, the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder, subject to the provisions of Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Section 11(a)(ii) Event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person

to holders of equity interests in such Acquiring Person or to any Person with whom the Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which a majority of the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e), shall become null and void without any further action and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall use all reasonable efforts to insure that the provisions of this Section 7(e) and Section 4(b) hereof are complied with, but shall have no liability to any holder of Rights Certificates or other Person as a result of its failure to make any determinations with respect to an Acquiring Person or its Affiliates, Associates or transferees hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall have

(i) completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Rights Certificate surrendered for such exercise, and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Rights Certificates. All Rights Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or any of its agents, be delivered to the Rights Agent for cancellation or in cancelled form, or, if surrendered to the Rights Agent, shall be cancelled by it, and no Rights Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Rights Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all cancelled Rights Certificates to the Company, or shall, at the written request of the Company, destroy such cancelled Rights Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Capital Stock.

(a) The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued shares of Preferred Stock (and, following the occurrence of a Triggering Event, out of its authorized and unissued shares of Common Stock and/or other securities or out of its authorized and issued shares held in its treasury), the number of shares of Preferred Stock (and, following the occurrence of a Triggering Event, Common Shares and/or other securities) that, as provided in this Agreement including Section 11(a)(iii) hereof, will be sufficient to permit the exercise in full of all outstanding Rights.

(b) So long as the shares of Preferred Stock (and, following the occurrence of a Triggering Event, shares of Common Stock and/or other securities) issuable and deliverable upon the

exercise of the Rights may be listed on any national securities exchange, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all shares reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(c) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after the first occurrence of a Section 11(a)(ii) Event on which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with Section 11(a)(iii) hereof, a registration statement under the Securities Act of 1933 (the "Act"), with respect to the securities purchasable upon exercise of the Rights on an appropriate form, (ii) cause such registration statement to become effective as soon as practicable after such filing, and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities, and (B) the date of the expiration of the Rights. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. The Company may temporarily suspend, for a period of time not to exceed ninety (90) days after the date set forth in clause (i) of the first sentence of this Section 9(c), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. In addition, if the Company shall determine that a registration statement is required following the Distribution Date, the Company may temporarily suspend the exercisability of the Rights until such time as a registration statement has been declared effective. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction if the requisite qualification in such jurisdiction shall not have been obtained, the exercise thereof shall not be permitted under applicable law or a registration statement shall not have been declared effective.

(d) The Company covenants and agrees that it will take all such action as may be necessary to ensure that all one one-thousandths of a share of Preferred Stock (and, following the occurrence of a Triggering Event, shares of Common Stock and/or other securities) delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable.

(e) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Rights Certificates and of any certificates for a number of one one-thousandths of a share of Preferred Stock (or shares of Common Stock and/or other securities, as the case may be) upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax which may be payable in respect of any transfer or delivery of Rights Certificates to a Person other than, or the issuance or delivery of a number of one one-thousandths of a share of Preferred Stock (or shares of Common Stock and/or other securities, as the case may be) in respect of a name other than that of, the registered holder of the Rights Certificates evidencing Rights

surrendered for exercise or to issue or deliver any certificates for a number of one one-thousandths of a share of Preferred Stock (or shares of Common Stock and/or other securities, as the case may be) in a name other than that of the registered holder upon the exercise of any Rights until such tax shall have been paid (any such tax being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

Section 10. Preferred Stock Record Date. Each person in whose name any certificate for a number of one one-thousandths of a share of Preferred Stock (or shares of Common Stock and/or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of such fractional shares of Preferred Stock (or shares of Common Stock and/or other securities, as the case may be) represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and all applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon which the Preferred Stock (or Common Shares and/or other securities, as the case may be) transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares (fractional or otherwise) on, and such certificate shall be dated, the next succeeding Business Day on which the Preferred Stock (or shares of Common Stock and/or other securities, as the case may be) transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a shareholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights. The Purchase Price, the number and kind of shares covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Preferred Stock payable in shares of Preferred Stock, (B) subdivide the outstanding Preferred Stock, (C) combine the outstanding Preferred Stock into a smaller number of shares, or (D) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a) and Section 7(e) hereof, the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of Preferred Stock or capital stock, as the case may be, issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive, upon payment of the

Purchase Price then in effect, the aggregate number and kind of shares of Preferred Stock or capital stock, as the case may be, which, if such Right had been exercised immediately prior to such date and at a time when the Preferred Stock transfer books of the Company were open, he or she would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. If an event occurs which would require an adjustment under both this Section 11(a)(i) and Section 11(a)(ii) hereof, the adjustment provided for in this Section 11(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii) hereof.

(ii) In the event that any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan, or an Exempted Person), alone or together with its Affiliates and Associates, shall, at any time after the Rights Dividend Declaration Date, become the Beneficial Owner of 20% or more of the shares of Common Stock then outstanding, unless the event causing the 20% threshold to be crossed is a transaction set forth in Section 13(a) hereof, or is an acquisition of shares of Common Stock pursuant to a tender offer or an exchange offer for all outstanding shares of Common Stock at a price and on terms determined by at least a majority of the members of the Board of Directors who are not officers of the Company and who are not representatives, nominees, Affiliates or Associates of an Acquiring Person, after receiving advice from one or more investment banking firms, to be (a) at a price which is fair to shareholders (taking into account all factors which such members of the Board deem relevant including, without limitation, prices which could reasonably be achieved if the Company or its assets were sold on an orderly basis designed to realize maximum value) and (b) otherwise in the best interests of the Company and its shareholders (hereinafter, a "Qualifying Offer"), then, promptly following the occurrence of any such event, proper provision shall be made so that each holder of a Right (except as provided below and in Section 7(e) hereof) shall thereafter have the right to receive, upon exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, in lieu of a number of one one-thousandths of a share of Preferred Stock, such number of shares of Common Stock of the Company as shall equal the result obtained by (x) multiplying the then current Purchase Price by the then number of one one-thousandths of

a share of Preferred Stock for which a Right was exercisable immediately prior to the first occurrence of a Section 11(a)(ii) Event, and (y) dividing that product (which, following such first occurrence, shall thereafter be referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by 50% of the current market price (determined pursuant to Section 11(d) hereof) per share of Common Stock on the date of such first occurrence (such number of shares, the "Adjustment Shares").

