MOTORCAR PARTS AMERICA INC
Form 10-Q
February 11, 2019

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

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2018

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-33861

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

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

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

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

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

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

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

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

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

Exchange Act.

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

There were 18,809,102 shares of Common Stock outstanding at February 4, 2019.

MOTORCAR PARTS OF AMERICA, INC.

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements	4
Consolidated Balance Sheets	4
Consolidated Statements of Operations	5
Consolidated Statements of Comprehensive Income (Loss)	6
Consolidated Statements of Cash Flows	7
Condensed Notes to Consolidated Financial Statements	8
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3. Quantitative and Qualitative Disclosures About Market Risk	49
Item 4. Controls and Procedures	49

PART II — OTHER INFORMATION

Item 1. Legal Proceedings	50
Item 1A. Risk Factors	50
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 5. Other Information	51
Item 6. Exhibits	52
SIGNATURES	54

Table of Contents
MOTORCAR PARTS OF AMERICA, INC.

GLOSSARY

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

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

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

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	December 31, 2018 (Unaudited)	March 31, 2018 (As Adjusted) (Note 4)
Current assets:		
Cash and cash equivalents	$ 8,591,000	$ 13,049,000
Short-term investments	2,868,000	2,828,000
Accounts receivable — net	54,761,000	63,174,000
Inventory— net	205,075,000	161,210,000
Inventory unreturned	10,746,000	7,508,000
Contract assets (see Note 9)	26,965,000	23,206,000
Income tax receivable	12,887,000	7,972,000
Prepaid expenses and other current assets	7,946,000	8,608,000
Total current assets	329,839,000	287,555,000
Plant and equipment — net	32,349,000	28,322,000
Long-term deferred income taxes	7,607,000	6,698,000
Long-term contract assets (see Note 9)	222,999,000	222,731,000
Goodwill	3,402,000	2,551,000
Intangible assets — net	8,762,000	3,766,000
Other assets	891,000	804,000
TOTAL ASSETS	$ 605,849,000	$ 552,427,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 101,730,000	$ 73,273,000
Accrued liabilities	13,382,000	12,048,000
Customer finished goods returns accrual	19,236,000	17,805,000
Contract liabilities (see Note 12)	29,239,000	32,603,000
Revolving loan	78,406,000	54,000,000
Other current liabilities	5,019,000	4,471,000
Current portion of term loan	3,685,000	3,068,000
Total current liabilities	250,697,000	197,268,000
Term loan, less current portion	25,109,000	13,913,000
Long-term contract liabilities (see Note 12)	42,527,000	48,183,000
Long-term deferred income taxes	234,000	226,000
Other liabilities	7,494,000	5,957,000
Total liabilities	326,061,000	265,547,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued	-	-
Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued	-	-
Common stock; par value $.01 per share, 50,000,000 shares authorized; 18,812,102 and 18,893,102 shares issued and outstanding at December 31,	188,000	189,000

2018 and March 31, 2018, respectively		
Additional paid-in capital	212,621,000	213,609,000
Retained earnings	74,172,000	78,510,000
Accumulated other comprehensive loss	(7,193,000)	(5,428,000)
Total shareholders’ equity	279,788,000	286,880,000
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 605,849,000	$ 552,427,000

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

4

Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
		(As Adjusted)		(As Adjusted)
Net sales	$ 124,113,000	$ 102,878,000	$ 343,720,000	$ 307,834,000
Cost of goods sold	102,952,000	76,817,000	280,496,000	229,894,000
Gross profit	21,161,000	26,061,000	63,224,000	77,940,000
Operating expenses:				
General and administrative	12,331,000	11,915,000	33,419,000	26,418,000
Sales and marketing	5,149,000	4,048,000	14,078,000	10,899,000
Research and development	2,054,000	1,678,000	5,574,000	3,920,000
Total operating expenses	19,534,000	17,641,000	53,071,000	41,237,000
Operating income	1,627,000	8,420,000	10,153,000	36,703,000
Interest expense, net	5,764,000	3,953,000	16,538,000	10,789,000
(Loss) income before income tax (benefit) expense	(4,137,000)	4,467,000	(6,385,000)	25,914,000
Income tax (benefit) expense	(1,035,000)	6,994,000	(1,301,000)	15,026,000
Net (loss) income	$ (3,102,000)	$ (2,527,000)	$ (5,084,000)	$ 10,888,000
Basic net (loss) income per share	$ (0.16)	$ (0.13)	$ (0.27)	$ 0.58
Diluted net (loss) income per share	$ (0.16)	$ (0.13)	$ (0.27)	$ 0.56
Weighted average number of shares outstanding:				
Basic	18,810,702	19,069,152	18,861,617	18,814,967
Diluted	18,810,702	19,069,152	18,861,617	19,400,744

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

Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
		(As Adjusted)		(As Adjusted)
Net (loss) income	$ (3,102,000)	$ (2,527,000)	$ (5,084,000)	$ 10,888,000
Other comprehensive (loss) income, net of tax:				
Unrealized gain on short-term investments (net of tax of $0, $55,000, $0 and $133,000)	-	83,000	-	199,000
Foreign currency translation (loss) gain	(302,000)	247,000	(1,019,000)	1,084,000
Total other comprehensive (loss) gain, net of tax	(302,000)	330,000	(1,019,000)	1,283,000
Comprehensive (loss) income	$ (3,404,000)	$ (2,197,000)	$ (6,103,000)	$ 12,171,000

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

Table of Contents

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

	Nine Months Ended December 31,	
	2018	2017 (As Adjusted)
Cash flows from operating activities:		
Net (loss) income	$ (5,084,000)	$ 10,888,000
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	4,313,000	2,805,000
Amortization of intangible assets	620,000	517,000
Amortization and write-off of debt issuance costs	798,000	864,000
Amortization of interest on contract liabilities, net	725,000	378,000
Gain due to change in fair value of the warrant liability	-	(2,313,000)
Loss on short-term investments	240,000	-
Net provision for inventory reserves	6,997,000	4,954,000
Net provision for customer payment discrepancies	602,000	1,194,000
Net provision for doubtful accounts	221,000	17,000
Deferred income taxes	(962,000)	(2,430,000)
Share-based compensation expense	3,151,000	2,658,000
Loss on disposal of plant and equipment	24,000	9,000
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	8,432,000	(4,240,000)
Inventory	(49,431,000)	(34,643,000)
Inventory unreturned	(3,238,000)	332,000
Income tax receivable	(4,921,000)	(69,000)
Prepaid expenses and other current assets	1,398,000	(33,000)
Other assets	(129,000)	(153,000)
Accounts payable and accrued liabilities	27,968,000	(15,946,000)
Customer finished goods returns accrual	1,431,000	(1,705,000)
Contract assets, net	(4,027,000)	(16,208,000)
Contract liabilities, net	(10,794,000)	41,175,000
Other liabilities	1,338,000	2,146,000
Net cash used in operating activities	(20,328,000)	(9,803,000)
Cash flows from investing activities:		
Purchase of plant and equipment	(8,548,000)	(4,765,000)
Purchase of business, net of cash acquired	(4,417,000)	(4,993,000)
Change in short-term investments	(279,000)	(287,000)
Net cash used in investing activities	(13,244,000)	(10,045,000)
Cash flows from financing activities:		
Borrowings under revolving loan	64,900,000	62,000,000
Repayments of revolving loan	(40,494,000)	(37,000,000)
Borrowings under term loan	13,594,000	-
Repayments of term loan	(1,719,000)	(2,344,000)
Payments for debt issuance costs	(1,780,000)	(462,000)
Payments on capital lease obligations	(1,071,000)	(612,000)
Exercise of stock options	244,000	295,000
Cash used to net share settle equity awards	(322,000)	(596,000)

Settlement of warrant	-	4,000,000
Repurchase of common stock, including fees	(4,062,000)	(4,476,000)
Net cash provided by financing activities	29,290,000	20,805,000
Effect of exchange rate changes on cash and cash equivalents	(176,000)	46,000
Net (decrease) increase in cash and cash equivalents	(4,458,000)	1,003,000
Cash and cash equivalents — Beginning of period	13,049,000	9,029,000
Cash and cash equivalents — End of period	$ 8,591,000	$ 10,032,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net	$ 14,846,000	$ 9,508,000
Income taxes, net of refunds	3,263,000	16,598,000
Non-cash investing and financing activities:		
Plant and equipment acquired under capital lease	$ 207,000	$ 582,000
Contingent consideration	3,560,000	-

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

Table of Contents
MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Condensed Notes to Consolidated Financial Statements
December 31, 2018
(Unaudited)

Basis of Presentation

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

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

1. Company Background and Organization

Motorcar Parts of America, Inc. and its subsidiaries (the "Company", or "MPA") is a leading manufacturer, remanufacturer, and distributor of aftermarket automotive and light truck applications. The Company also, to a lesser extent, is a manufacturer, remanufacturer, and distributor of heavy duty truck and industrial and agricultural application parts. These replacement parts are sold for use on vehicles after initial vehicle purchase. These automotive parts are sold to automotive retail chain stores and warehouse distributors throughout North America and to major automobile manufacturers for both their aftermarket programs and warranty replacement programs ("OES"). The Company's products include (i) rotating electrical products such as alternators and starters, (ii) wheel hub assemblies and bearings, (iii) brake master cylinders, and (iv) other products which include turbochargers, brake power boosters, and diagnostic equipment. As a result of the July 2017 acquisition of D&V Electronics Ltd. ("D&V"), the Company's business also now includes developing and selling diagnostics systems for alternators, starters, belt-start generators (stop start and hybrid technology), and electric power trains for electric vehicles. In addition, the Company completed the acquisition of Mechanical Power Conversion, LLC, in December 2018, which includes the design and manufacture of advanced power emulators (AC and DC) and custom power electronic products (see Note 5).

