MOTORCAR PARTS AMERICA INC
Form 10-Q
February 09, 2015

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

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2014

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-33861

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

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

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

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

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

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

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

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

There were 17,962,532 shares of Common Stock outstanding at February 2, 2015.

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MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

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

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

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

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2014 (Unaudited)	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$76,718,000	$24,599,000
Short-term investments	639,000	521,000
Accounts receivable — net (Note 5)	-	22,283,000
Inventory— net	58,531,000	47,246,000
Inventory unreturned	8,046,000	7,534,000
Deferred income taxes	19,083,000	18,767,000
Prepaid expenses and other current assets	3,613,000	4,316,000
Total current assets	166,630,000	125,266,000
Plant and equipment — net	11,767,000	11,025,000
Long-term core inventory — net	153,648,000	143,476,000
Long-term core inventory deposits	31,571,000	29,375,000
Long-term deferred income taxes	3,284,000	2,614,000
Intangible assets — net	2,734,000	3,244,000
Other assets	4,027,000	3,853,000
TOTAL ASSETS	$373,661,000	$318,853,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$60,472,000	$59,509,000
Accrued liabilities	9,101,000	8,316,000
Customer finished goods returns accrual	16,973,000	16,251,000
Revolving loan	-	10,000,000
Other current liabilities	3,949,000	1,270,000
Current portion of term loan	7,843,000	7,843,000
Total current liabilities	98,338,000	103,189,000
Term loan, less current portion	74,052,000	79,434,000
Deferred core revenue (Note 3)	-	15,065,000
Other liabilities	14,036,000	11,529,000
Total liabilities	186,426,000	209,217,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued	-	-
Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued	-	-
Common stock; par value $.01 per share, 50,000,000 shares authorized;17,960,098 and 15,067,645 shares issued and outstanding at December 31, 2014 and March 31, 2014, respectively	180,000	151,000
Additional paid-in capital	190,556,000	120,553,000
Accumulated other comprehensive loss	(1,661,000)	(877,000)
Accumulated deficit	(1,840,000)	(10,191,000)

Total shareholders' equity	187,235,000	109,636,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$373,661,000	$318,853,000

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net sales	$83,992,000	$65,568,000	$217,807,000	$181,987,000
Cost of goods sold	59,564,000	43,642,000	157,143,000	124,342,000
Gross profit	24,428,000	21,926,000	60,664,000	57,645,000
Operating expenses:				
General and administrative	12,628,000	9,580,000	27,832,000	27,918,000
Sales and marketing	2,281,000	1,905,000	5,944,000	5,779,000
Research and development	601,000	452,000	1,662,000	1,399,000
Total operating expenses	15,510,000	11,937,000	35,438,000	35,096,000
Operating income	8,918,000	9,989,000	25,226,000	22,549,000
Interest expense, net	3,165,000	6,524,000	9,917,000	15,112,000
Income from continuing operations before income tax expense	5,753,000	3,465,000	15,309,000	7,437,000
Income tax expense	2,826,000	2,317,000	6,958,000	4,022,000
Income from continuing operations	2,927,000	1,148,000	8,351,000	3,415,000
Income from discontinued operations	-	-	-	100,877,000
Net income	$2,927,000	$1,148,000	$8,351,000	$104,292,000
Basic net income per share from continuing operations	$0.16	$0.08	$0.51	$0.24
Basic net income per share from discontinued operations	-	-	-	6.95
Basic net income per share	$0.16	$0.08	$0.51	$7.19
Diluted net income per share from continuing operations	$0.16	$0.07	$0.49	$0.23
Diluted net income per share from discontinued operations	-	-	-	6.75
Diluted net income per share	$0.16	$0.07	$0.49	$6.98
Weighted average number of shares outstanding:				
Basic	17,921,682	14,618,930	16,331,168	14,513,864
Diluted	18,822,664	15,429,756	17,206,069	14,944,937

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net income	$2,927,000	$1,148,000	$8,351,000	$104,292,000
Other comprehensive income (loss), net of tax:				
Unrealized gain on short-term investments (net of tax of $10,000, $10,000, $15,000 and $20,000)	15,000	16,000	22,000	30,000
Foreign currency translation loss	(338,000)	(47,000)	(806,000)	(59,000)
Total other comprehensive loss, net of tax	(323,000)	(31,000)	(784,000)	(29,000)
Comprehensive income	$2,604,000	$1,117,000	$7,567,000	$104,263,000

