

Dorman Products, Inc.
Form 10-Q
November 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 0-18914

Dorman Products, Inc.

(Exact name of registrant as specified in its charter)

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Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-2078856
(I.R.S. Employer
Identification No.)

3400 East Walnut Street, Colmar, Pennsylvania
(Address of principal executive offices)

18915
(Zip Code)

(215) 997-1800
(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 25, 2013 the registrant had 36,481,324 shares of common stock, par value \$0.01 per share, outstanding.

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DORMAN PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	For the Thirteen Weeks Ended	
	September 28, 2013	September 29, 2012
(in thousands, except per share data)		
Net sales	\$ 177,953	\$ 156,411
Cost of goods sold	108,249	96,665
Gross profit	69,704	59,746
Selling, general and administrative expenses	34,034	28,615
Income from operations	35,670	31,131
Interest expense, net	47	38
Income from continuing operations before income taxes	35,623	31,093
Provision for income taxes	12,736	11,337
Income from continuing operations	22,887	19,756
Income from discontinued operations		586
Net income	\$ 22,887	\$ 20,342
Earnings Per Share:		
Basic:		
Continuing operations	\$ 0.63	\$ 0.54
Discontinued operations		0.02
Net income	\$ 0.63	\$ 0.56
Diluted:		
Continuing operations	\$ 0.62	\$ 0.54
Discontinued operations		0.02
Net income	\$ 0.62	\$ 0.56
Weighted Average Shares Outstanding:		
Basic	36,362	36,240
Diluted	36,632	36,622

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(in thousands, except for per share data)	For the Thirty-nine Weeks Ended	
	September 28, 2013	September 29, 2012
Net Sales	\$ 494,657	\$ 435,406
Cost of goods sold	299,774	272,038
Gross Profit	194,883	163,368
Selling, general and administrative expenses	98,551	82,103
Income from operations	96,332	81,265
Interest expense, net	148	90
Income from continuing operations before income taxes	96,184	81,175
Provision for income taxes	34,883	30,019
Income from continuing operations	61,301	51,156
Income from discontinued operations		4,506
Net Income	\$ 61,301	\$ 55,662
Earnings Per Share:		
Basic:		
Continuing operations	\$ 1.69	\$ 1.41
Discontinued operations		0.13
Net income	\$ 1.69	\$ 1.54
Diluted:		
Continuing operations	\$ 1.67	\$ 1.40
Discontinued operations		0.13
Net income	\$ 1.67	\$ 1.53
Weighted Average Shares Outstanding:		
Basic	36,343	36,089
Diluted	36,610	36,489

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(in thousands)	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net income	\$ 22,887	\$ 20,342	\$ 61,301	\$ 55,662
Other comprehensive loss				
Currency translation adjustments				(2,810)
Comprehensive income	\$ 22,887	\$ 20,342	\$ 61,301	\$ 52,852

See accompanying Notes to Consolidated Financial Statements

Table of Contents**DORMAN PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

(in thousands, except for share data)	September 28, 2013	December 29, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$ 48,335	\$ 27,708
Accounts receivable, less allowance for doubtful accounts and customer credits of \$69,990 and \$56,512, respectively	178,702	140,180
Inventories	149,098	145,270
Deferred income taxes	20,093	20,559
Prepays and other current assets	2,799	2,332
Total current assets	399,027	336,049
Property, plant and equipment, net	58,717	48,758
Goodwill and intangible assets	30,114	26,553
Other assets	1,734	1,323
Total	\$ 489,592	\$ 412,683
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	\$ 49,136	\$ 42,387
Accrued compensation	8,047	9,843
Other accrued liabilities	20,607	11,455
Total current liabilities	77,790	63,685
Other long-term liabilities	5,779	3,447
Deferred income taxes	12,449	12,679
Commitments and contingencies		
Shareholders Equity:		
Common stock, par value \$0.01; authorized 50,000,000 shares; issued and outstanding 36,481,324 and 36,477,506, respectively	365	365
Additional paid-in capital	42,941	41,007
Retained earnings	350,268	291,500
Total shareholders equity	393,574	332,872
Total	\$ 489,592	\$ 412,683

