MOTORCAR PARTS AMERICA INC
Form 10-Q
February 09, 2016

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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, 2015

£ 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 18,326,985 shares of Common Stock outstanding at February 2, 2016.

MOTORCAR PARTS OF AMERICA, INC.

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MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

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

“Used Core” — An automobile part which has been used in the operation of a vehicle. Generally, the Used Core is an original equipment (“OE”) automobile part installed by the vehicle manufacturer and subsequently removed for replacement. Used Cores contain salvageable parts which are an important raw material in the remanufacturing process. We obtain most Used Cores by providing credits to our customers for Used Cores returned to us under our core exchange program. Our customers receive these Used Cores from consumers who deliver a Used Core to obtain credit from our customers upon the purchase of a newly remanufactured automobile part. When sufficient Used Cores cannot be obtained from our customers, we will purchase Used Cores from core brokers, who are in the business of buying and selling Used Cores. The Used Cores purchased from core brokers or returned to us by our customers under the core exchange program, and which have been physically received by us, are part of our raw material 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, 2015 (Unaudited) | March 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $13,701,000 | $61,230,000 |
| Short-term investments | 1,510,000 | 699,000 |
| Accounts receivable — net | 1,536,000 | 24,799,000 |
| Inventory— net | 58,501,000 | 56,829,000 |
| Inventory unreturned | 10,648,000 | 7,833,000 |
| Deferred income taxes | 23,433,000 | 22,998,000 |
| Prepaid expenses and other current assets | 6,263,000 | 7,407,000 |
| Total current assets | 115,592,000 | 181,795,000 |
| Plant and equipment — net | 15,143,000 | 12,535,000 |
| Long-term core inventory — net (Note 5) | 236,201,000 | 188,950,000 |
| Long-term core inventory deposits (Note 5) | 5,569,000 | 31,571,000 |
| Long-term deferred income taxes | 243,000 | 261,000 |
| Goodwill | 2,053,000 | - |
| Intangible assets — net | 4,718,000 | 2,574,000 |
| Other assets | 3,536,000 | 3,195,000 |
| TOTAL ASSETS | $383,055,000 | $420,881,000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $61,992,000 | $61,893,000 |
| Accrued liabilities | 8,649,000 | 10,096,000 |
| Customer finished goods returns accrual | 23,358,000 | 19,678,000 |
| Accrued core payment | 8,946,000 | 13,190,000 |
| Revolving loan | 7,000,000 | - |
| Other current liabilities | 3,744,000 | 2,471,000 |
| Current portion of term loan | 3,067,000 | 7,733,000 |
| Total current liabilities | 116,756,000 | 115,061,000 |
| Term loan, less current portion | 20,738,000 | 71,489,000 |
| Long-term accrued core payment | 19,794,000 | 23,880,000 |
| Other liabilities | 22,480,000 | 20,248,000 |
| Total liabilities | 179,768,000 | 230,678,000 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued | - | - |
| Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued | - | - |
| Common stock; par value $.01 per share, 50,000,000 shares authorized; 18,326,985 and 17,974,598 shares issued and outstanding at December 31, 2015 and March 31, 2015, respectively | 183,000 | 180,000 |
| Additional paid-in capital | 198,306,000 | 191,279,000 |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | (4,730,000) | (2,518,000) |
| Retained earnings | 9,528,000 | 1,262,000 |
| Total shareholders' equity | 203,287,000 | 190,203,000 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $383,055,000 | $420,881,000 |