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

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

Pursuant to the guidance provided under the Financial Accounting Standards Board ("FASB") ASC for segment reporting, the Company has identified its chief executive officer as chief operating decision maker ("CODM"), has

reviewed the documents used by the CODM, and understands how such documents are used by the CODM to make financial and operating decisions. The Company has determined through this review process that it has one reportable segment for purposes of recording and reporting its financial results.

Table of Contents

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

Revision of Prior Period Financial Statements

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

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

In order to correctly present the errors noted above, previously issued comparative financial statements, which were revised during the quarter ended September 30, 2018, are presented as “As Revised” in the tables presented in the following footnotes. In addition, upon the adoption of ASC 606 on April 1, 2018, the Company adjusted its revised consolidated financial statements and related footnotes for the year ended March 31, 2018 and applicable interim periods within the fiscal year ended March 31, 2018. These consolidated financial statements and tables are presented as “As Adjusted”.

Table of Contents

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

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

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

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

Table of Contents

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

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

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

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

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

Revised Consolidated Statement of Cash Flow from Operating Activities Amounts:	Year Ended March 31, 2018 As Previously Reported	Adjustment	As Revised
Net income	$16,316,000	$2,510,000	$18,826,000
Deferred income taxes	3,055,000	(1,560,000)	1,495,000
Income tax receivable	(6,081,000)	(231,000)	(6,312,000)
Prepaid expenses and other current assets	(2,507,000)	(318,000)	(2,825,000)
Other assets	(384,000)	788,000	404,000
Accounts payable and accrued liabilities	(11,621,000)	(50,000)	(11,671,000)
Long-term core inventory	(45,839,000)	(1,139,000)	(46,978,000)
Net cash used in operating activities	$(13,944,000)	$-	$(13,944,000)

Table of Contents

The effect of the above corrections on the consolidated statements of operations for the three and nine months ended December 31, 2017 is as follows:

Revised Consolidated Statement of Operations Amounts:	Three Months Ended December 31, 2017			Nine Months Ended December 31, 2017		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Net sales	$100,127,000	$1,586,000	$101,713,000	$306,964,000	$(159,000)	$306,805,000
Cost of goods sold	77,583,000	(1,750,000)	75,833,000	231,419,000	(1,750,000)	229,669,000
Gross profit	22,544,000	3,336,000	25,880,000	75,545,000	1,591,000	77,136,000
Operating expenses:						
General and administrative	11,915,000	-	11,915,000	26,717,000	(299,000)	26,418,000
Sales and marketing	4,048,000	-	4,048,000	10,899,000	-	10,899,000
Research and development	1,678,000	-	1,678,000	3,920,000	-	3,920,000
Total operating expenses	17,641,000	-	17,641,000	41,536,000	(299,000)	41,237,000
Operating income	4,903,000	3,336,000	8,239,000	34,009,000	1,890,000	35,899,000
Interest expense, net	3,953,000	-	3,953,000	10,789,000	-	10,789,000
Income before income tax expense (benefit)	950,000	3,336,000	4,286,000	23,220,000	1,890,000	25,110,000
Income tax expense (benefit)	7,756,000	(820,000)	6,936,000	16,099,000	(1,357,000)	14,742,000
Net (loss) income	$(6,806,000)	$4,156,000	$(2,650,000)	$7,121,000	$3,247,000	$10,368,000
Basic net (loss) income per share	$(0.36)	$0.22	$(0.14)	$0.38	$0.17	$0.55
Diluted net (loss) income per share	$(0.36)	$0.22	$(0.14)	$0.37	$0.17	$0.53

The effect of the above corrections on the consolidated statements of comprehensive (loss) income for the three and nine months ended December 31, 2017 is as follows:

Revised Consolidated Statement of Comprehensive (Loss) Income Amounts:	Three Months Ended December 31, 2017			Nine Months Ended December 31, 2017		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Net (loss) income	$(6,806,000)	$4,156,000	$(2,650,000)	$7,121,000	$3,247,000	$10,368,000
Comprehensive (loss) income	$(6,476,000)	$4,156,000	$(2,320,000)	$8,404,000	$3,247,000	$11,651,000

The effect of the above corrections on the consolidated statements of cash flows for the nine months ended December 31, 2017 is as follows:

Revised Consolidated Statement of Cash Flow from Operating Activities Amounts:	Nine Months Ended December 31, 2017		
	As Previously Reported	Adjustment	As Revised
Net income	$7,121,000	$3,247,000	$10,368,000
Deferred income taxes	(909,000)	(1,805,000)	(2,714,000)

Prepaid expenses and other current assets	(2,093,000)	448,000	(1,645,000)
Other assets	289,000	(452,000)	(163,000)
Accounts payable and accrued liabilities	(15,647,000)	(299,000)	(15,946,000)
Long-term core inventory	(37,222,000)	(1,139,000)	(38,361,000)
Net cash used in operating activities	$(9,803,000)	$-	$(9,803,000)

3. New Accounting Pronouncements

New Accounting Pronouncements Recently Adopted

Revenue Recognition

Effective April 1, 2018, the Company adopted ASC 606 using the full retrospective transition method. Under this method, the Company adjusted its revised consolidated financial statements (see Note 2) for the years ended March 31, 2018 and 2017, and applicable interim periods within the fiscal year ended March 31, 2018, as if ASC 606 had been effective for those periods. Periods prior to the fiscal year ended March 31, 2017 were not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605, Revenue Recognition. ASC 606 applies to all contracts with customers, except for contracts that are within the scope of other standards. Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the Company performs the following five steps: (i) identifies the contract(s) with a customer; (ii) identifies the performance obligations in the contract; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are distinct performance obligations. See Note 4 for additional discussion of the adoption of ASC 606 and the impact on the Company's financial statements.

Table of Contents

Financial Instruments

In January 2016, the FASB issued guidance that amends the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the update clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. This guidance was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company applied the amendments in the new guidance by means of a cumulative-effect adjustment of $746,000, net of tax, to the opening balance of retained earnings on April 1, 2018. Short-term investments are recorded at fair value with $420,000 and $240,000 of unrealized loss now recorded as a component of general and administrative expense for the three and nine months ended December 31, 2018, respectively.

Modifications to Share-Based Payment Awards

In May 2017, the FASB issued guidance to provide clarity and reduce (i) the diversity in practice and (ii) the cost and complexity when applying the accounting guidance for equity-based compensation to a change to the terms or conditions of a share-based payment award. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance was effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. This guidance should be applied prospectively to an award modified on or after that adoption date. The adoption of this guidance on April 1, 2018 did not have any impact on the Company’s consolidated financial statements.

Business Combinations

In January 2017, the FASB issued guidance which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new guidance was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. A reporting entity should apply the amendment prospectively. The adoption of this guidance on April 1, 2018 did not have any impact on the Company’s consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued new guidance that requires balance sheet recognition of a right-of-use asset and lease liability by lessees for all leases, other than leases with a term of 12 months or less if the short-term lease exclusion expedient is elected. There have been further amendments, including practical expedients, issued in January 2018 and July 2018. The new guidance also requires new disclosures providing additional qualitative and quantitative information about the amounts recorded in the financial statements. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new guidance requires a modified retrospective approach with optional practical expedients. The FASB provided entities with an additional transition method, which allows an entity to apply this guidance as of the beginning of the period of adoption instead of the beginning of the earliest comparative period presented in the entity’s financial statements. The Company has elected to adopt this guidance under the additional transition method. The Company will adopt this guidance in the first quarter of fiscal 2020. The Company has developed and is executing on an implementation plan to adopt this new guidance. The Company has identified all of its material leases and is assessing those leases pursuant to ASC 842. The Company is currently developing its methodology for determining its incremental borrowing rate. The adoption is anticipated to have a significant increase to the Company’s long-term

assets and liabilities on the consolidated balance sheets, as the Company will now be required to recognize the underlying right of use asset and corresponding lease liability, and an insignificant impact on the consolidated statements of operations.