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	For the Thirty-nine Weeks Ended	
	September 28, 2013	September 29, 2012
Cash Flows from Operating Activities:		
Net income	\$ 61,301	\$ 55,662
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	7,417	5,973
Provision for doubtful accounts	101	195
Provision (benefit) for deferred income taxes	236	(1,562)
Provision for non-cash stock compensation	769	750
Foreign exchange gain		(2,987)
Changes in assets and liabilities:		
Accounts receivable	(38,623)	(16,375)
Inventories	(3,722)	(18,437)
Prepays and other current assets	(543)	(1,169)
Other assets	(256)	(257)
Accounts payable	2,493	7,087
Accrued compensation and other liabilities	7,668	(279)
Cash provided by operating activities	36,841	28,601
Cash Flows from Investing Activities:		
Property, plant and equipment additions	(12,949)	(14,437)
Acquisition	(1,897)	
Cash used in investing activities	(14,846)	(14,437)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	503	1,388
Other stock related activity	793	1,455
Purchase and cancellation of common stock	(2,664)	(1,203)
Cash (used in) provided by financing activities	(1,368)	1,640
Effect of Exchange Rate Changes on Cash and Cash Equivalents		71
Net Increase in Cash and Cash Equivalents	20,627	15,875
Cash and Cash Equivalents, Beginning of Period	27,708	50,196
Cash and Cash Equivalents, End of Period	\$ 48,335	\$ 66,071
Supplemental Cash Flow Information		
Cash paid for interest expense	\$ 150	\$ 165
Cash paid for income taxes	\$ 31,325	\$ 26,872

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2013 AND SEPTEMBER 29, 2012

(UNAUDITED)

1. Basis of Presentation

As used herein, unless the context otherwise requires, Dorman, the Company, we, us, or our refers to Dorman Products, Inc. and its subsidiaries. Our ticker symbol on the NASDAQ Global Select Stock Market is DORM.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). However, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the thirty-nine weeks ended September 28, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2013. We may experience significant fluctuations from quarter to quarter in our results of operations due to the timing of orders placed by our customers. Generally, the second and third quarters have the highest level of customer orders. The introduction of new products and product lines to customers may cause significant fluctuations from quarter to quarter. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

The previously reported Consolidated Financial Statements include an adjustment to present accrued customer rebates which may be settled in cash as an accrued liability. The effect of this reclassification adjustment was a \$6.4 million increase to accounts receivable and other accrued liabilities as of December 29, 2012. We believe the adjustment is inconsequential to any previous annual or interim Consolidated Financial Statements.

2. Acquisition

On May 17, 2013, we acquired certain assets and assumed certain liabilities of Re-Involt Technologies, LLC, a remanufacturer of hybrid battery systems, primarily to expand our product portfolio. The purchase price was approximately \$3.7 million, comprised of \$1.9 million in cash and \$1.8 million of estimated contingent payments to the former owner. The contingent payment arrangement is based upon future earnings levels of the acquired business. In connection with this acquisition, we preliminarily recorded \$3.6 million in goodwill and other intangible assets pending a final valuation of the assets and liabilities. All of the intangible assets resulting from the asset purchase are expected to be deductible for tax purposes. The financial results of the acquisition have been included in the Consolidated Financial Statements since the acquisition date.

3. Discontinued Operations

On September 21, 2011, we announced our plan to exit the international portion of our ScanTech business due to continued operating losses and to focus on growing our North American business. ScanTech was headquartered outside Stockholm, Sweden and distributed a line of Volvo and Saab replacement parts throughout the world.

The following table summarizes ScanTech's net sales and income before taxes which have been presented as a discontinued operation in the Consolidated Statements of Operations for the thirteen weeks and thirty-nine weeks ended September 28, 2013 and September 29, 2012:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
(in thousands)				

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Net sales	\$	\$	16	\$	\$	2,908
Income before taxes	\$	\$	12	\$	\$	3,125

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Table of Contents**4. Sales of Accounts Receivable**

We have entered into several customer sponsored programs administered by unrelated financial institutions that permit us to sell certain accounts receivable at discounted rates to the financial institutions. Transactions under these agreements were accounted for as sales of accounts receivable and were removed from our Consolidated Balance Sheet at the time of the sales transactions. We do not service the receivables after the sales transactions. Pursuant to these agreements, we sold \$296.5 million and \$235.2 million of accounts receivable during the thirty-nine weeks ended September 28, 2013 and September 29, 2012, respectively. If receivables had not been sold, \$226.1 million and \$180.5 million of additional accounts receivable would have been outstanding at September 28, 2013 and December 29, 2012, respectively, based on standard payment terms. Selling, general and administrative expenses for the thirty-nine weeks ended September 28, 2013 and September 29, 2012 included \$3.6 million and \$3.3 million, respectively, in financing costs associated with these accounts receivable sales programs.