(iii) In the event that the number of shares of Common Stock which are authorized by the Company's Certificate of Incorporation, as amended, but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit the exercise in full of the Rights in accordance with the foregoing subparagraph (ii) of this Section 11(a), the Company shall (A) determine the value of the Adjustment Shares issuable upon the exercise of a Right (the "Current Value"), and (B) with respect to each Right (subject to Section 7(e) hereof), make adequate provision to substitute for the Adjustment Shares, upon the exercise of a Right and payment of the applicable Purchase Price, (1) cash, (2) a reduction in the Purchase Price, (3) shares of Common Stock or other equity securities of the Company (including, without limitation, shares, or units of shares, of preferred stock, such as the Preferred Stock, which the Board has deemed to have essentially the same value or economic rights as shares of shares of Common Stock (such shares of preferred stock being referred to as "Common Share Equivalents")), (4) debt securities of the Company, (5) other assets, or (6) any combination of the foregoing, having an aggregate value equal to the Current Value (less the amount of any reduction in the Purchase Price), where such aggregate value has been determined by the Board based upon the advice of a nationally recognized investment banking firm selected by the Board; provided, however, that if the Company shall not have made adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the later of (x) the first occurrence of a Section

11(a)(ii) Event and (y) the date on which the Company's right of redemption pursuant to Section 23(a) expires (the later of (x) and (y) being referred to herein as the "Section 11(a)(ii) Trigger Date"), then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, shares of Common Stock (to the extent available) and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. For purposes of the preceding sentence, the term "Spread" shall mean the excess of (i) the

Current Value over (ii) the Purchase Price. If the Board determines in good faith that it is likely that sufficient additional shares of Common Stock could be authorized for issuance upon exercise in full of the Rights, the thirty (30) day period set forth above may be extended to the extent necessary, but not more than ninety (90) days after the Section 11(a)(ii) Trigger Date, in order that the Company may seek shareholder approval for the authorization of such additional shares (such thirty (30) day period, as it may be extended, is herein called the "Substitution Period"). To the extent that action is to be taken pursuant to the first and/or third sentences of this Section 11(a)(iii), the Company (1) shall provide, subject to Section 7(e) hereof, that such action shall apply uniformly to all outstanding Rights, and (2) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek such shareholder approval for such authorization of additional shares and/or to decide the appropriate form of distribution to be made pursuant to such first sentence and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iii), the value of each Adjustment Share shall be the Current Market Price per share of Common Stock on the Section 11(a)(ii) Trigger Date and the per share or per unit value of any share of Common Stock Equivalent shall be deemed to equal the Current Market Price per share of Common Stock on such date.

(b) In case the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Preferred Stock entitling them to subscribe for or purchase (for a period expiring within forty-five (45) calendar days after such record date) Preferred Stock (or shares having the same rights, privileges and preferences as the shares of Preferred Stock ("equivalent preferred stock")) or securities convertible into Preferred Stock or equivalent preferred stock at a price per share of Preferred Stock or per share of equivalent preferred stock (or having a conversion price per share, if a security convertible into Preferred Stock or equivalent preferred stock) less than the current market price (as determined pursuant to Section 11(d) hereof) per share of Preferred Stock on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Preferred Stock outstanding on such record date, plus the number of shares of Preferred Stock which the aggregate offering price of the total number of shares of Preferred Stock and/or equivalent preferred stock so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current market price, and the denominator of which shall be the number of shares of Preferred Stock outstanding on such record date, plus the number of additional shares of Preferred Stock and/or

equivalent preferred stock to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid by delivery of consideration part or all of which may be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. Shares of Preferred Stock owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed, and in the event that such rights or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for a distribution to all holders of Preferred Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of evidences of indebtedness, cash (other than a regular quarterly cash dividend out of the earnings or retained earnings of the Company), assets (other than a dividend payable in Preferred Stock, but including any dividend payable in stock other than Preferred Stock) or subscription rights or warrants (excluding those referred to in Section 11(b) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the current market price (as determined pursuant to Section 11(d) hereof) per share of Preferred Stock on such record date, less the fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the cash, assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to a share of Preferred Stock and the denominator of which shall be such current market price (as determined pursuant to Section 11(d) hereof) per share of Preferred Stock. Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such distribution is not so made, the Purchase Price shall be adjusted to be the Purchase Price which would have been in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder, other than computations made pursuant to Section 11(a)(iii) hereof, the Current Market Price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per such share of Common Stock for the thirty (30) consecutive Trading Days immediately prior to such date, and for purposes of computations made pursuant to Section 11(a)(iii) hereof, the Current Market Price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per such share of Common Stock for the ten (10) consecutive Trading Days immediately following such date; provided, however, that in the event that the Current Market Price per share of Common Stock is determined during a period following the announcement by the issuer of such share of Common Stock of (A) a dividend or distribution on such share of Common Stock payable in such shares of Common Stocks or securities convertible into shares of such Common Stock (other than the Rights), or (B) any subdivision, combination or reclassification of such shares of Common Stock, and the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or



reclassification shall not have occurred prior to the commencement of the requisite thirty (30) Trading Day or ten (10) Trading Day period, as set forth above, then, and in each such case, the Current Market Price shall be properly adjusted to take into account ex-dividend trading. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of Common Stock are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System (the "NASDAQ") or such other system then in use, or, if on any such date the shares of Common Stock are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the shares of Common Stock selected by the Board. If on any such date no market maker is making a market in the Common Shares, the fair value of such shares on such date as determined in good faith by the Board shall be used. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading is open for the transaction of business or, if the Common Stock is not listed or admitted to trading on any national securities exchange, a Business Day. If the Common Stock is not publicly held or not so listed or traded, Current Market Price per share shall mean the fair value per share as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(ii) For the purpose of any computation hereunder, the Current Market Price per share of Preferred Stock shall be determined in the same manner as set forth above for the Common Stock in clause (i) of this Section 11(d) (other than the last sentence thereof). If the Current Market Price per share of Preferred Stock cannot be determined in the manner provided above or if the Preferred Stock is not publicly held or listed or traded in a manner described in clause (i) of this Section 11(d), the Current Market Price per share of Preferred Stock shall be conclusively deemed to be an amount equal to 1,000 (as such number may be appropriately adjusted for such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock occurring after the date of this Agreement) multiplied by the Current Market Price per shares of Common Stock. If neither the Common Stock nor the Preferred Stock is publicly held or so listed or traded, Current Market Price per share of the Preferred Stock shall mean the fair value per share as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(e) Anything herein to the contrary notwithstanding, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in the Purchase Price; provided, however, that any adjustments which by reason of this

Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a share of Common Stock or other share or one-ten millionth of a share of Preferred Stock, as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of three (3) years from the date of the transaction which mandates such adjustment, or (ii) the Expiration Date.