Table of Contents

Goodwill Impairment

In January 2017, the FASB issued guidance which simplifies the test for goodwill impairment. This standard eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted. This guidance must be applied on a prospective basis. The Company is currently evaluating the impact the provisions of this guidance will have on its consolidated financial statements.

Derivatives and Hedging

In August 2017, the FASB issued guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments in this update also make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the guidance allows for early adoption in any interim period after issuance of the update. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

Reporting Comprehensive Income

In February 2018, the FASB issued guidance that permits, but does not require, companies to reclassify the stranded tax effects of the Tax Reform Act on items within accumulated other comprehensive income to retained earnings. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

Fair Value Measurements

In August 2018, the FASB issued guidance, which changes the disclosure requirements for fair value measurements by removing, adding and modifying certain disclosures. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

4. Revenue Recognition

Update to Significant Accounting Policies

Revenue Recognition

Upon the adoption of ASC 606 effective April 1, 2018, the Company revised its accounting policy on revenue recognition from the policy provided in the Notes to Consolidated Financial Statements included in the Company's Form 10-K for the year ended March 31, 2018. The revised accounting policy for revenue recognition is provided below.

Table of Contents

Through the Company’s agreements with customers, the Company now has a single performance obligation, to fulfill customer orders for automotive goods. Revenue is recognized when obligations under the terms of a contract with its customers are satisfied; generally, this occurs with the transfer of control of its manufactured, remanufactured, or distributed products. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Revenue is recognized net of all anticipated returns, including Used Core returns under the core exchange program, marketing allowances, volume discounts, and other forms of variable consideration.

For products shipped free-on-board (“FOB”) shipping point, revenue is recognized on the date of shipment. For products shipped FOB destination, revenues are recognized on the estimated or actual date of delivery. The Company includes shipping and handling charges in the gross invoice price to customers and classify the total amount as revenue. All shipping and handling costs are expensed as incurred and included in cost of sales.

The Company now has a single performance obligation; however, the price of a finished remanufactured product sold to customers is generally comprised of separately invoiced amounts for the Remanufactured Core included in the product (“Remanufactured Core value”) and the unit value. The unit value is recorded as revenue based on the Company’s then current price list, net of applicable discounts and allowances. The Remanufactured Core value is recorded as a net revenue based upon the estimate of Used Cores that will not be returned by the customer for credit. These estimates are subjective and based on management’s judgement and knowledge of historical, current, and projected return rates. As reconciliations are completed with the customers the actual rates at which Used Cores are not being returned may differ from the current estimates. This may result in periodic adjustments of the estimated contract asset and liability amounts recorded and may impact the projected revenue recognition rates used to record the estimated future revenue. These estimates may also be revised if there are changes in contractual arrangements with customers, or changes in business practices. A significant portion of the remanufactured automotive parts sold to customers are replaced by similar Used Cores sent back for credit by customers under the core exchange program (as described in further detail below). The number of Used Cores sent back under the core exchange program is generally limited to the number of similar Remanufactured Cores previously shipped to each customer.

Revenue Recognition — Core Exchange Program

Full price Remanufactured Cores: When remanufactured products are shipped, certain customers are invoiced for the Remanufactured Core value of the product at the full Remanufactured Core sales price. For these Remanufactured Cores, revenue is only recognized based upon an estimate of the rate at which these customers will pay cash for Remanufactured Cores in lieu of sending back similar Used Cores for credits under the core exchange program. The remainder of the full price Remanufactured Core value invoiced to these customers is established as a long-term contract liability rather than being recognized as revenue in the period the products are shipped as the Company expects these Remanufactured Cores to be returned for credit under its core exchange program.

Nominal price Remanufactured Cores: Certain other customers are invoiced for the Remanufactured Core value of the product shipped at a nominal (generally $0.01 or less) Remanufactured Core price. For these nominal Remanufactured Cores, revenue is only recognized based upon an estimate of the rate at which these customers will pay cash for Remanufactured Cores in lieu of sending back similar Used Cores for credits under the core exchange program. Revenue amounts are calculated based on contractually agreed upon pricing for these Remanufactured Cores for which the customers are not returning similar Used Cores. The remainder of the nominal price Remanufactured Core value invoiced to these customers is established as a long-term contract liability rather than being recognized as revenue in the period the products are shipped as the Company expects these Remanufactured Cores to be returned for credit under its core exchange program.

Revenue Recognition; General Right of Return

Customers are allowed to return goods that their end-user customers have returned to them, whether or not the returned item is defective (warranty returns). In addition, under the terms of certain agreements and industry practice, customers from time to time are allowed stock adjustments when their inventory of certain product lines exceeds the anticipated sales to end-user customers (stock adjustment returns). Customers have various contractual rights for stock adjustment returns, which are typically less than 5% of units sold. In some instances, a higher level of returns is allowed in connection with significant restocking orders. In addition, customers are allowed to return goods that their end-user consumers have returned to them. The aggregate returns are generally limited to less than 20% of unit sales.

The allowance for warranty returns is established based on a historical analysis of the level of this type of return as a percentage of total unit sales. Stock adjustment returns do not occur at any specific time during the year, and the expected level of these returns cannot be reasonably estimated based on a historical analysis. The allowance for stock adjustment returns is based on specific customer inventory levels, inventory movements, and information on the estimated timing of stock adjustment returns provided by customers. The return rate for stock adjustments is calculated based on expected returns within the normal operating cycle, which is generally one year.

The unit value of the warranty and stock adjustment returns are treated as reductions of revenue based on the estimations made at the time of the sale. The Remanufactured Core value of warranty and stock adjustment returns are provided for as indicated in the paragraph "Revenue Recognition – Core Exchange Program".

Contract Assets

Contract assets consists of (i) the core portion of the finished goods shipped to the Company's customers, (ii) upfront payments to customers in connection with customer contracts, (iii) core premiums paid to customers, and (iv) long-term core inventory deposits.

Remanufactured Cores held at customers' locations as a part of the finished goods sold to the customer are classified as long-term contract assets. These assets are valued at the lower of cost or net realizable value, based on the most recent purchases of inventory on hand. For these Remanufactured Cores, the Company expects the finished good containing the Remanufactured Core to be returned under the Company's general right of return policy or a similar Used Core to be returned to the Company by the customer, under the Company's core exchange program in each case, for credit. The Remanufactured Core portion of stock adjustment returns and the Used Cores returned by consumers to the Company's customers but not yet returned to the Company are classified as short-term contract assets until the Company physically receives them during its normal operating cycle, which is generally one year.

Upfront payments to customers represent the marketing allowances, such as sign-on bonuses, slotting fees, and promotional allowances provided by the Company to its customers. These allowances are recognized as an asset and amortized over the appropriate period of time as a reduction of revenue if the Company expects to generate future revenues associated with the upfront payment. If the Company does not expect to generate additional revenue, then the upfront payment is recognized in the consolidated statements of operations when payment occurs as a reduction of revenue. Upfront payments expected to be amortized during the Company's normal operating cycle, which is generally one year, are classified as short-term contract assets.

Core premiums paid to customers represent the difference between the Remanufactured Core acquisition price purchased from customers generally in connection with new business, and the related inventory cost of the core, which is treated as an asset and recognized as a reduction of revenue through the later of the date at which related revenue is recognized or the date at which the sales incentive is offered. The Company considers, among other things, the length of its largest ongoing customer relationships, duration of customer contracts, and the average life of vehicles on the road in determining the appropriate period of time over which to amortize these premiums. These core premiums are amortized over a period typically ranging from six to eight years, adjusted for specific circumstances associated with the arrangement. Core premiums are recorded as long-term contract assets. Core premiums expected to be amortized within the Company's normal operating cycle, which is generally one year, are classified as short-term contract assets.

Long-term core inventory deposits represent the cost of Remanufactured Cores the Company has purchased from customers, which are held by the customers and remain on the customers' premises. The costs of these Remanufactured Cores were established at the time of the transaction based on the then current cost. The selling value of these Remanufactured Cores was established based on agreed upon amounts with these customers. The Company expects to realize the selling value and the related cost of these Remanufactured Cores should its relationship with a

customer end, a possibility that the Company considers remote based on existing long-term customer agreements and historical experience.