5. Inventories

Inventories include the cost of material, freight, direct labor and overhead utilized in the processing of our products, and are stated at the lower of average cost or market. Inventories were as follows:

(in thousands)	September 28, 2013	December 29, 2012
Bulk product	\$ 49,269	\$ 49,121
Finished product	97,055	93,466
Packaging materials	2,774	2,683
Total	\$ 149,098	\$ 145,270

6. Stock-Based Compensation

Our 2008 Stock Option and Stock Incentive Plan (the Plan) was approved by our shareholders on May 20, 2009. Under the terms of the Plan, our Board of Directors may grant up to 2,000,000 shares of common stock in the form of incentive stock options, non-qualified stock options and shares of restricted stock or combinations thereof to officers, directors, employees, consultants and advisors. Grants under the Plan must be made within ten years of the date the Plan was approved. Stock options are exercisable upon the vesting date set forth in each stock option agreement but in no event more than ten years from the date of grant. Restricted stock vest in accordance with the terms set forth in each restricted stock agreement. At September 28, 2013, 1,703,326 shares were available for grant under the Plan.

We expense the grant-date fair value of employee stock options. Compensation cost is recognized on a straight-line basis over the vesting period during which employees perform related services. The compensation cost charged against income for stock options for the thirty-nine weeks ended September 28, 2013 and September 29, 2012 was \$119,000 and \$151,000, respectively, before taxes. The compensation cost recognized is classified as selling, general and administrative expense in our Consolidated Statements of Operations. No compensation cost was capitalized during fiscal 2013 or fiscal 2012. We have included a forfeiture assumption of 5.4% for fiscal 2013 and fiscal 2012 in the calculation of compensation cost.

We use the Black-Scholes option valuation model to estimate the fair value of stock options granted. Expected volatility and expected dividend yield are based on the actual historical experience of our common stock. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using historical option exercise data. The risk-free rate was based on a U.S. Treasury security with terms equal to the expected time of exercise as of the grant date.

The following table summarizes our stock option activity for the thirty-nine weeks ended September 28, 2013:

Shares	Weighted Average	Weighted Average Remaining	Aggregate Intrinsic Value
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		Price	Term (In years)	
Balance at December 29, 2012	274,000	\$ 8.62		
Exercised	(89,000)	\$ 7.29		
Cancelled	(20,000)	\$ 12.39		
Balance at September 28, 2013	165,000	\$ 8.60	4.4	\$ 6,778,000
Options exercisable at September 28, 2013	115,000	\$ 6.57	3.4	\$ 4,957,000

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The total intrinsic value of stock options exercised in the thirty-nine weeks ended September 28, 2013 was \$2.9 million. As of September 28, 2013, there was approximately \$0.3 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 2.6 years.

Cash received from option exercises and cash flows resulting from tax deductions in excess of compensation cost recognized in the financial statements are classified as cash flows from financing activities. Cash received from option exercises were approximately \$0.5 million and \$1.4 million in the thirty-nine weeks ended September 28, 2013 and September 29, 2012, respectively. The excess tax benefit generated from options which were exercised in the thirty-nine weeks ended September 28, 2013 and September 29, 2012 was \$0.8 million and \$2.4 million, respectively, and was credited to additional paid in capital.

We grant restricted stock to certain employees and members of our Board of Directors. The value of restricted stock issued is based on the fair value of our common stock on the grant date. Vesting of restricted stock is conditional based on continued employment or service for a specified period. Compensation cost related to restricted stock is recognized on a straight-line basis over the vesting period. We retain the restricted stock, and any dividends paid thereto, until the vesting provisions have been met. Compensation cost related to restricted stock was \$650,000 and \$599,000 for the thirty-nine weeks ended September 28, 2013 and September 29, 2012, respectively.

The following table summarizes our restricted stock activity for the thirty-nine weeks ended September 28, 2013:

	Shares	Weighted Average Price
Balance at December 29, 2012	174,154	\$ 18.02
Granted	23,000	\$ 44.68
Vested	(36,750)	\$ 16.52
Cancelled	(35,126)	\$ 17.27
Balance at September 28, 2013	125,278	\$ 23.55

As of September 28, 2013, there was approximately \$2.4 million of unrecognized compensation cost related to nonvested restricted stock, which is expected to be recognized over a weighted-average period of approximately 2.9 years. The excess tax benefit generated from restricted shares which were vested in the thirty-nine weeks ended September 28, 2013 was \$0.3 million and was credited to additional paid in capital.

7. Earnings Per Share

Basic earnings per share is calculated by dividing our net income by the weighted average number of common shares outstanding during the period, excluding nonvested restricted stock which is considered to be contingently issuable. To calculate diluted earnings per share, common share equivalents are added to the weighted average number of common shares outstanding. Common share equivalents are computed based on the number of outstanding stock options and nonvested restricted stock as calculated using the treasury stock method. However, in periods when the exercise price of our stock options, by grant, is greater than our average stock price during the period, those common share equivalents are considered anti-dilutive and are excluded from the calculation of diluted earnings per share. Options to purchase 50,000 shares of common stock were outstanding at September 29, 2012, but were excluded from the calculation of dilutive earnings per share as their effect would have been anti-dilutive.