(f) If as a result of an adjustment made pursuant to Section 11(a)(ii) or Section 13(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock other than Preferred Stock, thereafter the number of such other shares so receivable upon exercise of any Right and the Purchase Price thereof shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Stock contained in Sections 11(a), (b), (c), (e), (g), (h), (i), (j), (k) and (m), and the provisions of Sections 7, 9, 10, 13 and 14 hereof with respect to the Preferred Stock shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of one one-thousandths of a share of Preferred Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of one one-thousandths of a share of Preferred Stock (calculated to the nearest one-ten millionth) obtained by (i) multiplying (x) the number of one one-thousandths of a share covered by a Right immediately prior to this adjustment, by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price, and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in lieu of any adjustment in the number of one one-thousandths of a share of Preferred Stock purchasable upon the exercise of a Right. Each of the Rights outstanding after the adjustment in the number of Rights shall be exercisable for the number of one one-thousandths of a share of Preferred Stock for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one-ten-thousandth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Rights

Certificates have been issued, shall be at least ten (10) days later than the date of the public announcement. If Rights Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Rights Certificates on such record date Rights Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Rights Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of one one-thousandth of a share of Preferred Stock issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Purchase Price per one one-thousandth of a share and the number of one one-thousandth of a share which were expressed in the initial Rights Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then stated value, if any, of the number of one one-thousandths of a share of Preferred Stock issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable such number of one one-thousandth of a share of Preferred Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of one one-thousandths of a share of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the number of one one-thousandths of a share of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) or securities upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that in their good faith judgment the Board of Directors of the Company shall determine to be advisable in order that any (i) consolidation or subdivision of the Preferred Stock, (ii) issuance wholly for cash of any shares of Preferred Stock at

less than the current market price, (iii) issuance wholly for cash of shares of Preferred Stock or securities which by their terms are convertible into or exchangeable for shares of Preferred Stock, (iv) stock dividends or (v) issuance of rights, options or warrants referred to in this Section 11, hereafter made by the Company to holders of its Preferred Stock shall not be taxable to such shareholders.

(n) The Company covenants and agrees that it shall not, at any time after the Distribution Date, (i) consolidate with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), (ii) merge with or into any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), or (iii) sell or transfer (or permit any Subsidiary to sell or transfer), in one transaction, or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof), if (x) at the time of or immediately after such consolidation, merger or sale there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger or sale, the shareholders of the Person who constitutes, or would constitute, the "Principal Party" for purposes of Section 13(a) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates.

(o) The Company covenants and agrees that, after the Distribution Date, it will not, except as permitted by Section 23 or Section 26 hereof, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

(p) Anything in this Agreement to the contrary notwithstanding, in the event that the Company shall at any time after the Rights Dividend Declaration Date and prior to the Distribution Date (i) declare a dividend on the outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, the number of Rights associated with each share of Common Stock then outstanding, or issued or delivered thereafter but prior to the Distribution Date, shall be proportionately adjusted so that the number of Rights thereafter associated with each share of Common Stock following any such event shall equal the result obtained by multiplying the number of Rights associated with each share of Common Stock immediately prior to such event by a fraction the numerator of which shall be the total number of shares of Common Stock outstanding immediately prior to the occurrence of the event and the denominator of which shall be the total number of shares of Common Stock outstanding immediately following the occurrence of such event.

Section 12. Certificate of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Section 11 and Section 13 hereof, the Company shall (a) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts

accounting for such adjustment, (b) promptly file with the Rights Agent, and with each transfer agent for the Preferred Stock and the Common Stock, a copy of such certificate, and (c) mail or cause the Rights Agent to mail a brief summary thereof to each holder of a Rights Certificate (or, if prior to the Distribution Date, to each holder of a certificate representing shares of Common Stock) in accordance with Section 25 hereof. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained.

### Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power.

(a) In the event that, following the Stock Acquisition Date, directly or indirectly, (x) the Company shall consolidate with, or merge with and into, any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), and the Company shall not be the continuing or surviving corporation of such consolidation or merger, (y) any Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof) shall consolidate with, or merge with or into, the Company, and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such consolidation or merger, all or part of the outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (z) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one transaction or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons (other than the Company or any Subsidiary of the Company in one or more transactions each of which complies with Section 11(o) hereof), then, and in each such case (except as may be contemplated by Section 13(d) hereof), proper provision shall be made so that: (i) each holder of a Right, except as provided in Section 7(e) hereof, shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, such number of validly authorized and issued, fully paid, non-assessable and freely tradeable shares of Common Stock of the Principal Party (as such term is hereinafter defined), not subject to any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by (1) multiplying the then current Purchase Price by the number of one one-thousandths of a share of Preferred Stock for which a Right is exercisable immediately prior to the first occurrence of a Section 13 Event (or, if a Section 11(a)(ii) Event has occurred prior to the first occurrence of a Section 13 Event, multiplying the number of such one one-thousandths of a share for which a Right was exercisable immediately prior to the first occurrence of a Section 11(a)(ii) Event by the Purchase Price in effect immediately prior to such first occurrence), and dividing that product (which, following the first occurrence of a Section 13 Event, shall be referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by (2) 50% of the Current Market Price per share of the Common Stock of such Principal Party on the date of consummation of such Section 13 Event; (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof shall apply only to such Principal

Party following the first occurrence of a Section 13 Event; (iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its Common Stock) in connection with the consummation of any such transaction as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its shares of Common Stock thereafter deliverable upon the exercise of the Rights; and (v) the provisions of Section 11(a)(ii) hereof shall be of no effect following the first occurrence of any Section 13 Event.

(b) "Principal Party" shall mean

(i) in the case of any transaction described in clause (x) or

(y) of the first sentence of Section 13(a), the Person that is the issuer of any securities into which shares of Common Stock of the Company are converted in such merger or consolidation, and if no securities are so issued, the Person that is the other party to such merger or consolidation; and

(ii) in the case of any transaction described in clause (z) of the first sentence of Section 13(a), the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions;

provided, however, that in any such case, (1) if the Common Stock of such Person is not at such time and has not been continuously over the preceding twelve (12) month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another Person the Common Stock of which is and has been so registered, "Principal Party" shall refer to such other Person; and (2) in case such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Stock of two or more of which are and have been so registered, "Principal Party" shall refer to whichever of such Persons is the issuer of the Common Stock having the greatest aggregate market value.