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

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

	Nine Months Ended December 31,	
Cash flows from operating activities:	2014	2013
Net income	$8,351,000	$104,292,000
Less income from discontinued operations	-	100,877,000
Income from continuing operations	8,351,000	3,415,000
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation	1,355,000	1,533,000
Amortization of intangible assets	510,000	558,000
Amortization of debt issuance costs	1,274,000	4,157,000
Loss due to change in fair value of warrant liability	2,199,000	6,881,000
Gain on extinguishment of warrant liability	-	(216,000)
Gain on redemption of short term investment	(4,000)	-
Provision for inventory reserves	839,000	1,062,000
Net recovery of customer payment discrepancies	(292,000)	(210,000)
Provision for (net recovery of) doubtful accounts	178,000	(47,000)
Deferred income taxes	(1,067,000)	14,220,000
Share-based compensation expense	1,697,000	549,000
Impact of tax benefit on APIC pool from stock options exercised	90,000	717,000
Loss on disposals of plant and equipment	1,000	8,000
Changes in current assets and liabilities:		
Accounts receivable	22,398,000	1,507,000
Inventory	(11,576,000)	(10,210,000)
Inventory unreturned	(512,000)	(218,000)
Prepaid expenses and other current assets	427,000	5,689,000
Other assets	(378,000)	(353,000)
Accounts payable and accrued liabilities	1,740,000	8,876,000
Customer finished goods returns accrual	722,000	(1,359,000)
Deferred core revenue	(15,065,000)	1,395,000
Long-term core inventory	(10,728,000)	(17,244,000)
Long-term core inventory deposits	(2,196,000)	(1,247,000)
Other liabilities	2,963,000	262,000
Net cash provided by operating activities from continuing operations	2,926,000	19,725,000
Net cash provided by operating activities from discontinued operations	-	979,000
Net cash provided by operating activities	2,926,000	20,704,000
Cash flows from investing activities:		
Purchase of plant and equipment	(2,551,000)	(2,154,000)
Change in short term investments	(77,000)	(35,000)
Net cash used in investing activities from continuing operations	(2,628,000)	(2,189,000)
Net cash used in investing activities from discontinued operations	-	(295,000)
Net cash used in investing activities	(2,628,000)	(2,484,000)
Cash flows from financing activities:		
Borrowings under revolving loan	-	10,000,000
Repayment of revolving loan	(10,000,000)	-
Proceeds from term loan	-	20,000,000

Repayments of term loan	(6,300,000)	(9,500,000)
Debt issuance costs	-	(5,221,000)
Payments on capital lease obligations	(48,000)	(156,000)
Exercise of stock options	1,152,000	3,555,000
Excess tax benefit related to share-based compensation	925,000	491,000
Cash used to net share settle equity awards	(806,000)	-
Repurchase of common stock and options, including fees	-	(627,000)
Repurchase of warrants	-	(2,194,000)
Proceeds from issuance of common stock	71,760,000	-
Stock issuance costs	(4,787,000)	-
Net cash provided by financing activities from continuing operations	51,896,000	16,348,000
Net cash used in financing activities from discontinued operations	-	(20,636,000)
Net cash provided by (used in) financing activities	51,896,000	(4,288,000)
Effect of exchange rate changes on cash and cash equivalents	(75,000)	(36,000)
Net increase in cash and cash equivalents	52,119,000	13,896,000
Cash and cash equivalents — Beginning of period from continuing operations	24,599,000	19,346,000
Cash and cash equivalents— Beginning of period from discontinued operations	-	88,000
Cash and cash equivalents — End of period	$76,718,000	$33,330,000
Less Cash — End of period from discontinued operations	-	-
Cash and cash equivalents — End of period from continuing operations	$76,718,000	$33,330,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net	$8,642,000	$12,095,000
Income taxes, net of refunds	3,981,000	(16,472,000)
Non-cash investing and financing activities:		
Property acquired under capital lease	$6,000	$34,000

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

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MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Condensed Notes to Consolidated Financial Statements
December 31, 2014
(Unaudited)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2015. This report should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended March 31, 2014, which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on June 16, 2014, as amended by the Form 10-K/A filed with the SEC on July 29, 2014.