Table of Contents

Contract Liability

Contract liability consists of: (i) customer allowances earned, (ii) accrued core payments, (iii) customer core returns accruals, and (iv) customer deposits.

Customer allowances earned includes all marketing allowances provided to customers. Such allowances include sales incentives and concessions. Voluntary marketing allowances related to a single exchange of product are recorded as a reduction of revenues at the time the related revenues are recorded or when such incentives are offered. Other marketing allowances, which may only be applied against future purchases, are recorded as a reduction to revenues in accordance with a schedule set forth in the relevant contract. Sales incentive amounts are recorded based on the value of the incentive provided. Customer allowances earned are considered to be short-term contract liabilities.

Accrued core payments represent the sales price of Remanufactured Cores purchased from customers, generally in connection with new business, which are held by these customers and remain on their premises. The sales price of these Remanufactured Cores will be realized when the Company's relationship with a customer ends, a possibility that the Company considers remote based on existing long-term customer agreements and historical experience. The payments to be made to customers for purchases of Remanufactured Cores within the Company's normal operating cycle, which is generally one year, are considered short-term contract liabilities.

Customer core returns accruals represent the full and nominally priced Remanufactured Cores shipped to the Company's customers. When the Company ships the product, it recognizes an obligation to accept a similar Used Core sent back under the core exchange program based upon the Remanufactured Core price agreed upon by the Company and its customer. The Contract liability related to Used Cores returned by consumers to the Company's customers but not yet returned to the Company are classified as short-term contract liabilities until the Company physically receives these Used Cores as they are expected to be returned during the Company's normal operating cycle, which is generally one year.

Customer deposits represent the receipt of prepayments from customers for the obligation to transfer goods or services in the future. The Company classifies these customer deposits as short-term contract liabilities as the Company expects to satisfy these obligations within its normal operating cycle, which generally one year.

Inventory

Inventory is comprised of (i) Used Core and component raw materials, (ii) work-in-process, (iii) remanufactured finished goods, and (iv) purchased finished goods.

Inventory is stated at the lower of cost or net realizable value. The cost of inventory is evaluated at least quarterly during the fiscal year and adjusted as necessary to reflect current lower of cost or net realizable value levels. These adjustments are determined for individual items of inventory within each of the classifications of inventory as follows:

- Component raw materials are recorded at average cost, which is based on the actual purchase price of raw materials on hand. This average cost is used in the inventory costing process and is the basis for allocation of materials to finished goods during the production process.

- Used Core raw materials are recorded at average historical purchase prices determined based on actual purchases of inventory on hand. The purchase price for core buy-backs made from the Company's customers are deemed the same as the purchase price of Used Cores for which sufficient recent purchases have occurred. The average purchase prices of Used Cores for more recent automobile models are retained as the cost for these Used Cores in subsequent periods even as the source of these Used Cores shifts to the core exchange program. The Company purchases Used Cores from core brokers to supplement its yield rates and the under return by consumers. In the absence of sufficient recent

purchases, the Company uses the net selling price its customers have agreed to pay for Used Cores that are not returned to the Company under the Company's core exchange program to assess whether Used Core cost exceeds Used Core net realizable value on a customer by customer basis.

Table of Contents

- Work-in-process is in various stages of production and is valued at the average cost of materials issued pursuant to open work orders. Historically, work-in-process inventory has not been material compared to the total inventory balance.

- The cost of remanufactured finished goods includes the average cost of Used Core and component raw materials and allocations of labor and variable and fixed overhead costs. The allocations of labor and variable and fixed overhead costs are determined based on the average actual use of the production facilities over the prior twelve months which approximates normal capacity. This method prevents the distortion in allocated labor and overhead costs that would occur during short periods of abnormally low or high production. In addition, the Company excludes certain unallocated overhead such as severance costs, duplicative facility overhead costs, start-up costs, training, and spoilage from the calculation and expenses these unallocated overhead as period costs. The cost of purchased finished goods inventory approximates average historical purchase prices paid, and an allocation of fixed overhead costs.

The Company records an allowance for potentially excess and obsolete inventory based upon recent sales history, the quantity of inventory on-hand, and a forecast of potential use of the inventory. The Company periodically reviews inventory to identify excess quantities and part numbers that are experiencing a reduction in demand. Any part numbers with quantities identified during this process are reserved for at rates based upon management's judgment, historical rates, and consideration of possible scrap and liquidation values which may be as high as 100% of cost if no liquidation market exists for the part. The Company had recorded reserves for excess and obsolete inventory of $9,799,000 at December 31, 2018 and $6,682,000 at March 31, 2018. The quantity thresholds and reserve rates are subjective and based on management's judgment and knowledge of current industry demand and management's projections of industry demand. The reserve estimates may, therefore, be revised if there are changes in the overall market for the Company's products or market changes that in management's judgment, impact its ability to sell or liquidate potentially excess or obsolete inventory.

The Company records vendor discounts as a reduction of inventories and are recognized as a reduction to cost of sales as the inventories are sold.

Inventory Unreturned

Inventory unreturned represents the Company's estimate, based on historical data and prospective information provided directly by the customer, of finished goods shipped to customers that the Company expects to be returned, under its general right of return policy, after the balance sheet date. Inventory unreturned includes only the added unit value of a finished good. The return rate is calculated based on expected returns within the normal operating cycle, which is generally one year. As such, the related amounts are classified in current assets. Inventory unreturned is valued in the same manner as the Company's finished goods inventory.

Impact of the Adoption of the New Accounting Standard

As a result of the adoption of ASC 606 and the resultant changes in Company policy noted above, the effect of the adoption on the consolidated statements of operations was an increase to the Company's revised retained earnings as of April 1, 2016 by approximately $345,000, net of tax. The effects of adoption were also a decrease to revised revenues for the year ended March 31, 2017 of $824,000 and an increase to revised revenues for the year ended March 31, 2018 of $557,000. The revenue changes were accompanied by related changes to cost of goods sold - a decrease to revised cost of goods sold for the year ended March 31, 2017 of $758,000, and an increase to revised cost of goods sold for the year ended March 31, 2018 of $66,000.

Table of Contents

The primary result of the adoption effects upon the financial statement was due to an acceleration of revenue recognition for Remanufactured Cores not expected to be returned to the Company upon the initial recognition of revenue. Prior to adopting ASC 606, the Company had delayed recognizing revenue for sales of cores not expected to be replaced by a similar Used Core sent back under the core exchange program until it believed all of the following criteria were met:

- The Company has a signed agreement with the customer covering the nominally priced Remanufactured Cores not expected to be replaced by a similar Used Core sent back under the core exchange program. This agreement must specify the number of Remanufactured Cores its customer will pay cash for in lieu of sending back a similar Used Core and the basis on which the nominally priced Remanufactured Cores are to be valued (normally the average price per Remanufactured Core stipulated in the agreement).

- The contractual date for reconciling the Company's records and customer's records of the number of nominally priced Remanufactured Cores not expected to be replaced by a similar Used Core sent back under the core exchange program must be in the current or a prior period.

- The reconciliation of the nominally priced Remanufactured Cores must be completed and agreed to by the customer.

- The amount must be billed to the customer.

In order to properly determine the transaction price related to the Company's sales contracts, the Company has also analyzed its various forms of consideration paid to its customers, including upfront payments for future contracts. Based on the analysis performed, the Company identified no changes to its legacy accounting practices as a result of the adoption of ASC 606 to account for upfront payments to the Company's customers. Accordingly, if the Company expects to generate future revenues associated with an upfront payment, then an asset is recognized and amortized over the appropriate period of time as a reduction of revenue. If the Company does not expect to generate additional revenue, then the upfront payment is recognized in the consolidated statements of operations when payment occurs as a reduction of revenue.

Similarly, the Company has analyzed discounts and promotions offered to customers. In reviewing these discounts, the Company assessed whether any discounts were offered incremental to the range of discounts typically given for its goods to specific customer classes. In performing this analysis, the Company determined that there are no incremental discounts offered to customers and as such, its discounts do not represent a material right to the Company's customers. As such, the Company will account for these discounts as variable consideration, as a reduction of revenue in the consolidated statements of operations when the product the discount is applicable to is sold.