(c) The Company shall not consummate any such consolidation, merger, sale or transfer unless the Principal Party shall have a sufficient number of authorized shares of its Common Stock which have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in paragraphs (a) and (b) of this Section 13 and further providing that, as soon as practicable after the date of any consolidation, merger or sale of assets mentioned in paragraph (a) of this Section 13, the Principal Party will

(i) prepare and file a registration statement under the Act, with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form, and will use its best efforts to

cause such registration statement to (A) become effective as soon as practicable after such filing and (B) remain effective (with a prospectus at all times meeting the requirements of the Act) until the Expiration Date; and

(ii) will deliver to holders of the Rights historical financial statements for the Principal Party and each of its Affiliates which comply in all respects with the requirements for registration on Form 10 under the Exchange Act.

The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers. In the event that a Section 13 Event shall occur at any time after the occurrence of a Section 11(a)(ii) Event, the Rights which have not theretofore been exercised shall thereafter become exercisable in the manner described in Section 13(a).

(d) Notwithstanding anything in this Agreement to the contrary,

Section 13 shall not be applicable to a transaction described in subparagraphs

(x) and (y) of Section 13(a) if (i) such transaction is consummated with a Person or Persons who acquired shares of Common Stock pursuant to a Qualifying Offer (or a wholly owned subsidiary of any such Person or Persons), (ii) the price per share of Common Stock offered in such transaction is not less than the price per share of Common Stock paid to all holders of shares of Common Stock whose shares were purchased pursuant to such tender offer or exchange offer and

(iii) the form of consideration being offered to the remaining holders of shares of Common Stock pursuant to such transaction is the same as the form of consideration paid pursuant to such tender offer or exchange offer. Upon consummation of any such transaction contemplated by this Section 13(d), all Rights hereunder shall expire.

#### Section 14. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights, except prior to the Distribution Date as provided in Section 11(p) hereof, or to distribute Rights Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price of the Rights for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading, or if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price

or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights selected by the Board of Directors of the Company. If on any such date no such market maker is making a market in the Rights the fair value of the Rights on such date as determined in good faith by the Board of Directors of the Company shall be used.

(b) The Company shall not be required to issue fractions of shares of Preferred Stock (other than fractions which are integral multiples of one one-thousandth of a share of Preferred Stock) upon exercise of the Rights or to distribute certificates which evidence fractional shares of Preferred Stock (other than fractions which are integral multiples of one one-thousandth of a share of Preferred Stock). In lieu of fractional shares of Preferred Stock that are not integral multiples of one one-thousandth of a share of Preferred Stock, the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one one-thousandth of a share of Preferred Stock. For purposes of this Section 14(b), the current market value of one one-thousandth of a share of Preferred Stock shall be one one-thousandth of the closing price of a share of Preferred Stock (as determined pursuant to Section 11(d)(ii) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) Following the occurrence of a Triggering Event, the Company shall not be required to issue fractions of shares of Common Stock upon exercise of the Rights or to distribute certificates which evidence fractional shares of Common Stock. In lieu of fractional shares of Common Stock, the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one (1) shares of Common Stock. For purposes of this Section 14(c), the current market value of one share of Common Stock shall be the closing price of one share of Common Stock (as determined pursuant to Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of such exercise.

(d) The holder of a Right by the acceptance of the Rights expressly waives his or her right to receive any fractional Rights or any fractional shares upon exercise of a Right, except as permitted by this Section 14.

Section 15. Rights of Action. All rights of action in respect of this Agreement are vested in the respective registered holders of the Rights Certificates (and, prior to the Distribution Date, the registered holders of the Common Stock); and any registered holder of any Rights Certificate (or, prior to the Distribution Date, of the Common Stock), without the consent of the Rights Agent or of the holder of any other Rights Certificate (or, prior to the Distribution Date, of the Common Stock), may, in his or her own behalf and for his or her own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his or her right to exercise the Rights evidenced by such Rights Certificate in the



manner provided in such Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and shall be entitled to specific performance of the obligations hereunder and injunctive relief against actual or threatened violations of the obligations hereunder of any Person subject to this Agreement.

Section 16. Agreement of Rights Holders. Every holder of a Right by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of Common Stock;

(b) after the Distribution Date, the Rights Certificates are transferable only on the registry books of the Rights Agent if surrendered at the principal office or offices of the Rights Agent designated for such purposes, duly endorsed or accompanied by a proper instrument of transfer and with the appropriate forms and certificates fully executed;

(c) subject to Section 6(a) and Section 7(f) hereof, the Company and the Rights Agent may deem and treat the person in whose name a Rights Certificate (or, prior to the Distribution Date, the associated Common Stock certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Rights Certificates or the associated Common Stock certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent, subject to the last sentence of Section 7(e) hereof, shall be required to be affected by any notice to the contrary; and

(d) notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; provided, however, the Company must use its best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as possible.

Section 17. Rights Certificate Holder Not Deemed a Shareholder. No holder, as such, of any Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the number of one-thousandths of a share of Preferred Stock or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights Certificate, as such, any of the rights of a shareholder of the Company or any

right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 24 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Rights Certificate shall have been exercised in accordance with the provisions hereof.

#### Section 18. Concerning the Rights Agent.

(a) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and disbursements and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including reasonable attorneys' fees and expenses and the costs and expenses of defending against any claim of liability in the premises. In no case will the Rights Agent be liable for special, indirect, incidental or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Rights Agent has been advised of the possibility of such damages. Any liability of the Rights Agent will be limited to the amount of fees paid by the Company hereunder. This Section 18(a) shall survive the termination of this Agreement.

(b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any Rights Certificate or certificate for Common Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.