The accompanying consolidated financial statements have been prepared on a consistent basis with, and there have been no material changes to, the accounting policies described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements that are presented in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Corrections to Previously Issued Financial Statements

In connection with the preparation of the financial statements, errors in the computation and disclosure of diluted net income per share were identified for the three and nine months ended December 31, 2013. This resulted from an error in the computation of diluted shares under the "treasury stock method" as a result of not properly considering non-vested awards in the computation of diluted earnings per share. This error affected the weighted average shares outstanding used in the denominator for diluted net income per share. The Company evaluated the materiality of this error and concluded that it was immaterial. While the adjustments were immaterial, the Company elected to revise its previously reported diluted earnings per share as shown in the following table:

	Three Months Ended December 31, 2013		Nine Months Ended December 31, 2013	
	As Reported	As Revised	As Reported	As Revised
Numerator:				
Income from continuing operations	$1,148,000	$1,148,000	$3,415,000	$3,415,000
Income from discontinued operations	-	-	100,877,000	100,877,000
Net income	$1,148,000	$1,148,000	$104,292,000	$104,292,000
Demonimator:				
Shares used for basic net income per share	14,618,930	14,618,930	14,513,864	14,513,864
Effect of potentially dilutive securities	643,567	810,826	306,477	431,073
Weighted average shares outstanding for diluted net income per share	15,262,497	15,429,756	14,820,341	14,944,937
Diluted net income per share from continuing operations	$0.08	$0.07	$0.23	$0.23
Diluted net income per share from discontinued operations	-	-	6.81	6.75
Diluted net income per share	$0.08	$0.07	$7.04	$6.98

These corrections had no impact on the Company’s consolidated balance sheets, net income, basic net income per share, or the consolidated statements of comprehensive income and consolidated statements of cash flows for any of the above mentioned periods.

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1. Company Background and Organization

Motorcar Parts of America, Inc. and its subsidiaries (the “Company”, or “MPA”) is a leading manufacturer, remanufacturer, and distributor of aftermarket automotive parts. These replacement parts are sold for use on vehicles after initial vehicle purchase. These automotive parts are sold to automotive retail chain stores and warehouse distributors throughout North America and to major automobile manufacturers for both their aftermarket programs and warranty replacement programs (“OES”). The Company’s products include alternators and starters, wheel hub assemblies and bearings, and new brake master cylinders. The Company began selling new brake master cylinders to a major customer in late July 2014.

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

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

Pursuant to the guidance provided under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), for segment reporting the Company has determined that its operating segments meet the criteria for aggregation and accordingly the Company has one reportable segment for purposes of recording and reporting its financial results.

2. Discontinued Operations

In May 2011, the Company purchased (i) all of the outstanding equity of Fenwick Automotive Products Limited ("FAPL"), (ii) all of the outstanding equity of Introcan, Inc., a Delaware corporation ("Introcan"), and (iii) 1% of the outstanding equity of Fapco S.A. de C.V., a Mexican variable capital company ("Fapco") (collectively, "Fenco" and also referred to herein as the "discontinued subsidiary"). Since FAPL owned 99% of Fapco prior to these acquisitions, the Company owned 100% of Fapco.

Between May 2011 and its bankruptcy in June 2013, Fenco had been attempting to turn around its business. However, revenues generated by its undercar product line segment were not sufficient to enable Fenco to meet its operating expenses and otherwise implement its undercar product line turnaround plan. Fenco had recurring operating losses since the date of acquisition and had a working capital and equity deficiency.