Table of Contents

The adoption of the new revenue recognition standard impacted the revised consolidated statements of operations for the three and nine months ended December 31, 2017 as follows:

	Three Months Ended December 31, 2017			Nine Months Ended December 31, 2017		
	As Revised	Adoption of ASC 606	As Adjusted	As Revised	Adoption of ASC 606	As Adjusted
Net sales	$101,713,000	$ 1,165,000	$102,878,000	$306,805,000	$ 1,029,000	$307,834,000
Cost of goods sold	75,833,000	984,000	76,817,000	229,669,000	225,000	229,894,000
Gross profit	25,880,000	181,000	26,061,000	77,136,000	804,000	77,940,000
Operating expenses:						
General and administrative	11,915,000	-	11,915,000	26,418,000	-	26,418,000
Sales and marketing	4,048,000	-	4,048,000	10,899,000	-	10,899,000
Research and development	1,678,000	-	1,678,000	3,920,000	-	3,920,000
Total operating expenses	17,641,000	-	17,641,000	41,237,000	-	41,237,000
Operating income	8,239,000	181,000	8,420,000	35,899,000	804,000	36,703,000
Interest expense, net	3,953,000	-	3,953,000	10,789,000	-	10,789,000
Income before income tax expense	4,286,000	181,000	4,467,000	25,110,000	804,000	25,914,000
Income tax expense	6,936,000	58,000	6,994,000	14,742,000	284,000	15,026,000
Net (loss) income	$(2,650,000)	$ 123,000	$(2,527,000)	$10,368,000	$ 520,000	$10,888,000
Basic net (loss) income per share	$(0.14)	$ 0.01	$(0.13)	$0.55	$ 0.03	$0.58
Diluted net (loss) income per share	$(0.14)	$ 0.01	$(0.13)	$0.53	$ 0.03	$0.56
Weighted average number of shares outstanding:						
Basic	19,069,152	19,069,152	19,069,152	18,814,967	18,814,967	18,814,967
Diluted	19,069,152	19,069,152	19,069,152	19,400,744	19,400,744	19,400,744

Also, as a result of the adoption of ASC 606 and the resultant changes in Company policy noted above, the effect of the adoption on the consolidated balance sheets was to create contract asset and contract liability accounts to reflect those balance sheet items being impacted by the new revenue recognition requirements. The main drivers of the reclassifications were (i) the need to accommodate the aggregation of Remanufactured Core and Unit portion of the product sales under one single performance obligation and (ii) the creation of contract asset and contract liability accounts to appropriately segregate those balance sheet items related to the ongoing transactions under the Company's customer contracts.

Detailed impacts on specific consolidated balance sheet account can be found in the individual footnotes covering the separate line items on the face of the consolidated balance sheet.

20

Table of Contents

The adoption of the new revenue recognition standard impacted the revised consolidated balance sheet at March 31, 2018 as follows:

	March 31, 2018		
	As Revised	Adoption of ASC 606	As Adjusted
ASSETS			
Current assets:			
Cash and cash equivalents	$13,049,000	$ -	$13,049,000
Short-term investments	2,828,000	-	2,828,000
Accounts receivable — net	15,738,000	47,436,000	63,174,000
Inventory— net	76,275,000	84,935,000	161,210,000
Inventory unreturned	7,508,000	-	7,508,000
Contract assets	-	23,206,000	23,206,000
Income tax receivable	7,972,000	-	7,972,000
Prepaid expenses and other current assets	15,104,000	(6,496,000)	8,608,000
Total current assets	138,474,000	149,081,000	287,555,000
Plant and equipment — net	28,322,000	-	28,322,000
Long-term core inventory — net	298,294,000	(298,294,000)	-
Long-term core inventory deposits	5,569,000	(5,569,000)	-
Long-term deferred income taxes	6,937,000	(239,000)	6,698,000
Long-term contract assets	-	222,731,000	222,731,000
Goodwill	2,551,000	-	2,551,000
Intangible assets — net	3,766,000	-	3,766,000
Other assets	21,995,000	(21,191,000)	804,000
TOTAL ASSETS	$505,908,000	$ 46,519,000	$552,427,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$73,273,000	$ -	$73,273,000
Accrued liabilities	12,048,000	-	12,048,000
Customer finished goods returns accrual	17,805,000	-	17,805,000
Accrued core payment	16,536,000	(16,536,000)	-
Contract liabilities	-	32,603,000	32,603,000
Revolving loan	54,000,000	-	54,000,000
Other current liabilities	4,471,000	-	4,471,000
Current portion of term loan	3,068,000	-	3,068,000
Total current liabilities	181,201,000	16,067,000	197,268,000
Term loan, less current portion	13,913,000	-	13,913,000
Long-term accrued core payment	18,473,000	(18,473,000)	-
Long-term deferred income taxes	226,000	-	226,000
Long-term contract liabilities	-	48,183,000	48,183,000
Other liabilities	5,957,000	-	5,957,000
Total liabilities	219,770,000	45,777,000	265,547,000
Commitments and contingencies			
Shareholders' equity:			
Preferred stock; par value $.01 per share, 5,000,000 shares authorized; none issued	-	-	-
Series A junior participating preferred stock; par value $.01 per share, 20,000 shares authorized; none issued	-	-	-
	189,000	-	189,000

Common stock; par value $.01 per share, 50,000,000 shares authorized; 18,893,102 shares issued and outstanding at March 31, 2018			
Additional paid-in capital	213,609,000	-	213,609,000
Retained earnings	77,768,000	742,000	78,510,000
Accumulated other comprehensive loss	(5,428,000)	-	(5,428,000)
Total shareholders' equity	286,138,000	742,000	286,880,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$505,908,000	$ 46,519,000	$552,427,000

21

Table of Contents

The adoption of the new revenue recognition standard impacted the revised statement of cash flows for the nine months ended December 31, 2017 as follows:

	Nine Months Ended December 31, 2017		
Cash flows from operating activities:	As Revised	Adoption of ASC 606	As Adjusted
Net income	$10,368,000	$ 520,000	$10,888,000
Deferred income taxes	(2,714,000)	284,000	(2,430,000)
Accounts receivable	23,127,000	(27,367,000)	(4,240,000)
Inventory	(11,162,000)	(23,481,000)	(34,643,000)
Prepaid expenses and other current assets	(1,576,000)	1,543,000	(33,000)
Other assets	(163,000)	10,000	(153,000)
Long-term core inventory	(38,361,000)	38,361,000	-
Contract assets, net	-	(16,208,000)	(16,208,000)
Contract liabilities, net	-	41,175,000	41,175,000
Accrued core payments	14,837,000	(14,837,000)	-
Net cash used in operating activities	$(9,803,000)	$ -	$(9,803,000)

5. Acquisition

On December 21, 2018, the Company completed the acquisition of Mechanical Power Conversion, LLC (“E&M”), a privately held company operating as E&M Power and engaged in the design and manufacture of advanced power emulators (AC and DC) and custom power electronic products, based in Binghamton, New York. The addition of new products from E&M will drive the Company’s revenue potential and increase its product portfolio. The acquisition was consummated pursuant to an asset purchase agreement dated December 21, 2018 for an initial cash purchase price of $4,417,000, including $360,000, which is being held in escrow to be paid to the former owners of E&M, subject to certain working capital adjustments. In addition, the Company is contingently obligated to make additional payments to the former owners of E&M up to an aggregate of $5,200,000 over the next 2-3 years. The preliminary fair value of the contingent consideration obligations as of the acquisition date was $3,560,000 determined using a probability weighted method and a Monte Carlo Simulation model.

The Company preliminarily allocated the initial purchase consideration to identified finite-lived intangible assets as follows: $2,660,000 for developed technology with an estimated useful life of 5 years, $2,630,000 for customer relationships with an estimated useful life of 8 years, and $370,000 to order backlog with an estimated useful life of 6 months. In addition, $1,683,000 was allocated to inventory and $217,000 to other net liabilities. The remaining excess purchase price over identifiable tangible and intangible assets acquired of $851,000 was recorded as goodwill, which is not deductible for income tax purposes. Initial accounting for the acquisition is preliminary as the Company has not finalized the valuation of intangible assets and goodwill. The Company incurred $287,000 in acquisition costs during the nine months ended December 31, 2018, which were recorded in general and administrative expenses. The assets and results of operations of E&M were not significant to the Company’s consolidated financial position or results of operations, and thus pro forma information is not presented.