#### Section 19. Merger or Consolidation or Change of Name of Rights Agent.

(a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust or shareholder services business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided, however, that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Rights Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature

of a predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor or in the name of the successor Rights Agent; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person and the determination of "current market price") be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, the President, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Rights Certificates or be required to verify the same (except as to its countersignature on such Rights Certificates), but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Rights Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor shall it be responsible for any adjustment required under the provisions of Section 11 or Section 13 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Rights Certificates after actual notice of any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock or Preferred Stock to be issued pursuant to this Agreement or any Rights Certificate or as to whether any shares of Common Stock or Preferred Stock will, when so issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Rights Agent and any shareholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct; provided, however, reasonable care was exercised in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that

repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Right Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the case may be, has either not been completed or indicates an affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise of transfer without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days' notice in writing mailed to the Company, and to each transfer agent of the Common Stock and Preferred Stock, by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock and Preferred Stock, by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Rights Certificate (who shall, with such notice, submit his Rights Certificate for inspection by the Company), then any registered holder of any Rights Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be a corporation or any affiliate of such a corporation organized and doing business under the laws of the United States or of the State of New York (or of any other state of the United States so long as such corporation is authorized to do business as a banking institution in the State of New York), in good standing, which is authorized under such laws to exercise corporate trust powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$100,000,000. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Stock and the Preferred Stock, and mail a notice thereof in writing to the registered holders of the Rights Certificates. Failure to give any notice provided for in this

Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Rights Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares or other securities or property purchasable under the Rights Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of shares of Common Stock following the Distribution Date and prior to the redemption or expiration of the Rights, the Company (a) shall, with respect to shares of Common Stock so issued or sold pursuant to the exercise of stock options or under any employee plan or arrangement, granted or awarded as of the Distribution Date, or upon the exercise, conversion or exchange of securities hereinafter issued by the Company, and (b) may, in any other case, if deemed necessary or appropriate by the Board of Directors of the Company, issue Rights Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) no such Rights Certificate shall be issued if, and to the extent that, the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or the Person to whom such Rights Certificate would be issued, and (ii) no such Rights Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption and Termination.

(a) The Board of Directors of the Company may, at its option, at any time prior to the earlier of (i) the close of business on the tenth day following the Stock Acquisition Date (or, if the Stock Acquisition Date shall have occurred prior to the Record Date, the close of business on the tenth day following the Record Date), or (ii) the Final Expiration Date, redeem all but not less than all the then outstanding Rights at a redemption price of \$0.001 per Right, as such amount may be appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price"). Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable after the first occurrence of a Section 11(a)(ii) Event until such time as the Company's right of redemption hereunder has expired. The Company may, at its option, pay the Redemption Price in cash, shares of Common Stock (based on the "current market price", as defined in Section 11(d)(i) hereof, of the Common Stock at the time of redemption) or any other form of consideration deemed appropriate by the Board of Directors.

(b) Immediately upon the action of the Board of Directors of the Company ordering the redemption of the Rights, evidence of which shall have been filed with the Rights Agent and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price for each Right so held. Promptly after the action of the Board of Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the Rights Agent and the holders of the then outstanding Rights by mailing such notice to all such holders at each holder's last address as it appears upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Stock. Any notice which is mailed in the manner herein

provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made.

#### Section 24. Notice of Certain Events.

(a) In case the Company shall propose, at any time after the Distribution Date, (i) to pay any dividend payable in stock of any class to the holders of Preferred Stock or to make any other distribution to the holders of Preferred Stock (other than a regular quarterly cash dividend out of earnings or retained earnings of the Company), or (ii) to offer to the holders of Preferred Stock rights or warrants to subscribe for or to purchase any additional shares of Preferred Stock or shares of stock of any class or any other securities, rights or options, or (iii) to effect any reclassification of its Preferred Stock (other than a reclassification involving only the subdivision of outstanding shares of Preferred Stock), or (iv) to effect any consolidation or merger into or with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one transaction or a series of related transactions, of more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof), or (v) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of a Rights Certificate, to the extent feasible and in accordance with Section 25 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, distribution of rights or warrants, or the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of the shares of Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least twenty (20) days prior to the record date for determining holders of the shares of Preferred Stock for purposes of such action, and in the case of any such other action, at least twenty (20) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of the shares of Preferred Stock whichever shall be the earlier.

(b) In case any of the events set forth in Section 11(a)(ii) hereof shall occur, then, in any such case, (i) the Company shall as soon as practicable thereafter give to each holder of a Rights Certificate, to the extent feasible and in accordance with Section 25 hereof, a notice of the occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Section 11(a)(ii) hereof, and (ii) all references in the preceding paragraph to Preferred Stock shall be deemed thereafter to refer to Common Stock and/or, if appropriate, other securities.

Section 25. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Rights Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Rights Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Continental Stock Transfer & Trust Company Two Broadway  
New York, New York 10004 Attention: Compliance Department

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Rights Certificate (or, if prior to the Distribution Date, to the holder of certificates representing shares of Common Stock) shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 26. Supplements and Amendments. Prior to the Distribution Date and subject to the penultimate sentence of this Section 26, the Company and the Rights Agent shall, if the Company so directs, supplement or amend any provision of this Agreement without the approval of any holders of certificates representing shares of Common Stock. From and after the Distribution Date and subject to the penultimate sentence of this Section 26, the Company and the Rights Agent shall, if the Company so directs, supplement or amend this Agreement without the approval of any holders of Rights Certificates in order

(i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein,

(iii) to shorten or lengthen any time period hereunder, or (iv) to change or supplement the provisions hereunder in any manner which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Rights Certificates (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person); provided, this Agreement may not be supplemented or amended to lengthen, pursuant to clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable, or (B) any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and/or the benefits to, the holders of Rights. Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section 26, the Rights Agent shall execute such supplement or amendment. Notwithstanding anything contained in this Agreement to the contrary, no supplement or amendment shall be made which changes the Redemption Price, the Final Expiration Date, the Purchase Price or the number of one one-thousandths of a share of Preferred Stock for which a Right is exercisable.



Prior to the Distribution Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of Common Stock.

Section 27. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 28. Determinations and Actions by the Board of Directors, etc. For all purposes of this Agreement, any calculation of the number of shares of Common Stock outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding shares of Common Stock of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Exchange Act. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board or to the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement, and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not redeem the Rights or to amend the Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and all other parties, and (y) not subject the Board to any liability to the holders of the Rights.

Section 29. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, registered holders of the Common Stock) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, registered holders of the Common Stock).

Section 30. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Company determines in its good faith judgment that severing the invalid language from this Agreement would adversely affect the purpose or effect of this Agreement, the right of redemption set forth in Section 23 hereof shall be reinstated and shall not expire until the close of business on the tenth day following the date of such determination by the Board of Directors.

Section 31. Governing Law. This Agreement, each Right and each Rights Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts made and to be performed entirely within such State.