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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | $94,022,000 | $83,992,000 | $271,527,000 | $217,807,000 |
| Cost of goods sold | 65,123,000 | 59,564,000 | 194,817,000 | 157,143,000 |
| Gross profit | 28,899,000 | 24,428,000 | 76,710,000 | 60,664,000 |
| Operating expenses: | | | | |
| General and administrative | 8,802,000 | 12,628,000 | 38,381,000 | 27,832,000 |
| Sales and marketing | 2,671,000 | 2,281,000 | 7,583,000 | 5,944,000 |
| Research and development | 711,000 | 601,000 | 2,093,000 | 1,662,000 |
| Total operating expenses | 12,184,000 | 15,510,000 | 48,057,000 | 35,438,000 |
| Operating income | 16,715,000 | 8,918,000 | 28,653,000 | 25,226,000 |
| Interest expense, net | 2,516,000 | 3,165,000 | 13,566,000 | 9,917,000 |
| Income before income tax expense | 14,199,000 | 5,753,000 | 15,087,000 | 15,309,000 |
| Income tax expense | 6,451,000 | 2,826,000 | 6,821,000 | 6,958,000 |
| Net income | $7,748,000 | $2,927,000 | $8,266,000 | $8,351,000 |
| Basic net income per share | $0.42 | $0.16 | $0.45 | $0.51 |
| Diluted net income per share | $0.41 | $0.16 | $0.44 | $0.49 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 18,319,531 | 17,921,682 | 18,180,039 | 16,331,168 |
| Diluted | 19,095,704 | 18,822,664 | 18,981,421 | 17,206,069 |

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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | $7,748,000 | $2,927,000 | $8,266,000 | $8,351,000 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gain (loss) on short-term investments (net of tax of $29,000, $10,000, $(11,000), and $15,000) | 42,000 | 15,000 | (17,000) | 22,000 |
| Foreign currency translation loss | (422,000) | (338,000) | (2,195,000) | (806,000) |
| Total other comprehensive loss, net of tax | (380,000) | (323,000) | (2,212,000) | (784,000) |
| Comprehensive income | $7,368,000 | $2,604,000 | $6,054,000 | $7,567,000 |

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: | 2015 | 2014 |
| Net income | $8,266,000 | $8,351,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,737,000 | 1,355,000 |
| Amortization of intangible assets | 476,000 | 510,000 |
| Amortization of debt issuance costs | 635,000 | 1,274,000 |
| Write-off of debt issuance costs | 5,108,000 | - |
| Amortization of interest on accrued core payments | 566,000 | - |
| Loss due to change in fair value measurements using significant unobservable inputs | 3,077,000 | 2,199,000 |
| Gain on redemption of short-term investment | - | (4,000) |
| Provision for inventory reserves | 3,439,000 | 839,000 |
| Net recovery of customer payment discrepancies | (270,000) | (292,000) |
| Provision for doubtful accounts | 4,552,000 | 178,000 |
| Deferred income taxes | (3,264,000) | (1,067,000) |
| Share-based compensation expense | 1,786,000 | 1,697,000 |
| Impact of tax benefit on APIC pool from stock options exercised | - | 90,000 |
| Loss on disposals of plant and equipment | - | 1,000 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 11,481,000 | 22,398,000 |
| Inventory | 2,905,000 | (11,576,000) |
| Inventory unreturned | (2,815,000) | (512,000) |
| Prepaid expenses and other current assets | 2,462,000 | 427,000 |
| Other assets | (359,000) | (378,000) |
| Accounts payable and accrued liabilities | (3,830,000) | 1,740,000 |
| Customer finished goods returns accrual | 3,680,000 | 722,000 |
| Deferred core revenue | - | (15,065,000) |
| Long-term core inventory | (47,731,000) | (10,728,000) |
| Long-term core inventory deposits | 26,002,000 | (2,196,000) |
| Accrued core payments | (8,896,000) | - |
| Other liabilities | 956,000 | 2,963,000 |
| Net cash provided by operating activities | 9,963,000 | 2,926,000 |
| Cash flows from investing activities: | | |
| Purchase of plant and equipment | (3,168,000) | (2,551,000) |
| Purchase of business | (2,701,000) | - |
| Change in short term investments | (838,000) | (77,000) |
| Net cash used in investing activities | (6,707,000) | (2,628,000) |
| Cash flows from financing activities: | | |
| Repayment of revolving loan | (15,000,000) | (10,000,000) |
| Borrowings under revolving loan | 22,000,000 | - |
| Borrowings under term loan | 25,000,000 | - |
| Repayments of term loan | (85,281,000) | (6,300,000) |
| Payments for debt issuance costs | (2,337,000) | - |
| Payments on capital lease obligations | (268,000) | (48,000) |
| Exercise of stock options | 3,051,000 | 1,152,000 |