The following table sets forth the computation of basic earnings per share and diluted earnings per share:

(in thousands, except per share data)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Numerator:				
Income from continuing operations	\$ 22,887	\$ 19,756	\$ 61,301	\$ 51,156

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Income from discontinued operations		586		4,506
Net income	\$ 22,887	\$ 20,342	\$ 61,301	\$ 55,662
Denominator:				
Weighted average basic shares outstanding	36,362	36,240	36,343	36,089
Effect of stock-based compensation awards	270	382	267	400
Weighted average diluted shares outstanding	36,632	36,622	36,610	36,489

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Earnings Per Share:				
Basic:				
Continuing operations	\$ 0.63	\$ 0.54	\$ 1.69	\$ 1.41
Discontinued operations		0.02		0.13
Net income	\$ 0.63	\$ 0.56	\$ 1.69	\$ 1.54
Diluted:				
Continuing operations	\$ 0.62	\$ 0.54	\$ 1.67	\$ 1.40
Discontinued operations		0.02		0.13
Net income	\$ 0.62	\$ 0.56	\$ 1.67	\$ 1.53

8. Common Stock Repurchases

We periodically repurchase, at the then current market price, and cancel common stock issued to the Dorman Products, Inc. 401(k) Retirement Plan and Trust (the 401(k) Plan). Shares are generally purchased from the 401(k) Plan when participants sell units as permitted by the 401(k) Plan or elect to leave the 401(k) Plan upon retirement, termination or other reasons. For the thirty-nine weeks ended September 28, 2013, we repurchased and cancelled 62,170 shares of common stock at an average price of \$42.84 per share. During the fifty-two weeks ended December 29, 2012, we repurchased and cancelled 70,208 shares of common stock at an average price of \$27.68 per share.

9. Related-Party Transactions

We have a non-cancelable operating lease for our primary operating facility with a partnership in which Steven L. Berman, our Chief Executive Officer, and his family members, are partners. Based upon the terms of the lease, payments in fiscal 2013 will be \$1.5 million. Total rental payments to the partnership under the lease arrangement were \$1.5 million in fiscal 2012. The lease with the partnership expires December 31, 2017. Our Audit Committee is responsible for reviewing and approving all related party transactions. In the opinion of our Audit Committee, the terms and rates of this lease are no less favorable than those which could have been obtained from an unaffiliated party.

10. Income Taxes

At September 28, 2013, we had \$1.6 million of net unrecognized tax benefits, \$1.1 million of which would affect our effective tax rate if recognized. We recognize interest and penalties related to uncertain tax positions in income tax expense. As of September 28, 2013, we had approximately \$0.2 million of accrued interest related to uncertain tax positions.

We file income tax returns in the United States. All years before 2010 are closed for federal tax purposes. In regards to state tax, we are currently under examination by one state tax authority for the years 2008-2010. Tax years before 2009 are closed for the remaining states in which we file. We filed tax returns in Sweden through 2012 and all years prior to 2008 are closed. It is reasonably possible that audit settlements, the conclusion of current examinations or the expiration of the statute of limitations could impact the Company's unrecognized tax benefits.

11. Fair Value Disclosures

The carrying value of financial instruments such as cash, accounts receivable, accounts payable, and other current assets and liabilities approximate their fair value based on the short-term nature of these instruments.

12. New and Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an update to its authoritative guidance which allows only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement or (2) in two

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separate but consecutive financial statements. The guidance is effective in two stages. The requirement to present a single continuous statement or two separate but consecutive statements was effective for us beginning January 1, 2012. The second stage requires us to disclose the effects of reclassification adjustments from other comprehensive income to net income and was effective for us on December 30, 2012. For items reclassified in their entirety, we are required to disclose the effect of the reclassification on each line of net income that is affected by the reclassification adjustment. For items not

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reclassified in their entirety, we are required to add a cross reference to the financial statement disclosure that includes additional information about the effect of the reclassification. The adoption of these updates affect presentation only and therefore did not impact our results of operations, financial condition or cash flows.