Section 32. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 33. Descriptive Headings. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

**Attest: MOTORCAR PARTS & ACCESSORIES, INC.**

*By /s/ Peter Bromberg  
Name: Peter Bromberg  
Title: Chief Financial Officer  
& Assistant Secretary*

*By /s/ Richard Marks  
Name: Richard Marks  
Title: President*

*Attest:*

*CONTINENTAL STOCK TRANSFER &  
TRUST COMPANY*

*By /s/ Tuulikki Huovinen  
Name: Tuulikki Huovinen  
Title: Assistant Secretary*

*By /s/ William F. Seegraber  
Name: William F. Seegraber  
Title: Vice President*

**Exhibit A**

**CERTIFICATE OF AMENDMENT OF THE  
CERTIFICATE OF INCORPORATION**

of

**MOTORCAR PARTS & ACCESSORIES, INC.**

Under Section 805 of the Business Corporation Law of the State of New York

We the undersigned, Richard Marks, President, and Peter Bromberg, Assistant Secretary of Motorcar Parts & Accessories, Inc., a corporation organized and existing under the laws of the State of New York, in accordance with the provisions of Section 104 of the Business Corporation Law of the State of New York, DO HEREBY CERTIFY:

1. The name of the corporation is Motorcar Parts & Accessories, Inc. (hereinafter called the "Corporation"). The name under which the Corporation was formed was Motorcar Parts & Associates, Inc.
2. The Certificate of Incorporation was filed by the Department of State of the State of New York on April 2, 1968.
3. The Certificate of Incorporation of the Company, as amended heretofore (the "Certificate of Incorporation"), is further amended by the addition of the following provisions stating the number, designation, relative rights, preferences and limitations of a series of Preferred Shares of the Company designated as "Series A Junior Participating Preferred Stock."
4. To accomplish the foregoing amendment, a new section (c) of Article FOURTH is added to the Certificate of Incorporation, which section (c) of Article FOURTH reads in its entirety as follows:

**"(c) SERIES A JUNIOR PARTICIPATING PREFERRED STOCK**

- (1) Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" and the number of shares constituting such series shall be 20,000.
- (2) Dividends and Distributions.

(A) The holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$0.01 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in Common Stock or a subdivision of the outstanding Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after February 24, 1998 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in Paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$0.01 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such

dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

(3) Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series A Junior Participating Preferred Stock and the holders of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C) (i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock (including holders of the Series A Junior Participating Preferred Stock) with dividends in arrears in an amount equal to six (6) quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect two (2) directors.

(ii) During any default period, such voting right of the holders of Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders, provided that such voting right shall not be exercised unless the holders of ten percent (10%) in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which

the holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two (2) directors or, if such right is exercised at an annual meeting, to elect two (2) directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect directors in any default period and during the continuance of such period, the number of directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series A Junior Participating Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect directors, the Board of Directors may order, or, subject to the provisions of the Certificate of Incorporation, as amended, any stockholder or shareholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this Paragraph

(C)(iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him or her at his or her last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any shareholder or shareholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this Paragraph (C)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the shareholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of directors until the holders of Preferred Stock shall have exercised their right to elect two (2) directors voting as a class, after the exercise of which right (x) the directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in Paragraph (C)(ii) of this Section 3) be filled by vote of a majority of the remaining directors theretofore elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this Paragraph (C) to directors elected by the holders of particular class of stock shall include directors elected by such directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect directors shall cease, (y) the term of any

directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of directors shall be such number as may be provided for in the Certificate of Incorporation or By-laws irrespective of any increase made pursuant to the provisions of Paragraph (C)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the Certificate of Incorporation or By-Laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining directors.

(D) Except as set forth herein, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(4) Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 of this Section (c) are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in

writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Paragraph (A) of this Section 3, purchase or otherwise acquire such shares at such time and in such manner.

(5) **Reacquired Shares.** Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

(6) **Liquidation, Dissolution or Winding Up.**

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received an amount equal to 1,000 times the Exercise Price, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing

(i) the Series A Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity



shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of Common Stock outstanding immediately after such event and the denominator of which is the number of Common Stock that were outstanding immediately prior to such event.

(7) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(8) No Redemption. The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

(9) Ranking. The Series A Junior Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

(10) Amendment. The Certificate of Incorporation, as amended, of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

(11) Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holders fractional shares,

to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock."

5. The manner in which the foregoing amendment of the Certificate of Incorporation was authorized is as follows: The Board of Directors of the Corporation authorized the amendment under the authority vested in said Board under the provisions of the Certificate of Incorporation and of Section 502 of the Business Corporation Law.

IN WITNESS WHEREOF, we have subscribed this document on the date set opposite each of our names below and do hereby affirm, under the penalties of perjury, that the statements contained therein have been examined by us and are true and correct.

Date: February 24, 1998

Name: Richard Marks  
Title: President

Name: Peter Bromberg  
Title: Chief Financial Officer  
and Assistant Secretary

**Exhibit B**

[Form of Rights Certificate]

**Certificate No. R- \_\_\_\_\_ Rights**

NOT EXERCISABLE AFTER MARCH 12, 2008 OR EARLIER IF REDEEMED BY THE COMPANY. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AT \$0.001 PER RIGHT ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON (AS SUCH TERM IS DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF SUCH AGREEMENT.]<sup>1</sup>

**Rights Certificate**

**MOTORCAR PARTS & ACCESSORIES, INC.**

This certifies that \_\_\_\_\_, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement, dated as of February 24, 1998 (the "Rights Agreement"), between Motorcar Parts & Accessories, Inc., a New York corporation (the "Company"), and Continental Stock Transfer & Trust Company, a New York corporation (the "Rights Agent"), to purchase from the Company at any time prior to 5:00 P.M. (New York City time) on March 12, 2008 at the office or offices of the Rights Agent designated for such purpose, or its successors as Rights Agent, one one-thousandth of a fully paid, non-assessable share of Series A Junior Participating Preferred Stock (the "Preferred Stock") of the Company, at a purchase price of \$65.00 per one one-thousandth of a share (the "Purchase Price"), upon presentation and surrender of this Rights Certificate with the Form of Election to Purchase and related Certificate duly executed. The number of Rights evidenced by this Rights Certificate (and the number of shares which may be purchased upon exercise thereof) set forth above, and the Purchase Price per share set forth above, are the number and Purchase Price as of March 12, 1998 based on the Preferred Stock as constituted at such date. The Company reserves the right to require prior to the occurrence of a Triggering

\_\_\_\_\_

<sup>1</sup> The portion of the legend in brackets shall be inserted only if applicable and shall replace the preceding sentence.