| | | |
|---|---|---|
| Excess tax benefits from stock-based compensation | 3,106,000 | 925,000 |
| Cash used to net share settle equity awards | (913,000 ) | (806,000 ) |
| Proceeds from issuance of common stock | - | 71,760,000 |
| Stock issuance costs | - | (4,787,000 ) |
| Net cash (used in) provided by financing activities | (50,642,000) | 51,896,000 |
| Effect of exchange rate changes on cash and cash equivalents | (143,000 ) | (75,000 ) |
| Net (decrease) increase in cash and cash equivalents | (47,529,000) | 52,119,000 |
| Cash and cash equivalents — Beginning of period | 61,230,000 | 24,599,000 |
| Cash and cash equivalents — End of period | $13,701,000 | $76,718,000 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest, net | $7,405,000 | $8,642,000 |
| Income taxes, net of refunds | 3,684,000 | 3,981,000 |
| Non-cash investing and financing activities: | | |
| Property acquired under capital lease | $1,591,000 | $6,000 |
| Contingent consideration | 1,320,000 | - |

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

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Condensed Notes to Consolidated Financial Statements
December 31, 2015
(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, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2016. 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, 2015, which are included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on June 15, 2015, as amended by the Form 10-K/A filed with the SEC on July 29, 2015.

The accompanying consolidated financial statements have been prepared on a consistent basis with, and there have been no material changes to, except as noted below, the accounting policies described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements that are presented in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

Recently Adopted Accounting Standards

Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board (the “FASB”) issued guidance that requires debt issuance costs related to a recognized liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. In August 2015, the FASB issued guidance to clarify that an entity may elect to present debt issuance costs related to a line-of-credit arrangement as an asset, regardless of whether or not there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of this guidance is permitted for financial statements that have not been previously issued. The Company adopted this guidance effective June 30, 2015, which resulted in the reclassification of debt issuance costs of $879,000 from other assets and is now presented as a direct deduction of $110,000 to the current portion of the term loan and $769,000 to the noncurrent portion of the term loan in the previously reported consolidated balance sheet at March 31, 2015. The Company elected to continue presenting debt issuance costs related to its revolving credit facilities as an asset. The adoption of this guidance did not have any other impact on the Company’s consolidated financial statements.

Discontinued Operations

In April 2014, the FASB issued guidance on reporting discontinued operations. The new guidance changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity’s operations and financial results. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. The adoption of this guidance did not have any impact on the Company’s financial position, results of operations or cash flows.

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Business Combinations

In September 2015, the FASB issued guidance simplifying the accounting for measurement-period adjustments. The guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adjustments related to previous reporting periods since the acquisition date must be disclosed by income statement line item either on the face of the income statement or in the notes. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years and earlier adoption is permitted for financial statements that have not been issued. The Company adopted this guidance effective September 30, 2015, which resulted in no material effect on the Company's financial position, results of operations, or cash flows (see Note 2).

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 (i) rotating electrical products such as alternators and starters, (ii) wheel hub assemblies and bearings, and (iii) new brake master cylinders. In July 2015, the Company also began selling remanufactured brake master cylinder products.

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.