Other comprehensive loss of \$2.8 million for the thirty-nine weeks ended September 29, 2012 is related to currency translation adjustments of our discontinued operation which is discussed in Note 3.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Statement Regarding Forward Looking Statements

Certain statements in this document constitute forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. While forward-looking statements sometimes are presented with numerical specificity, they are based on various assumptions made by management regarding future circumstances over many of which the Company has little or no control. Forward-looking statements may be identified by words including anticipate, believe, estimate, expect, and similar expressions. The Company cautions readers that forward-looking statements, including, without limitation, those relating to future business prospects, revenues, working capital, liquidity, and income, are subject to certain risks and uncertainties that would cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ from forward-looking statements include but are not limited to: competition in the automotive aftermarket industry, unfavorable economic conditions, loss of key suppliers, loss of third-party transportation providers, an increase in patent filings by original equipment manufacturers, quality problems, delay in the development and design of new products, space limitations on our customers' shelves, concentration of the Company's sales and accounts receivable among a small number of customers, the impact of consolidation in the automotive aftermarket industry, foreign currency fluctuations, timing and amount of customers orders of Company's products, dependence on senior management and other risks and factors identified from time to time in the reports the Company files with the SEC. For additional information concerning factors that could cause actual results to differ materially from the information contained in this report, reference is made to the information in Part I Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012. You should not place undue reliance on forward-looking statements. Such statements speak only as to the date on which they are made, and we undertake no obligation to update publicly or revise any forward-looking statement, regardless of future developments or availability of new information.

Introduction

The following discussion and analysis, as well as other sections in this Quarterly Report on Form 10-Q, should be read in conjunction with the unaudited consolidated financial statements and footnotes thereto of Dorman Products, Inc. and its subsidiaries included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q and with Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

Overview

We are a supplier of automotive and heavy duty truck replacement parts and fasteners, and service line products primarily for the automotive aftermarket. We market approximately 133,000 stock keeping units (SKU's) many of which we design and engineer. Approximately 85% of these SKU's are sold under our various brand names and the remainder are sold under our customers' private label brands, other brands or in bulk. We believe we are the dominant aftermarket supplier of original equipment dealer exclusive items. Original equipment dealer exclusive parts are those parts which were traditionally available to consumers only from original equipment manufacturers or salvage yards. These parts include, among other parts, intake manifolds, exhaust manifolds, oil cooler lines, window regulators, radiator fan assemblies, power steering pulleys, harmonic balancers, tire pressure monitor sensors, and keyless entry devices.

We generate over 90% of our revenues from customers in the North American automotive aftermarket, primarily in the United States and Canada. Our products are sold primarily in the United States through automotive aftermarket retailers (such as AutoZone, Advance Auto Parts and O'Reilly Auto Parts), national, regional and local warehouse distributors (such as Carquest Auto Parts and NAPA Auto Parts), specialty markets and salvage yards. We also distribute automotive replacement parts into Europe, Mexico, the Middle East and Asia.

The automotive aftermarket has benefited from some of the factors affecting the general economy, including the impact of the recent recession and continued high unemployment. We believe vehicle owners have become more likely to keep their current vehicles longer and perform necessary repairs and maintenance in order to keep those vehicles well maintained as a result of these factors. According to data published by the Automotive Aftermarket Industry Association, the average age of vehicles was 11.3 years as of January 2013, up from 10.3 years in January 2009. Another important statistic that impacts our business is the number of miles driven, which has decreased slightly since 2009.

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The overall automotive aftermarket in which we compete has benefited from the conditions mentioned above. However, our customer base has consolidated in recent years. As a result, our customers regularly seek more favorable pricing, product returns and extended payment terms when negotiating with us. We attempt to avoid or minimize these concessions as much as possible, but we have granted pricing concessions, extended customer payment terms and allowed a higher level of product returns in certain cases. These concessions impact our profit levels and may require additional capital to finance the business. We expect our customers to continue to exert pressure on our margins as the customer base continues to consolidate.

We rely on new product development as a way to offset some of these customer demands and as our primary vehicle for growth. As such, new product development is a critical success factor for us. We have made incremental investments to increase our new product development efforts each year since 2003 in an effort to grow our business and strengthen our relationships with our customers. The investments are primarily in the form of increased product development resources, increased customer and end-user awareness programs and customer service improvements. These investments have enabled us to provide an expanding array of new product offerings and grow revenues at levels that exceed market growth rates.

In 2012, we introduced a new line of products to be marketed for the medium and heavy duty truck aftermarket. We believe that this market provides many of the same opportunities for growth that the automotive aftermarket has provided us over the past several years. Our focus here will be on Formerly Dealer Only parts as it is on the automotive side of the business. We launched the initial program with a limited offering, but have made additional investments in new product development efforts to expand our product offering. We currently have over 250 SKU's in our medium and heavy duty product line. Revenues from this product line were less than 1% of our net sales in the thirty-nine weeks ended September 28, 2013 and fiscal 2012.

We may experience significant fluctuations from quarter to quarter in our results of operations due to the timing of orders placed by our customers. Generally, the first quarter has the lowest level of customer orders. The introduction of new products and product lines to customers may cause significant fluctuations from quarter to quarter.