In May 2013, FAPL appointed a new board of independent directors, hired an independent chief restructuring officer and all its previously existing officers resigned from FAPL. As a result of loss of control of Fenco, the Company deconsolidated the assets and liabilities of Fenco from its consolidated financial statements effective May 31, 2013. On June 10, 2013, each of FAPL, Introcan and Introcan's subsidiaries, Flo-Pro Inc., LH Distribution Inc., Rafko Logistics Inc., Rafko Holdings Inc. and Rafko Enterprises Inc. (collectively, the "Fenco Entities"), filed a voluntary petition for relief under Chapter 7 of Title 11 of the United States Code (the "Bankruptcy Code") in the U.S. Bankruptcy Court for the District of Delaware. As a result of the loss of control of Fenco and the subsequent filing of the petition for relief under the Bankruptcy Code, Fenco had effectively been disposed of and the Company did not and does not retain any continuing involvement in the operations of Fenco. The Company may be subject to claims relating to the bankruptcy (see Note 17).

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The Company's income from discontinued operations was $100,877,000 during the nine months ended December 31, 2013 and consisted of (i) a $118,095,000 gain on the deconsolidation of the discontinued subsidiary, including an income tax benefit of $1,374,000, (ii) a loss of approximately $20,464,000 in connection with the guarantee of obligations to certain suppliers of the discontinued subsidiary partly offset by income tax benefits of $9,156,000, and (iii) net sales of approximately $14,140,000 and the resulting loss of approximately $5,910,000 incurred by the discontinued subsidiary from April 1, 2013 to May 31, 2013.

3. Deferred Core Revenue

For certain customers, the Company had agreed in the past to buy back Remanufactured Cores related to existing product offerings with such customers. The Company had deferred core revenue from these customers until there was no expectation that the sales allowances associated with Remanufactured Core buybacks from these customers would offset Remanufactured Core revenues that would otherwise be recognized. During the three months ended December 31, 2014, the Company was able to estimate the cost of the remaining Remanufactured Cores that can be bought back in the future from these customers. Therefore, the Company recognized previously deferred core revenue of $16,331,000 and associated cost of goods sold, partly offset by an accrued sales allowance of $3,706,000 for future buy-backs of Remanufactured Cores.

4. Intangible Assets

The following is a summary of the intangible assets subject to amortization at December 31, 2014 and March 31, 2014.

		December 31, 2014		March 31, 2014	
	Weighted Average Amortization Period	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Trademarks	9 years	$553,000	$423,000	$553,000	$391,000
Customer relationships	12 years	6,464,000	3,860,000	6,464,000	3,393,000
Non-compete agreements	5 years	257,000	257,000	257,000	246,000
Total	11 years	$7,274,000	$4,540,000	$7,274,000	$4,030,000

Amortization expense for acquired intangible assets is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Amortization expense	$160,000	$180,000	$510,000	$558,000

The estimated future amortization expense for intangible assets subject to amortization is as follows:

Year Ending March 31,	
2015 - remaining three months	$160,000
2016	349,000
2017	266,000
2018	266,000
2019	266,000
Thereafter	1,427,000

Total	$2,734,000

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5. Accounts Receivable — Net

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

Accounts receivable — net is comprised of the following:

	December 31, 2014	March 31, 2014
Accounts receivable — trade	$46,018,000	$58,766,000
Allowance for bad debts	(623,000)	(854,000)
Customer allowances earned	(12,153,000)	(9,088,000)
Customer payment discrepancies	(487,000)	(577,000)
Customer returns RGA issued	(9,018,000)	(5,809,000)
Customer core returns accruals	(24,638,000)	(20,155,000)
Less: total accounts receivable offset accounts	(46,919,000)	(36,483,000)
Total accounts receivable — net	$(901,000)(1)	$22,283,000

(1) Accounts receivable –net has been reclassified and included in accrued liabilities in the consolidated balance sheet at December 31, 2014 (see Note 3).

Warranty Returns

The Company allows its customers to return goods to the Company that their end-user customers have returned to them, whether the returned item is or is not defective (warranty returns). The Company accrues an estimate of its exposure to warranty returns based on a historical analysis of the level of this type of return as a percentage of total unit sales. Amounts charged to expense for these warranty returns are considered in arriving at the Company’s net sales. At December 31, 2014 and March 31, 2014, the Company’s total warranty return accrual was $7,003,000 and $8,039,000, respectively, of which of $3,355,000 and $2,407,000 was included in the customer returns RGA issued balance in the above table for expected credits to be issued against accounts receivable and $3,648,000 and $5,632,000, respectively, was included in the customer finished goods returns accrual in the consolidated balance sheets for estimated future warranty returns.