Table of Contents

6. Goodwill and Intangible Assets

Goodwill

The following summarizes the changes in the Company's goodwill:

	Nine Months Ended December 31,	
	2018	2017
Balance at beginning of period	$ 2,551,000	$ 2,551,000
Goodwill acquired	851,000	-
Translation adjustment	-	-
Impairment	-	-
Balance at end of period	$ 3,402,000	$ 2,551,000

Intangible Assets

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

	Weighted Average Amortization Period	December 31, 2018		March 31, 2018	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Trademarks	9 years	$876,000	$ 424,000	$885,000	$ 316,000
Customer relationships	11 years	8,515,000	3,333,000	5,900,000	2,937,000
Order backlog	6 months	368,000	20,000	-	-
Developed technology	5 years	2,929,000	149,000	301,000	67,000
Total		$12,688,000	$ 3,926,000	$7,086,000	$ 3,320,000

Amortization expense for acquired intangible assets is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Amortization expense	$ 236,000	$ 192,000	$ 620,000	$ 517,000

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

Year Ending March 31,	
2019 - remaining three months	$588,000
2020	1,723,000
2021	1,468,000
2022	1,436,000
2023	1,436,000
Thereafter	2,111,000
Total	$8,762,000

Table of Contents

7. Accounts Receivable — Net

The adoption of the new revenue recognition standard (see Note 4) impacted the previously reported accounts receivable—net, at March 31, 2018 as follows:

	March 31, 2018			
	As Previously Reported	Adoption of ASC 606		As Adjusted
Accounts receivable — trade	$83,700,000	$ -		$83,700,000
Allowance for bad debts	(4,142,000)	-		(4,142,000)
Customer allowances earned	(11,370,000)	11,370,000	(1)	-
Customer payment discrepancies	(1,110,000)	-		(1,110,000)
Customer returns RGA issued	(15,274,000)	-		(15,274,000)
Customer core returns accruals	(36,066,000)	36,066,000	(2)	-
Less: total accounts receivable offset accounts	(67,962,000)	47,436,000		(20,526,000)
Total accounts receivable — net	$15,738,000	$ 47,436,000		$63,174,000

(1) Customer allowances earned have been reclassified to contract liabilities in the consolidated balance sheet at March 31, 2018.

(2) Customer core returns accruals of $4,697,000 have been reclassified to contract liabilities and customer core returns accruals of $31,369,000 have been reclassified to long-term contract liabilities in the consolidated balance sheet at March 31, 2018.

Accounts receivable — net includes offset accounts related to customer payment discrepancies, returned goods authorizations (“RGA”) issued for in-transit unit returns, and potential bad debts.

Accounts receivable — net is comprised of the following:

	December 31, 2018	March 31, 2018
Accounts receivable — trade	$ 82,208,000	$ 83,700,000
Allowance for bad debts	(4,363,000)	(4,142,000)
Customer payment discrepancies	(811,000)	(1,110,000)
Customer returns RGA issued	(22,273,000)	(15,274,000)
Less: total accounts receivable offset accounts	(27,447,000)	(20,526,000)
Total accounts receivable — net	$ 54,761,000	$ 63,174,000

Warranty Returns

The Company allows its customers to return goods that their customers have returned to them, whether or not the returned item is 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, 2018 and March 31, 2018, the Company’s total warranty return accrual was $19,152,000 and $16,646,000, respectively, of which $7,738,000 and $7,204,000, respectively, was included in the customer returns RGA issued balance in the above table for expected credits to be issued against accounts receivable and $11,414,000 and $9,442,000, respectively, was included in the customer finished goods returns accrual in the consolidated balance sheets for estimated future warranty returns.

24

Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Balance at beginning of period	$ 16,410,000	$ 14,799,000	$ 16,646,000	$ 14,286,000
Charged to expense/additions	29,655,000	38,269,000	84,408,000	89,834,000
Amounts processed	(26,913,000)	(24,048,000)	(81,902,000)	(75,100,000)
Balance at end of period	$ 19,152,000	$ 29,020,000	$ 19,152,000	$ 29,020,000

8. Inventory

The adoption of the new revenue recognition standard (see Note 4) impacted the revised inventory at March 31, 2018 as follows:

	March 31, 2018			
	As Revised	Adoption of ASC 606		As Adjusted
Inventory				
Raw materials	$25,805,000	$ 51,330,000	(1)	$77,135,000
Work-in-process	635,000	1,948,000	(1)	2,583,000
Finished goods	53,973,000	34,201,000	(2)	88,174,000
	80,413,000	87,479,000		167,892,000
Less allowance for excess and obsolete inventory	(4,138,000)	(2,544,000)	(3)	(6,682,000)
Total	$76,275,000	$ 84,935,000		$161,210,000
Inventory unreturned	$7,508,000	$ -		$7,508,000
Long-term core inventory				
Used cores held at the Company's facilities	$53,278,000	$ (53,278,000)	(1)	$-
Used cores expected to be returned by customers	12,970,000	(12,970,000)	(4)	-
Remanufactured cores held in finished goods	34,201,000	(34,201,000)	(2)	-
Remanufactured cores held at customers' locations	200,389,000	(200,389,000)	(5)	-
	300,838,000	(300,838,000)		-
Less allowance for excess and obsolete inventory	(2,544,000)	2,544,000	(3)	-
Total	$298,294,000	$ (298,294,000)		$-
Long-term core inventory deposits	$5,569,000	$ (5,569,000)	(6)	$-

---

(1) Used cores held at the Company's facilities of $53,278,000 have been reclassified to raw materials and work-in-process in the consolidated balance sheet at March 31, 2018.

(2) Remanufactured Cores held in finished goods of $34,201,000 have been reclassified to finished goods in the consolidated balance sheet at March 31, 2018.

(3) The allowance for excess and obsolete inventory related to Used cores held at the Company's facilities of $2,544,000, which was previously included in long-term core inventory, has been reclassified to inventory—net in the consolidated balance sheet at March 31, 2018.

(4) Used cores expected to be returned by customers of $12,970,000 have been reclassified to contract assets in the consolidated balance sheet at March 31, 2018.

(5) Remanufactured cores held at customers' locations of $200,389,000 have been reclassified to current and long-term contract assets in the consolidated balance sheet at March 31, 2018.

(6) Long-term core inventory deposits of $5,569,000 have been reclassified to long-term contract assets in the consolidated balance sheet at March 31, 2018.

Table of Contents

Inventory–net is comprised of the following:

	December 31, 2018	March 31, 2018
Inventory - net		
Raw materials	$ 87,717,000	$ 77,135,000
Work-in-process	4,394,000	2,583,000
Finished goods	122,763,000	88,174,000
	214,874,000	167,892,000
Less allowance for excess and obsolete inventory	(9,799,000)	(6,682,000)
Total inventory - net	$ 205,075,000	$ 161,210,000
Inventory unreturned	$ 10,746,000	$ 7,508,000

9. Contract Assets

Contract assets (see Note 4) are comprised of the following:

	December 31, 2018	March 31, 2018 (As Adjusted)
Short-term contract assets		
Cores expected to be returned by customers	$ 19,585,000	$ 15,614,000
Upfront payments to customers	3,228,000	3,979,000
Core premiums paid to customers	4,152,000	3,613,000
	$ 26,965,000	$ 23,206,000
Long-term contract assets		
Remanufactured cores held at customers' locations	$ 198,348,000	$ 197,067,000
Upfront payments to customers	3,330,000	5,492,000
Core premiums paid to customers	15,752,000	14,603,000
Long-term core inventory deposits	5,569,000	5,569,000
	$ 222,999,000	$ 222,731,000
Total contract assets	$ 249,964,000	$ 245,937,000

10. Significant Customer and Other Information

Significant Customer Concentrations

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017 (As Adjusted)	2018	2017 (As Adjusted)
Net sales				
Customer A	33 %	41 %	36 %	43 %
Customer B	20 %	27 %	23 %	26 %
Customer C	26 %	18 %	23 %	16 %

Table of Contents

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

	December 31, 2018		March 31, 2018	
Accounts receivable - trade				
Customer A	29	%	36	%
Customer B	13	%	16	%
Customer C	29	%	22	%

Geographic and Product Information

The Company’s products are predominantly sold in the U.S. and accounted for the following total percentage of net sales:

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2018		2017 (As Adjusted)		2018		2017 (As Adjusted)	
Rotating electrical products	81	%	77	%	79	%	77	%
Wheel hub products	14	%	18	%	15	%	18	%
Brake master cylinders products	1	%	2	%	2	%	3	%
Other products	4	%	3	%	4	%	2	%
	100	%	100	%	100	%	100	%

Significant Supplier Concentrations

The Company had no suppliers that accounted for more than 10% of inventory purchases for the three and nine months ended December 31, 2018 and 2017.