Event (as such term is defined in the Rights Agreement) that a number of Rights be exercised so that only whole shares of Preferred Stock will be issued.

Upon the occurrence of a Section 11(a)(ii) Event (as such term is defined in the Rights Agreement), if the Rights evidenced by this Rights Certificate are beneficially owned by (i) an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined in the Rights Agreement), (ii) a transferee of any such Acquiring Person, Associate or Affiliate, or (iii) under certain circumstances specified in the Rights Agreement, a transferee of a person who, after such transfer, became an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, such Rights shall become null and void and no holder hereof shall have any right with respect to such Rights from and after the occurrence of such Section 11(a)(ii) Event.

As provided in the Rights Agreement, the Purchase Price and the number and kind of shares of Preferred Stock or other securities, which may be purchased upon the exercise of the Rights evidenced by this Rights Certificate are subject to modification and adjustment upon the happening of certain events, including Triggering Events.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the above-mentioned office of the Rights Agent and are also available upon written request to the Rights Agent.

This Rights Certificate, with or without other Rights Certificates, upon surrender at the principal office or offices of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of one one-thousandths of a share of Preferred Stock as the Rights evidenced by the Rights Certificate or Rights Certificates surrendered shall have entitled such holder to purchase. If this Rights Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate may be redeemed by the Company at its option at a redemption price of \$0.001 per Right at any time prior to the earlier of the close of business on (i) the tenth day following the Stock Acquisition Date (as such time period may be extended pursuant to the Rights Agreement), and (ii) the Final Expiration Date. In addition, the Rights may be exchanged, in whole or in part, for shares of Common Stock, or shares of preferred stock of the Company having essentially the same value or economic rights as such shares. Immediately upon the action of the Board of Directors of the

Company authorizing any such exchange, and without any further action or any notice, the Rights (other than Rights which are not subject to such exchange) will terminate and the Rights will only enable holders to receive the shares issuable upon such exchange. No fractional shares of Preferred Stock will be issued upon the exercise of any Right or Rights evidenced hereby (other than fractions which are integral multiples of one one-thousandth of a share of Preferred Stock, which may, at the election of the Company, be evidenced by depositary receipts), but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate shall be entitled to vote or receive dividends or be deemed for any purpose the holder of shares of Preferred Stock or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or, to receive notice of meetings or other actions affecting shareholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal.

Dated:

ATTEST:

MOTORCAR PARTS & ACCESSORIES, INC.

\_\_\_\_\_  
Assistant Secretary

By \_\_\_\_\_  
Title:

Countersigned:

CONTINENTAL STOCK TRANSFER  
& TRUST COMPANY

By \_\_\_\_\_  
Authorized Officer

[Form of Reverse Side of Rights Certificate]

**FORM OF ASSIGNMENT**

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate.)

**FOR VALUE RECEIVED**

hereby sells, assigns and transfer unto

(Please print name and address of transferee)

this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_  
Attorney, to transfer the within Rights Certificate on the books of the within-named Company, with full power of substitution.

Dated: \_\_\_\_\_, 19\_\_

\_\_\_\_\_

**Signature**

**Signature Guaranteed:**

## Certificate

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Rights Certificate [ ] is [ ] is not being sold, assigned and transferred by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined pursuant to the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: \_\_\_\_\_, 19\_\_ \_\_\_\_\_ Signature

**Signature Guaranteed:**

### NOTICE

The signature to the foregoing Assignment and Certificate must correspond to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

**FORM OF ELECTION TO PURCHASE**

(To be executed if holder desires to exercise Rights represented by the Rights Certificate.)

**To: MOTORCAR PARTS & ACCESSORIES, INC.:**

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_ Rights represented by this Rights Certificate to purchase the shares of Preferred Stock issuable upon the exercise of the Rights (or such other securities of the Company or of any other person which may be issuable upon the exercise of the Rights) and requests that certificates for such shares be issued in the name of and delivered to:

Please insert social security  
or other identifying number

(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

Please insert social security  
or other identifying number

(Please print name and address)

Dated: \_\_\_\_\_, 19\_\_ \_\_\_\_\_ Signature

**Signature Guaranteed:**



## Certificate

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Rights Certificate  are  are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined pursuant to the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it  did  did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: \_\_\_\_\_, 19\_\_ \_\_\_\_\_ Signature

**Signature Guaranteed:**

### NOTICE

The signature to the foregoing Election to Purchase and Certificate must correspond to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

## Exhibit C

### **DETAILED SUMMARY OF RIGHTS TO PURCHASE SERIES A JUNIOR PARTICIPATING PREFERRED STOCK**

On February 24, 1998, the Board of Directors of Motorcar Parts & Accessories, Inc. (the "Company") adopted a Shareholder Rights Plan, providing that one Right shall be attached to each share of Common Stock, par value \$0.01 per share (the "Common Stock"), of the Company. Each Right entitles the registered holder to purchase from the Company a unit (a "Unit") consisting of one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share (the "Preferred Stock"), at a purchase price (the "Purchase Price") of \$65.00 per one one-thousandth of a share of Preferred Stock (a "Unit"), subject to adjustment. The description and terms of the Rights are set forth in the Rights Agreement (the "Rights Agreement"), dated as of February 24, 1998, between the Company and Continental Stock Transfer & Trust Company, a New York corporation, as Rights Agent (the "Rights Agent").

Initially, the Rights will be attached to all Common Stock certificates representing shares then outstanding, and no separate Rights Certificate will be distributed. The Rights will separate from the Common Stock upon the earlier of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or has obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of Common Stock (the "Stock Acquisition Date") or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of such outstanding shares of Common Stock (the earlier of (i) and (ii), the "Distribution Date"). The definition of Acquiring Person, subject to certain limitations set forth in the Rights Agreement, excludes Mel Marks, Richard Marks and their Affiliates or Associates. Until the Distribution Date, (i) the Rights will be evidenced by the Common Stock certificates and will be transferred with and only with such Common Stock certificates, (ii) new Common Stock certificates will contain a notation incorporating the Rights Agreement by reference and (iii) the surrender for transfer of any certificates for Common Stock outstanding will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate.

The Rights are not exercisable until the Distribution Date and will expire at the close of business on March 12, 2008 unless earlier redeemed by the Company as described below. At no time will the Rights have any voting power.