We operate on a fifty-two or fifty-three week fiscal year period ending on the last Saturday of the calendar year. Our 2013 fiscal year will be a fifty-two week period that will end on December 28, 2013. The fiscal year ended December 29, 2012 was also a fifty-two week period.

Results of Operations

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain items in our Consolidated Statements of Operations:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	60.8	61.8	60.6	62.5
Gross profit	39.2	38.2	39.4	37.5
Selling, general and administrative expenses	19.2	18.3	19.9	18.8
Income from operations	20.0	19.9	19.5	18.7
Interest expense, net	0.0	0.0	0.1	0.1
Income from continuing operations before income taxes	20.0	19.9	19.4	18.6
Provision for income taxes	7.1	7.3	7.0	6.9
Net income from continuing operations	12.9%	12.6%	12.4%	11.7%

Thirteen Weeks Ended September 28, 2013 Compared to Thirteen Weeks Ended September 29, 2012

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Net sales increased 14% to \$178.0 million for the thirteen weeks ended September 28, 2013 from \$156.4 million for the thirteen weeks ended September 29, 2012. Our revenue growth was primarily driven by strong overall demand for our new products, especially those new products introduced in the preceding 24 months. Net sales in both periods were favorably impacted by the shipment of several large product line updates.

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Cost of goods sold, as a percentage of net sales, decreased to 60.8% for the thirteen weeks ended September 28, 2013 from 61.8% for the thirteen weeks ended September 29, 2012. A favorable change in sales mix towards higher margin products, the positive effects of price increases in select customer segments and lower transportation costs contributed to the improved gross margin during the thirteen weeks ended September 28, 2013.

Selling, general and administrative expenses were approximately \$34.0 million for the thirteen weeks ended September 28, 2013 compared to \$28.6 million for the thirteen weeks ended September 29, 2012. The increase during the thirteen weeks ended September 28, 2013 was primarily due to higher variable costs associated with our 14% sales growth, approximately \$1.1 million in additional investment in new product initiatives and \$0.6 million of depreciation and other related support costs associated with our enterprise resource planning system implementation. In addition, in January 2013 one large customer changed the way it distributes our product through its network. As a result, our selling, general and administrative costs increased by approximately \$1.5 million in the third quarter of 2013. The additional costs were offset by a higher net selling price for our products in the thirteen weeks ended September 28, 2013.

Interest expense, net, approximated prior year levels for the thirteen weeks ended September 28, 2013.

Our effective tax rate was 35.8% for the thirteen weeks ended September 28, 2013 compared to 36.5% for the thirteen weeks ended September 29, 2012. The 2013 effective tax rate in the thirteen weeks ended September 28, 2013 was favorably impacted by the adjustment of an accrual associated with an uncertain tax position.

Thirty-nine Weeks Ended September 28, 2013 Compared to Thirty-nine Weeks Ended September 29, 2012

Net sales increased 14% to \$494.7 million for the thirty-nine weeks ended September 28, 2013 from \$435.4 million for the thirty-nine weeks ended September 29, 2012. Our revenue growth was primarily driven by strong overall demand for our new products, especially those new products introduced in the preceding 24 months.

Cost of goods sold, as a percentage of net sales, decreased to 60.6% for the thirty-nine weeks ended September 28, 2013 from 62.5% for the thirty-nine weeks ended September 29, 2012. A favorable change in sales mix towards higher margin products and the positive effects of price increases in select customer segments contributed to the improved gross margin during the thirty-nine weeks ended September 28, 2013. In addition, lower transportation costs were partially offset by \$0.7 million of higher excess and obsolete inventory charges in the 2013 period compared to the same period in 2012.

Selling, general and administrative expenses were approximately \$98.6 million for the thirty-nine weeks ended September 28, 2013 compared to \$82.1 million for the thirty-nine weeks ended September 29, 2012. The spending increase was primarily due to higher variable costs associated with our 14% sales growth, approximately \$3.4 million in additional investment in new product initiatives and \$2.6 million of depreciation and other related support costs associated with our enterprise resource planning system implementation. In addition, in January 2013 one large customer changed the way it distributes our product through its network. As a result, our selling, general and administrative costs increased by approximately \$4.2 million in fiscal 2013. The additional costs were offset by a higher net selling price for our products in the thirty-nine weeks ended September 28, 2013.

Interest expense, net, approximated prior year levels for the thirty-nine weeks ended September 28, 2013.

Our effective tax rate was 36.3% for the thirty-nine weeks ended September 28, 2013 compared to 37.0% for the thirty-nine weeks ended September 29, 2012. The effective tax rate in the thirty-nine weeks ended September 28, 2013 benefitted from a research and development tax credit of \$0.3 million and from lower state income taxes.