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Change in the Company's warranty return accrual from its continuing operations is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Balance at beginning of period	$8,421,000	$7,204,000	$8,039,000	$6,205,000
Charged to expense	13,651,000	12,471,000	44,010,000	41,196,000
Amounts processed	(15,069,000)	(13,267,000)	(45,046,000)	(40,993,000)
Balance at end of period	$7,003,000	$6,408,000	$7,003,000	$6,408,000

6. Inventory

Inventory is comprised of the following:

	December 31, 2014	March 31, 2014
Non-core inventory		
Raw materials	$19,203,000	$18,787,000
Work-in-process	265,000	124,000
Finished goods	41,022,000	30,197,000
	60,490,000	49,108,000
Less allowance for excess and obsolete inventory	(1,959,000)	(1,862,000)
Total	$58,531,000	$47,246,000
Inventory unreturned	$8,046,000	$7,534,000
Long-term core inventory		
Used cores held at the Company's facilities	$25,797,000	$23,718,000
Used cores expected to be returned by customers	8,294,000	6,160,000
Remanufactured cores held in finished goods	21,698,000	18,093,000
Remanufactured cores held at customers' locations	98,560,000	96,351,000
	154,349,000	144,322,000
Less allowance for excess and obsolete inventory	(701,000)	(846,000)
Total	$153,648,000	$143,476,000
Long-term core inventory deposits	$31,571,000	$29,375,000

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7. Major Customers

The Company’s largest customers accounted for the following total percentage of net sales from continuing operations:

Sales	Three Months Ended December 31, 2014	2013	Nine Months Ended December 31, 2014	2013
Customer A	63%	54 %	57%	52 %
Customer B	19%	19 %	21%	21 %
Customer C	5 %	10 %	6 %	11 %
Customer D	2 %	3 %	3 %	4 %

The Company’s largest customers accounted for the following total percentage of accounts receivable—trade:

Accounts receivable - trade	December 31, 2014	March 31, 2014
Customer A	36 %	46 %
Customer B	20 %	12 %
Customer C	5 %	7 %
Customer D	7 %	10 %

The Company’s largest supplier accounted for 5% and 13% of inventory purchases for the three months ended December 31, 2014 and 2013, respectively. The Company’s largest supplier accounted for 10% and 14% of inventory purchases for the nine months ended December 31, 2014 and 2013, respectively.

8. Debt

The Company has the following credit agreements.

Financing Agreement

The Company is party to a financing agreement, as amended, (the “Financing Agreement”) with a syndicate of lenders, Cerberus Business Finance, LLC (“Cerberus”), as collateral agent, and PNC Bank, National Association, as administrative agent. The loans made thereunder (the “Loans”) consist of: (i) term loans aggregating $95,000,000 (the “Term Loans”) and (ii) revolving loans of up to $30,000,000, subject to borrowing base restrictions and a $10,000,000 sublimit for letters of credit (the “Revolving Loans”). The Loans mature on November 6, 2018. In connection with the Financing Agreement, the lenders were granted a security interest in substantially all of the assets of the Company. In addition, the Company has the right, subject to meeting certain conditions, to repurchase up to $10,000,000 of the Company’s equity interests.

In June 2014, the Company entered into a first amendment to the Financing Agreement (the “First Amendment”), pursuant to which (i) the Revolving Loans were increased by $10,000,000 to $40,000,000 (the “Amended Revolving Loans”), (ii) the maximum amount of capital expenditures was increased to $7,000,000 for fiscal 2015, and $4,000,000 for each of fiscal 2016 and 2017, and (iii) certain other amendments and modifications were made.

In September 2014, the Company entered into a second amendment to the Financing Agreement (the “Second Amendment”), pursuant to which the Company was permitted to lease an additional third party warehouse location in Mexico and office space in Canada.

In December 2014, the Company entered into a third amendment to the Financing Agreement (the “Third Amendment”), pursuant to which (i) the definition of consolidated earnings before interest, income tax, depreciation and amortization expenses (“EBITDA”) was amended and (ii) certain schedules to the Financing Agreement were updated.