As soon as practicable after the Distribution Date, Rights Certificates will be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date and, thereafter, the separate Rights Certificates alone will represent the Rights. Except as otherwise determined by the Board of Directors, only shares of Common Stock issued prior to the Distribution Date will be issued with Rights.

In the event that an Acquiring Person becomes the beneficial owner of 20% or more of the then outstanding shares of Common Stock (unless such acquisition is made pursuant to a tender or exchange offer for all outstanding shares of the Company, at a price determined by a majority of the independent directors of the Company who are not representatives, nominees, Affiliates or Associates of an Acquiring Person to be fair and otherwise in the best interest of the Company and its shareholders after receiving advice from one or more investment banking firms (a "Qualifying Offer")), each holder of a Right will thereafter have the right to receive, upon exercise, shares of Common Stock (or, in certain circumstances, cash, property or other securities of the Company), having a value equal to two times the Exercise Price of the Right. The Exercise Price is the Purchase Price times the number of shares of Common Stock associated with each Right (initially, one). Notwithstanding any of the foregoing, following the occurrence of any of the events set forth in this paragraph (the "Flip-in Events"), all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by any Acquiring Person will be null and void. However, Rights are not exercisable following the occurrence of any of the Flip-in Events set forth above until such time as the Rights are no longer redeemable by the Company as set forth below.

In the event that following the Stock Acquisition Date, (i) the Company engages in a merger or business combination transaction in which the Company is not the surviving corporation (other than a merger consummated pursuant to a Qualifying Offer); (ii) the Company engages in a merger or business combination transaction in which the Company is the surviving corporation and the Common Stock of the Company is changed or exchanged; or (iii) more than 50% of the Company's assets or earning power is sold or transferred, each holder of a Right (except Rights which have previously been voided as set forth above) shall thereafter have the right to receive, upon exercise of the Right, common stock of the acquiring company having a value equal to two times the Exercise Price of the Right.

The Purchase Price payable, and the number of Units of Preferred Stock or other securities or property issuable upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock, (ii) if holders of the Preferred Stock are granted certain rights or warrants to subscribe for Preferred Stock or convertible securities at less than the current market price of the Preferred Stock, or (iii) upon the distribution to holders of the Preferred Stock of evidences of indebtedness or assets (excluding regular quarterly cash dividends) or of subscription rights or warrants (other than those referred to above).

With certain exceptions, no adjustments in the Purchase Price will be required until cumulative adjustments amount to at least 1% of the Purchase Price. No fractional Units will be issued and, in lieu thereof, an adjustment in cash will be made based on the market price of the Preferred Stock on the last trading date prior to the date of exercise.

At any time until ten days following the Stock Acquisition Date, the Company may redeem the Rights in whole, but not in part, at a price of \$0.001 per Right. Immediately upon the

action of the Board of Directors ordering redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the \$0.001 redemption price.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends. While the distribution of the Rights will not be taxable to shareholders or to the Company, shareholders may, depending upon the circumstances, recognize taxable income in the event that the Rights become exercisable for shares of Common Stock (or other consideration) of the Company as set forth above or in the event that the Rights are redeemed.

Other than those provisions relating to the principal economic terms of the Rights, any of the provisions of the Rights Agreement may be amended by the Board of Directors of the Company prior to the Distribution Date. After the Distribution Date, the provisions of the Rights Agreement may be amended by the Board in order to cure any ambiguity, to make changes which do not adversely affect the interests of holders of Rights (excluding the interest of any Acquiring Person), or to shorten or lengthen any time period under the Rights Agreement; provided, however, that no amendment to adjust the time period governing redemption shall be made at such time as the Rights are not redeemable.

A copy of the Rights Agreement is being filed with the Securities and Exchange Commission as an Exhibit to a Registration Statement on Form 8-A. A copy of the Rights Agreement is available free of charge from the Company. This Summary Description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which is incorporated herein by reference.

### THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of February 10, 1998, by and between MOTORCAR PARTS & ACCESSORIES, INC., a New York corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

#### RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of June 1, 1996, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 1.2(d) is hereby deleted in its entirety, and the following substituted therefor:

"(d) UNUSED COMMITMENT FEE. Borrower shall pay to Bank a fee equal to one-fifth of one percent (0.20%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily unused amount of the Line of Credit, which fee shall be calculated on an annual basis by Bank and shall be due and payable by Borrower in arrears within five (5) days after each billing is sent by Bank."

2. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

3. Buyer hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

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

MOTORCAR PARTS &  
ACCESSORIES, INC.

WELLS FARGO BANK,  
NATIONAL ASSOCIATION

By: /S/ PETER BROMBERG  
-----  
Title: CFO

By: /S/ JOHN P. MANNING  
-----  
John P. Manning  
Vice President

By: /S/ RICHARD MARKS  
-----  
Title: PRESIDENT

## SUBSIDIARIES

Name -----	Jurisdiction of Organization -----
MVR Products Pte Limited	Singapore
Unijoh Sdn, Bhd	Malaysia

## CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statement pertaining to the 1994 stock option plan of Motorcar Parts & Accessories, Inc. on Form S-8 of our report dated May 19, 1998 which is included in the annual report on Form 10-K for the year ended March 31, 1998.

*/s/ Richard A. Eisner & Company, LLP*

*Richard A. Eisner & Company, LLP*

*New York, New York*

*June 25, 1998*



**ARTICLE 5**

CIK: 0000918251

NAME: MOTORCAR PARTS &amp; ACCESSORIES, INC.

PERIOD TYPE	YEAR
FISCAL YEAR END	MAR 31 1998
PERIOD END	MAR 31 1998
CASH	3,108,000
SECURITIES	0
RECEIVABLES	29,841,000
ALLOWANCES	250,000
INVENTORY	54,736,000
CURRENT ASSETS	89,297,000
PP&E	10,588,000
DEPRECIATION	3,447,000
TOTAL ASSETS	98,245,000
CURRENT LIABILITIES	13,964,000
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	64,000
OTHER SE	68,063,000
TOTAL LIABILITY AND EQUITY	98,245,000
SALES	112,952,000
TOTAL REVENUES	112,952,000
CGS	91,317,000
TOTAL COSTS	100,581,000
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	1,577,000
INCOME PRETAX	10,794,000
INCOME TAX	4,192,000
INCOME CONTINUING	6,602,000
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	6,602,000
EPS PRIMARY	1.20
EPS DILUTED	1.16

---

**End of Filing**Powered By **EDGAR**  
Online

© 2005 | EDGAR Online, Inc.