11. Debt

The Company was party to a $145,000,000 senior secured financing, (as amended from time to time, the “Credit Facility”) with a syndicate of lenders, and PNC Bank, National Association, as administrative agent, consisting of (i) a $120,000,000 revolving loan facility, subject to borrowing base restrictions and a $15,000,000 sublimit for letters of credit (the “Revolving Facility”) and (ii) a $25,000,000 term loan facility (the “Term Loans”). The loans under the Credit Facility were scheduled to mature on June 3, 2020. In connection with the Credit Facility, the lenders were granted a security interest in substantially all of the assets of the Company. The Credit Facility permitted the payment of up to $15,000,000 of dividends per calendar year, subject to a minimum availability threshold and pro forma compliance with financial covenants. The Term Loans required quarterly principal payments of $781,250. The interest rate on the Company’s Term Loans and Revolving Facility was 4.42% and 4.52%, respectively, as of March 31, 2018.

In June 2018, the Company entered into an amendment and restatement of the Credit Facility (as so amended and restated, the “Amended Credit Facility”) with a syndicate of lenders, and PNC Bank, National Association, as administrative agent, consisting of (i) a $200,000,000 revolving loan facility, subject to borrowing base restrictions, a $20,000,000 sublimit for borrowings by Canadian borrowers, and a $15,000,000 sublimit for letters of credit (the “Amended Revolving Facility”) and (ii) a $30,000,000 term loan facility (the “Amended Term Loans”). The loans under the Amended Credit Facility mature on June 5, 2023. The Amended Credit Facility permits the payment of up to $20,000,000 of dividends per fiscal year, subject to a minimum availability threshold and pro forma compliance with financial covenants. In connection with the Amended Credit Facility, the lenders were granted a security interest in substantially all of the assets of the Company. The Company wrote-off $303,000 of previously capitalized debt issuance costs and capitalized $1,780,000 of new debt issuance costs in connection with the Amended Credit Facility.

The Amended Term Loans require quarterly principal payments of $937,500 beginning October 1, 2018. The Amended Credit Facility bears interest at rates equal to either LIBOR plus a margin of 2.25%, 2.50% or 2.75% or a reference rate plus a margin of 1.25%, 1.50% or 1.75%, in each case depending on the senior leverage ratio as of the applicable measurement date. There is also a facility fee of 0.375% to 0.50%, depending on the senior leverage ratio as of the applicable measurement date. The interest rate on the Company's Amended Term Loans and Amended Revolving Facility was 4.85% and 4.97%, respectively, as of December 31, 2018.

Table of Contents

On November 14, 2018, the Company entered into the First Amendment to the Amended Credit Facility (the "First Amendment"). The First Amendment, among other things, extended the due date for the quarterly financial statements required to be delivered under the Amended Credit Facility for the quarter ended September 30, 2018.

The Amended Credit Facility, among other things, requires the Company to maintain certain financial covenants including a maximum senior leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all financial covenants as of December 31, 2018.

In addition to other covenants, the Amended Credit Facility places limits on the Company's ability to incur liens, incur additional indebtedness, make loans and investments, engage in mergers and acquisitions, engage in asset sales, redeem or repurchase capital stock, alter the business conducted by the Company and its subsidiaries, transact with affiliates, prepay, redeem or purchase subordinated debt, and amend or otherwise alter debt agreements.

The following summarizes information about the Company's term loans at:

	December 31, 2018	March 31, 2018
Principal amount of term loan	$ 29,063,000	$ 17,188,000
Unamortized financing fees	(269,000)	(207,000)
Net carrying amount of term loan	28,794,000	16,981,000
Less current portion of term loan	(3,685,000)	(3,068,000)
Long-term portion of term loan	$ 25,109,000	$ 13,913,000

Future repayments of the Company's Amended Term Loans are as follows:

Year Ending March 31,	
2019 - remaining three months	938,000
2020	3,750,000
2021	3,750,000
2022	3,750,000
2023	3,750,000
Thereafter	13,125,000
Total payments	$29,063,000

The Company had $78,406,000 and $54,000,000 outstanding under the revolving facility at December 31, 2018 and March 31, 2018, respectively. In addition, $879,000 was reserved for letters of credit at December 31, 2018. At December 31, 2018, after certain adjustments, $117,304,000 was available under the Amended Revolving Facility.

Table of Contents

12. Contract Liabilities

Contract liabilities (see Note 4) are comprised of the following:

	December 31, 2018	March 31, 2018
Short-term contract liabilities		
Customer allowances earned	$ 10,331,000	$ 11,370,000
Customer core returns accruals	4,046,000	4,697,000
Customer deposits	2,720,000	-
Accrued core payment, net	12,142,000	16,536,000
	$ 29,239,000	$ 32,603,000
Long-term contract liabilities		
Customer core returns accruals	$ 25,624,000	$ 29,710,000
Accrued core payment, net	16,903,000	18,473,000
	$ 42,527,000	$ 48,183,000
Total contract liabilities	$ 71,766,000	$ 80,786,000

13. 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 receipt of payment on customers' receivables.

The following is a summary of the Company's accounts receivable discount programs:

	Nine Months Ended December 31,	
	2018	2017
Receivables discounted	$ 287,206,000	$ 263,833,000
Weighted average days	340	341
Annualized weighted average discount rate	4.2 %	3.2 %
Amount of discount as interest expense	$ 11,377,000	$ 7,854,000

14. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) 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.

Table of Contents

The following presents a reconciliation of basic and diluted net (loss) income per share:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
		(As Adjusted)		(As Adjusted)
Net (loss) income	$ (3,102,000)	$ (2,527,000)	$ (5,084,000)	$ 10,888,000
Basic shares	18,810,702	19,069,152	18,861,617	18,814,967
Effect of potentially dilutive securities	-	-	-	585,777
Diluted shares	18,810,702	19,069,152	18,861,617	19,400,744
Net (loss) income per share:				
Basic net (loss) income per share	$ (0.16)	$ (0.13)	$ (0.27)	$ 0.58
Diluted net (loss) income per share	$ (0.16)	$ (0.13)	$ (0.27)	$ 0.56

Potential common shares that would have the effect of increasing diluted net income per share or decreasing diluted net loss per share are considered to be anti-dilutive and as such, these shares are not included in calculating diluted net (loss) income per share. For the three months ended December 31, 2018 and 2017, there were 1,519,480 and 1,170,441, respectively, of potential common shares not included in the calculation of diluted net income per share because their effect was anti-dilutive. For the nine months ended December 31, 2018 and 2017, there were 1,519,480 and 289,572, respectively, of potential common shares not included in the calculation of diluted net (loss) income per share because their effect was anti-dilutive.

15. Income Taxes

The Company recorded an income tax benefit of $1,035,000, or an effective tax rate of 25.0%, and $1,301,000 or an effective tax rate of 20.4%, for the three and nine months ended December 31, 2018, respectively. The effective tax rates for the three and nine months ended December 31, 2018 were impacted by the statute lapses for various uncertain tax positions and return to provision adjustments, and finalization of provisional estimates under Staff Accounting Bulletin (“SAB”) 118. The estimated effective tax rate for the entire year is based on current estimates and any changes to those estimates in future periods could result in an effective tax rate that is materially different from the current estimate.

The Company recorded an income tax expense, as adjusted, of $6,994,000, or an effective tax rate of 156.6% and $15,026,000, or an effective tax rate of 58.0%, for the three and nine months ended December 31, 2017, respectively. The effective tax rates, as adjusted, for these periods were significantly impacted by the enactment of the Tax Cuts and Jobs Act (the “Act”) on December 22, 2017. In addition, the effective tax rates were impacted by valuation allowances recorded in connection with the Company’s July 2017 acquisition of D&V.

The Act reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and created new taxes on certain foreign sourced earnings. During the year ended March 31, 2018, the Company recorded provisional amounts by applying the guidance in SAB 118, as the Company had not yet completed the accounting for the tax effects of enactment of the Act. The Company had recorded a one-time provisional non-cash tax charge of $2,709,000 due to the revaluation of deferred tax assets and liabilities. The one-time transition tax was estimated and recorded as a one-time provisional income tax expense of $530,000 at March 31, 2018.

As the measurement period under SAB 118 ended during the nine months ended December 31, 2018, the Company completed its accounting analysis of the cumulative foreign earnings, transitional tax liability, and non-cash tax charge for deferred revaluation under the Act. The three months ended December 31, 2018 included a reduction of $50,000 to

the provisional transition tax amount and a $102,000 increase to non-cash tax charge due to the revaluation of deferred tax assets and liabilities previously reported under SAB 118. Additionally, the Company's U.S. tax return for the period ended March 31, 2018 was filed and any changes to the tax positions for temporary differences compared to the estimates used resulted in an adjustment of the estimated tax expense recorded as of March 31, 2018. Despite the completion of the Company's accounting for the Act under SAB 118, many aspects of the law remain unclear and the Company expects ongoing guidance to be issued at both the federal and state levels. The Company will continue to monitor and assess the impact of any new developments.