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The Term Loans require quarterly principal payments of $2,100,000 per quarter and bear interest at rates equal to, at the Company's option, either LIBOR (subject to a 1.50% LIBOR floor) plus 5.25% or a reference rate plus 4.25%. The Amended Revolving Loans bear interest at rates equal to, at the Company's option, either LIBOR plus 2.50% or a reference rate plus 1.00%. The interest rate on the Company's Term Loans using the LIBOR option was 6.75% at December 31, 2014 and March 31, 2014, respectively. The interest rate on the Company's Revolving Loans using the LIBOR option was 2.66% at March 31, 2014.

The following summarizes information about the Company's Term Loans at:

	December 31, 2014	March 31, 2014
Principal amount of term loan	$86,600,000	$92,900,000
Unamortized financing fees	(4,705,000)	(5,623,000)
Net carrying amount of term loan	81,895,000	87,277,000
Less current portion of term loan	(7,843,000)	(7,843,000)
Long-term portion of term loan	$74,052,000	$79,434,000

Future repayments of the Company's Term Loans, by fiscal year, are as follows:

Year Ending March 31,	
2015 - remaining three months	$2,100,000
2016	8,400,000
2017	8,400,000
2018	8,400,000
2019	59,300,000
Total payments	$86,600,000

The Company may reduce or terminate the commitments of the lenders to make the Amended Revolving Loans or prepay the Term Loans in whole or in part. Such prepayments were subject to a prepayment penalty of 2.00% times the sum of the reduction of the revolving credit commitment plus the principal amount of any prepayment of the Term Loans through January 18, 2015 and may be made with no prepayment penalty thereafter.

The Financing Agreement, among other things, requires the Company to maintain certain financial covenants including a maximum senior leverage ratio, a minimum fixed charge coverage ratio, and minimum consolidated EBITDA. The Company was in compliance with all financial covenants as of December 31, 2014.

The Company had no outstanding balance on the Amended Revolving Loans; however, $430,000 was reserved for standby letters of credit for workers' compensation insurance and $694,000 for commercial letters of credit as of December 31, 2014. The Company had borrowed $10,000,000 under the Revolving Loans at March 31, 2014. As of December 31, 2014, $38,876,000, subject to certain adjustments, was available under the Amended Revolving Loans.

WX Agreement

In August 2012, the Company entered into a Revolving Credit/Strategic Cooperation Agreement (the "WX Agreement") with Wanxiang America Corporation (the "Supplier") and the discontinued subsidiary. In connection with the WX Agreement, the Company also issued a warrant (the "Supplier Warrant") to the Supplier to purchase up to 516,129 shares of the Company's common stock for an initial exercise price of $7.75 per share exercisable at any time after August 22, 2014 and on or prior to September 30, 2017. The exercise price is subject to adjustments, among other things, for sales of common stock by the Company at a price below the exercise price.

The fair value of the Supplier Warrant using the Monte Carlo simulation model was $12,246,000 and $10,047,000 at December 31, 2014 and March 31, 2014, respectively. This amount is recorded as a warrant liability which is included in other liabilities in the consolidated balance sheets at December 31, 2014 and March 31, 2014. During the three months ended December 31, 2014 and 2013, a loss of $1,924,000 for each period was recorded in general and administrative expenses due to the change in the fair value of this warrant liability. During the nine months ended December 31, 2014 and 2013, losses of $2,199,000 and $4,846,000, respectively, were recorded in general and administrative expenses due to the change in the fair value of this warrant liability.

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9. Accounts Receivable Discount Programs

The Company uses receivable discount programs with certain customers and their respective banks. Under these programs, the Company may sell those customers' receivables to those banks at a discount to be agreed upon at the time the receivables are sold. These discount arrangements allow the Company to accelerate collection of customers' receivables.

The following is a summary of the Company's accounts receivable discount programs from its continuing operations:

	Nine Months Ended December 31,	
	2014	2013
Receivables discounted	$198,073,000	$155,739,000
Weighted average days	337	336
Annualized weighted average discount rate	2.0 %	2.3 %
Amount of discount as interest expense	$3,691,000	$3,280,000

10. Net Income Per Share

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Income from continuing operations	$2,927,000	$1,148,000	$	