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 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. Acquisition

On May 20, 2015, the Company completed the acquisition of certain assets and liabilities of OE Plus, Ltd. ("OE Plus"), a privately held remanufacturer of alternators and starters based in North Dighton, Massachusetts. The acquisition was consummated pursuant to an asset purchase agreement dated May 15, 2015 for an initial cash purchase price of $3,200,000, including $1,000,000 which was being held in escrow to be paid to the former owners of OE Plus, subject to certain working capital adjustments. In addition, the Company is contingently obligated to make additional payments to the former owners of OE Plus up to $2,000,000 over the next four years. The estimated fair value of the contingent consideration obligation as of the acquisition date was $1,320,000 and was determined using an option-pricing model. Any subsequent changes from the initial recognition in the fair value of the contingent consideration are recorded in current period earnings as a general and administrative expense. The assets and results of operations of OE Plus were not significant to the Company's consolidated financial position or results of operations, and thus pro forma information is not presented.

During the nine months ended December 31, 2015, the Company finalized working capital adjustments, which resulted in the payment of $501,000 to the former owners of OE Plus and the return of $499,000 to the Company from escrow. This resulted in in adjustments to: (i) finite-lived intangible assets for trademarks with an estimated useful life of 10 years to $520,000 from $635,000, (ii) finite-lived intangible assets for customer relationships with an estimated useful life of 8 years to $2,100,000 from $2,690,000, and (iii) goodwill to $2,053,000 from $1,847,000. There was no material effect on previous-period or current-period earnings as a result of these adjustments.

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Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is not amortized, but rather is tested for impairment at least annually or more frequently if there are indicators of impairment present. The Company performs the annual goodwill impairment analysis in the fourth quarter of each fiscal year.

3. Intangible Assets

The following is a summary of acquired intangible assets subject to amortization:

| | | December 31, 2015 | | March 31, 2015 | |
|---|---|---|---|---|---|
| | Weighted Average Amortization Period | Gross Carrying Value | Accumulated Amortization | Gross Carrying Value | Accumulated Amortization |
| Intangible assets subject to amortization | | | | | |
| Trademarks | 11 years | $705,000 | $ 111,000 | $397,000 | $ 278,000 |
| Customer relationships | 13 years | 5,900,000 | 1,776,000 | 6,211,000 | 3,756,000 |
| Total | | $6,605,000 | $ 1,887,000 | $6,608,000 | $ 4,034,000 |

Amortization expense for acquired intangible assets is as follows:

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Amortization expense | $145,000 | $160,000 | $476,000 | $510,000 |

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

| Year Ending March 31, | |
|---|---|
| 2016 - remaining three months | $145,000 |
| 2017 | 580,000 |
| 2018 | 580,000 |
| 2019 | 580,000 |
| 2020 | 580,000 |
| Thereafter | 2,253,000 |
| Total | $4,718,000 |

4. 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.

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Accounts receivable — net is comprised of the following:

| | December 31, 2015 | March 31, 2015 |
|---|---|---|
| Accounts receivable — trade | $52,662,000 | $62,171,000 |
| Allowance for bad debts | (4,761,000) | (629,000) |
| Customer allowances earned | (9,734,000) | (7,221,000) |
| Customer payment discrepancies | (648,000) | (852,000) |
| Customer returns RGA issued | (6,836,000) | (7,029,000) |
| Customer core returns accruals | (29,147,000) | (21,641,000) |
| Less: total accounts receivable offset accounts | (51,126,000) | (37,372,000) |
| Total accounts receivable — net | $1,536,000 | $24,799,000 |

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, 2015 and March 31, 2015, the Company's total warranty return accrual was $8,360,000 and $10,904,000, respectively, of which of $4,118,000 and $3,746,000, respectively, was included in the customer returns RGA issued balance in the above table for expected credits to be issued against accounts receivable and $4,242,000 and $7,158,000, respectively, was included in the customer finished goods returns accrual in the consolidated balance sheets for estimated future warranty returns.