Table of Contents

The Company remains subject to examination for the fiscal years beginning with March 31, 2015. The Company believes no significant changes in the unrecognized tax benefits will occur within the next 12 months.

16. Financial Risk Management and Derivatives

Purchases and expenses denominated in currencies other than the U.S. dollar, which are primarily related to the Company’s facilities overseas, expose the Company to market risk from material movements in foreign exchange rates between the U.S. dollar and the foreign currencies. The Company’s primary risk exposure is from fluctuations in the value of the Mexican peso and to a lesser extent the Chinese yuan. To mitigate these risks, the Company enters into forward foreign currency exchange contracts to exchange U.S. dollars for these foreign currencies. The extent to which forward foreign currency exchange contracts are used is modified periodically in response to the Company’s estimate of market conditions and the terms and length of anticipated requirements.

The Company enters into forward foreign currency exchange contracts in order to reduce the impact of foreign currency fluctuations and not to engage in currency speculation. The use of derivative financial instruments allows the Company to reduce its exposure to the risk that the eventual cash outflow resulting from funding the expenses of the foreign operations will be materially affected by changes in exchange rates between the U.S. dollar and the foreign currencies. The Company does not hold or issue financial instruments for trading purposes. The forward foreign currency exchange contracts are designated for forecasted expenditure requirements to fund foreign operations.

The Company had forward foreign currency exchange contracts with a U.S. dollar equivalent notional value of $31,416,000 and $31,304,000 at December 31, 2018 and March 31, 2018, respectively. These contracts generally have a term of one year or less, at rates agreed at the inception of the contracts. The counterparty to this derivative transaction is a major financial institution with investment grade credit rating; however, the Company is exposed to credit risk with this institution. The credit risk is limited to the potential unrealized gains (which offset currency fluctuations adverse to the Company) in any such contract should this counterparty fail to perform as contracted. Any changes in the fair values of forward foreign currency exchange contracts are reflected in current period earnings and accounted for as an increase or offset to general and administrative expenses.

The following shows the effect of the Company’s derivative instruments on its consolidated statements of operations:

Derivatives Not Designated as	Gain (Loss) Recognized within General and Administrative Expenses			
	Three Months Ended December 31,		Nine Months Ended December 31,	
Hedging Instruments	2018	2017	2018	2017
Forward foreign currency exchange contracts	$ (860,000)	$ (1,784,000)	$ (1,628,000)	$ (1,062,000)

The fair value of the forward foreign currency exchange contracts of $449,000 is included in other current liabilities in the consolidated balance sheets at December 31, 2018. The fair value of the forward foreign currency exchange contracts of $1,179,000 is included in prepaid and other current assets in the consolidated balance sheet at March 31, 2018.

Table of Contents

17. Fair Value Measurements

The following summarizes the Company’s financial assets and liabilities measured at fair value, by level within the fair value hierarchy:

	December 31, 2018				March 31, 2018			
		Fair Value Measurements Using Inputs Considered as				Fair Value Measurements Using Inputs Considered as		
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets								
Short-term investments								
Mutual funds	$2,868,000	$2,868,000	-	-	$2,828,000	$2,828,000	-	-
Prepaid expenses and other current assets								
Forward foreign currency exchange contracts	-	-	-	-	1,179,000	-	$1,179,000	-
Liabilities								
Accrued liabilities								
Short-term contingent consideration	1,830,000	-	-	$1,830,000	-	-	-	-
Other current liabilities								
Deferred compensation	2,868,000	2,868,000	-	-	2,828,000	2,828,000	-	-
Forward foreign currency exchange contracts	449,000	-	$449,000	-	-	-	-	-
Other liabilities								
Long-term contingent consideration	1,730,000	-	-	1,730,000	-	-	-	-

Short-term Investments and Deferred Compensation

The Company’s short-term investments, which fund its deferred compensation liabilities, consist of investments in mutual funds. These investments are classified as Level 1 as the shares of these mutual funds trade with sufficient frequency and volume to enable the Company to obtain pricing information on an ongoing basis.

Forward Foreign Currency Exchange Contracts

The forward foreign currency exchange contracts are primarily measured based on the foreign currency spot and forward rates quoted by the banks or foreign currency dealers. During the three months ended December 31, 2018 and 2017, losses of $860,000 and $1,784,000, respectively, were recorded in general and administrative expenses due to the change in the value of the forward foreign currency exchange contracts. During the nine months ended December

31, 2018 and 2017, losses of $1,628,000 and $1,062,000, respectively, were recorded in general and administrative expenses due to the change in the value of the forward foreign currency exchange contracts.

Contingent Consideration

The preliminary estimate of the fair value of the contingent consideration associated with the E&M acquisition discussed in Note 5 was $3,560,000. The contingent consideration was recorded in accrued expenses and other liabilities in the Company's consolidated balance sheet at December 31, 2018, and was a Level 3 liability that was measured at fair value.

Research and Development ("R&D") Event Milestone

The preliminary fair value of the two-year R&D event milestone based on technology development and transfer was $2,080,000 as of the acquisition date determined using a probability weighted method with the following assumptions commensurate with the term of the contingent consideration: (i) counter party risk discount rate ranging from 8.62% to 8.63%, and (ii) total probability of 90% to 100%. Any subsequent changes from the initial recognition of the fair value of the contingent consideration liability will be recorded in current period earnings as a general and administrative expense.

Table of Contents

Gross Profit Earn-out Consideration

The preliminary fair value of the three-year gross profit earn-out consideration was $1,480,000 as of the acquisition date determined using a Monte Carlo Simulation Model.

The assumptions used to determine the fair value of the contingent consideration were:

	December 31, 2018	
Risk free interest rate	2.61	%
Counter party rate	8.61	%
Expected volatility	30.00	%
Weighted average cost of capital	17.00	%

Any subsequent changes from the initial recognition of the fair value of the contingent consideration liability will be recorded in current period earnings as a general and administrative expense.

The following table summarizes the activity for financial assets and liabilities utilizing Level 3 fair value measurements:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	Contingent Consideration	Contingent Consideration	Contingent Consideration	Contingent Consideration
Beginning balance	$ -	$ -	$ -	$ -
Newly issued	3,560,000	-	3,560,000	-
Total (gain) loss included in net income (loss)	-	-	-	-
Exercises/settlements	-	-	-	-
Net transfers in (out) of Level 3	-	-	-	-
Ending balance	$ 3,560,000	$ -	$ 3,560,000	$ -

During the nine months ended December 31, 2018, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

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

18. Share-based Payments

Stock Options

The Company granted options to purchase 256,236 and 169,000 shares of common stock during the nine months ended December 31, 2018 and 2017, respectively. The cost associated with stock options is estimated using the Black-Scholes option-pricing model. This model requires the input of subjective assumptions including the expected volatility of the underlying stock and the expected holding period of the option. These subjective assumptions are based on both historical and other information. Changes in the values assumed and used in the model can materially affect the estimate of fair value.

Table of Contents

The following assumptions were used to derive the weighted average fair value of the stock options granted:

	Nine Months Ended December 31,	
	2018	2017
Weighted average risk free interest rate	2.83 %	1.91 %
Weighted average expected holding period (years)	5.94	5.82
Weighted average expected volatility	43.91 %	47.31 %
Weighted average expected dividend yield	-	-
Weighted average fair value of options granted	$ 8.75	$ 12.66

The following is a summary of stock option transactions:

	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2018	1,143,298	$ 16.97
Granted	256,236	$ 19.12
Exercised	(39,032)	$ 6.24
Forfeited	(16,666)	$ 24.82
Outstanding at December 31, 2018	1,343,836	$ 17.59

At December 31, 2018, options to purchase 420,474 shares of common stock were unvested at the weighted average exercise price of $22.61.

At December 31, 2018, there was $3,203,000 of total unrecognized compensation expense related to unvested stock option awards. The compensation expense is expected to be recognized over a weighted average vesting period of approximately 1.9 years.

Restricted Stock Units ("RSUs")

During the nine months ended December 31, 2018 and 2017, the Company granted 104,725 and 77,854 shares of RSUs, respectively, with an estimated grant date fair value of $2,075,000 and $2,157,000, respectively, which was based on the closing market price on the grant date.

The following is a summary of non-vested RSUs:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at March 31, 2018	133,828	$ 28.37
Granted	104,725	$ 19.81
Vested	(58,742)	$ 28.90
Forfeited	(4,167)	