Liquidity and Capital Resources

Historically, we have financed our growth through a combination of cash flow from operations, accounts receivable sales programs and our revolving credit facility. At September 28, 2013, working capital was \$321.2 million, while shareholders' equity was \$393.6 million. Cash and cash equivalents as of September 28, 2013 was \$48.3 million.

Over the past several years we extended payment terms to certain customers as a result of customer requests and market demands. We participate in accounts receivable sales programs with several customers which allow us to sell our accounts receivable to financial institutions to offset the negative cash flow impact of these payment terms extensions. Without these

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programs, these extended terms would have resulted in increased accounts receivable and significant uses of cash flow. Pursuant to these agreements, we sold accounts receivable in the aggregate amount of \$296.5 million and \$235.2 million during the thirty-nine weeks ended September 28, 2013 and September 29, 2012, respectively. If receivables had not been sold, \$226.1 million and \$180.5 million of additional receivables would have been outstanding at September 28, 2013 and December 29, 2012, respectively, based on standard payment terms.

We have a \$30.0 million revolving credit facility which expires in June 2015. Borrowings under the facility are on an unsecured basis with interest at rates ranging from LIBOR plus 75 basis points to LIBOR plus 250 basis points based upon the achievement of certain benchmarks related to the ratio of funded debt to EBITDA, as defined by our credit agreement. The interest rate at September 28, 2013 was LIBOR plus 75 basis points (0.93%). There were no borrowings under the facility as of September 28, 2013. As of September 28, 2013, we had three outstanding letters of credit for approximately \$0.9 million in the aggregate which were issued to secure ordinary course of business transactions. Net of these letters of credit, we had approximately \$29.1 million available under the facility at September 28, 2013. The credit agreement also contains covenants, the most restrictive of which pertain to net worth and the ratio of debt to EBITDA.

Cash Flows

Below is a table setting forth the key lines of our Consolidated Statements of Cash Flows:

(in thousands)	Thirty-nine Weeks Ended	
	September 28, 2013	September 29, 2012
Cash provided by operating activities	\$ 36,841	\$ 28,601
Cash used in investing activities	(14,846)	(14,437)
Cash (used in) provided by financing activities	(1,368)	1,640
Effect of exchange rate changes on cash and cash equivalents		71
Net increase in cash and cash equivalents	\$ 20,627	\$ 15,875

Cash provided by operating activities in fiscal 2013 increased by \$8.2 million compared to fiscal 2012 primarily due to a \$5.6 million increase in net income in fiscal 2013 and a non-recurring \$3.0 million non-cash foreign exchange gain in fiscal 2012. A \$3.6 million increase in working capital was partially offset by increased depreciation and provisions for deferred income taxes in fiscal 2013 compared to fiscal 2012. Working capital was negatively impacted by accounts receivable which increased due to higher net sales. An increase in other accrued liabilities due to the timing of payments to customers for cash rebates positively impacted working capital.

Investing activities used \$14.8 million of cash in fiscal 2013 and \$14.4 million in fiscal 2012. Capital spending was primarily related to the following significant projects:

In the third quarter of fiscal 2010, we began a project to replace our enterprise resource planning (ERP) system. This project is expected to cost between \$34 million and \$37 million for capitalized software, installation services and internal costs through 2014. We have paid approximately \$17.7 million for the project, of which \$2.4 million was paid in the thirty-nine weeks ended September 28, 2013 and \$6.7 million was paid in the thirty-nine weeks ended September 29, 2012. The installation of the new ERP system was completed at one of our subsidiaries in January 2013 without any disruption to our operations.

In the second quarter of 2013, we began an expansion of our Warsaw, Kentucky facility to provide additional capacity to support the current and projected growth of the business. The addition and related equipment, which will cost approximately \$7.0 million, will add approximately 170,000 square feet of warehouse space and is expected to be completed in the fall of 2013. During the thirty-nine weeks ended September 28, 2013 we have paid approximately \$2.1 million for this project. The remaining capital spending in each period is related to tooling associated with new products, scheduled equipment replacements and other capital projects.

Additionally, during the thirty-nine weeks ended September 28, 2013, we used approximately \$1.9 million of cash on hand to acquire certain assets and assume certain liabilities of a remanufacturer of hybrid battery systems.

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Financing activities used \$1.4 million of cash in fiscal 2013 compared to providing \$1.6 million of cash in fiscal 2012. The sources and uses of cash in each period result from stock option activity and the repurchase of common stock from our 401(k) Plan.

Based on our current operating plan, we believe that our sources of available capital are adequate to meet our ongoing cash needs for at least the next twelve months.

During the thirty-nine weeks ended September 28, 2013, we experienced no material changes to our contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended December 29, 2012.