The following summarizes the changes in the Company's warranty return accrual:

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Balance at beginning of period | $10,204,000 | $8,421,000 | $10,904,000 | $8,039,000 |
| Charged to expense/additions | 18,463,000 | 13,651,000 | 58,276,000 | 44,010,000 |
| Amounts processed | (20,307,000) | (15,069,000) | (60,820,000) | (45,046,000) |
| Balance at end of period | $8,360,000 | $7,003,000 | $8,360,000 | $7,003,000 |

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5. Inventory

Inventory is comprised of the following:

| | December 31, 2015 | March 31, 2015 |
|---|---|---|
| Non-core inventory | | |
| Raw materials | $19,855,000 | $18,836,000 |
| Work-in-process | 460,000 | 255,000 |
| Finished goods | 40,572,000 | 39,828,000 |
| | 60,887,000 | 58,919,000 |
| Less allowance for excess and obsolete inventory | (2,386,000 ) | (2,090,000 ) |
| Total | $58,501,000 | $56,829,000 |
| | | |
| Inventory unreturned | $10,648,000 | $7,833,000 |
| Long-term core inventory | | |
| Used cores held at the Company's facilities | $39,423,000 | $27,417,000 |
| Used cores expected to be returned by customers | 8,693,000 | 9,799,000 |
| Remanufactured cores held in finished goods | 21,183,000 | 21,557,000 |
| Remanufactured cores held at customers' locations (1) | 168,109,000 | 130,762,000 |
| | 237,408,000 | 189,535,000 |
| Less allowance for excess and obsolete inventory | (1,207,000 ) | (585,000 ) |
| Total | $236,201,000 | $188,950,000 |
| | | |
| Long-term core inventory deposits (1) | $5,569,000 | $31,571,000 |

(1) During the nine months ended December 31, 2015, the Company completed the core buy-back program with one of its largest customers. As a result of the completion of this buy-back program and related long-term core inventory reconciliations, $25,805,000 from long-term core inventory deposits was transferred to remanufactured cores held at customers' locations within long-term core inventory. At March 31, 2015, $26,002,000 of remanufactured cores in connection with this core buy-back program was included in long-term core inventory deposits.

6. Major Customers

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| Sales | 2015 | 2014 | 2015 | 2014 |
| Customer A | 49% | 63 % | 48% | 57 % |
| Customer B | 16% | 19 % | 19% | 21 % |
| Customer C | 16% | 5 % | 18% | 6 % |
| Customer D | 3 % | 2 % | 3 % | 3 % |

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

| Accounts receivable - trade | December 31, 2015 | | March 31, 2015 | |
|---|---|---|---|---|
| Customer A | 39 | % | 48 | % |
| Customer B | 18 | % | 16 | % |
| Customer C | 10 | % | 12 | % |
| Customer D | 10 | % | 4 | % |

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The Company had no suppliers that accounted for more than 10% of inventory purchases for the three and nine months ended December 31, 2015. The Company had no suppliers that accounted for more than 10% of inventory purchases for the three months ended December 31, 2014. The Company's largest supplier accounted for 10% of inventory purchases for the nine months ended December 31, 2014.

7. Debt

The Company has the following credit agreements.

Credit Facility

The Company was party to a financing agreement (as amended, modified, amended and restated or supplemented, the "Financing Agreement") with a syndicate of lenders party thereto, Cerberus Business Finance, LLC, as collateral agent, and PNC Bank, National Association, as administrative agent. The Financing Agreement was comprised of (i) a $95,000,000 term loan facility (the "Term Loans") and (ii) an up to $40,000,000 revolving credit facility subject to borrowing base restrictions and a $10,000,000 sublimit for letters of credit (the "Revolving Facility"). The interest rate on the Company's Term Loans was 6.75% at March 31, 2015. The obligations under the Financing Agreement were repaid on June 3, 2015. The repayment of the Term Loans was accounted for as extinguishment of debt and as a result, the Company wrote off $5,108,000 of previously deferred debt issuance costs associated with the Term Loans.

On June 3, 2015, the Company entered into a new $125,000,000 senior secured financing (the "Credit Facility") with the lenders party thereto, and PNC Bank, National Association, as administrative agent, consisting of (i) a $10