Foreign Currency Fluctuations

In fiscal 2012, approximately 80% of our products were purchased from vendors in a variety of foreign countries. The products generally are purchased through purchase orders with the purchase price specified in U.S. dollars. Accordingly, we generally do not have exposure to fluctuations in the relationship between the dollar and various foreign currencies between the time of execution of the purchase order and payment for the product. To the extent that the dollar decreases in value to foreign currencies in the future, the price of the product in dollars for new purchase orders may increase.

The largest portion of our overseas purchases comes from China. Since June 2010, the Chinese Yuan has increased approximately 9.6% relative to the U.S. Dollar. A continued increase in the value of the Yuan relative to the U.S. Dollar will likely result in an increase in the cost of products that we purchase from China.

Impact of Inflation

The overall impact of inflation has not resulted in a significant change in labor costs or the cost of general services utilized. The cost of many of the commodities that are used in our products have fluctuated over time resulting in increases and decreases in the prices of our products. In addition, we have periodically experienced increased transportation costs as a result of higher fuel prices. We will attempt to offset cost increases by passing along selling price increases to customers, using alternative suppliers and by resourcing purchases to other countries. However, there can be no assurance that we will be successful in these efforts.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon the Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. We regularly evaluate our estimates and judgments, including those related to the allowance for doubtful accounts, revenue recognition and allowance for customer credits, inventory reserves, goodwill and income taxes. Estimates and judgments are based upon historical experience and on various other assumptions believed to be accurate and reasonable under the circumstances. Actual results may differ materially from these estimates due to different assumptions or conditions. We believe the following critical accounting policies affect our more significant estimates and judgments used in the preparation of our Consolidated Financial Statements.

Allowance for Doubtful Accounts. The preparation of our financial statements requires us to make estimates of the collectability of our accounts receivable. We specifically analyze accounts receivable and historical bad debts, customer creditworthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. A significant percentage of our accounts receivable have been, and will continue to be, concentrated among a relatively small number of automotive retailers and warehouse distributors in the United States. Our five largest customers accounted for 86% and 83% of net accounts receivable as of December 29, 2012 and December 31, 2011, respectively. A bankruptcy or financial loss associated with a major customer could have a material adverse effect on our sales and operating results.

Revenue Recognition and Allowance for Customer Credits. Revenue is recognized from product sales when goods are shipped, title and risk of loss have been transferred to the customer and collection is reasonably assured. We record estimates for cash discounts, product returns and warranties, discounts and promotional rebates in the period of the sale (Customer Credits). The provision for Customer Credits is recorded as a reduction from gross sales and reserves for Customer Credits are shown as a reduction of accounts receivable. Accrued customer rebates which we expect to settle in cash are classified as other current liabilities. Actual Customer Credits and accrued customer rebates have not differed materially from estimated amounts. Amounts billed to customers for shipping and handling are included in net sales. Costs associated with shipping and handling are included in cost of goods sold.

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Excess and Obsolete Inventory Reserves. We must make estimates of potential future excess and obsolete inventory costs. We provide reserves for discontinued and excess inventory based upon historical demand, forecasted usage, estimated customer requirements and product line updates. We maintain contact with our customer base in order to understand buying patterns, customer preferences and the life cycle of our products. Changes in customer requirements are factored into the reserves as needed.

Goodwill. Goodwill is reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of the goodwill may be impaired. In regards to the annual test, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary.

Income Taxes. We follow the asset and liability method of accounting for deferred income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year and for the change in the deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We must make assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income taxes takes into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. Changes in tax laws or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset takes into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates.

New and Recently Adopted Accounting Pronouncements

Please refer to Note 12, New and Recently Adopted Accounting Pronouncements, to the Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risk is the potential loss arising from adverse changes in interest rates. Substantially all of our borrowing capacity and our accounts receivable sale programs bear interest at rates tied to LIBOR. Under the terms of our revolving credit facility and customer-sponsored programs to sell accounts receivable, a change in either the lender's base rate, LIBOR or discount rates under our accounts receivable sale programs would affect the rate at which we could access funds thereunder. Hypothetically, a one percentage point increase in LIBOR would increase our interest expense on our variable rate debt, if any, and our financing costs associated with our sales of accounts receivable by approximately \$2.3 million annually. This estimate assumes that our variable rate debt balance and the level of sales of accounts receivable remains constant for an annual period and the interest rate change occurs at the beginning of the period. The hypothetical changes and assumptions may be different from what actually occurs in the future.

We have not historically and do not intend to use derivative financial instruments for trading or to speculate on changes in interest rates or commodity prices. We are not exposed to any significant market risks, foreign currency exchange risk or interest rate risk from the use of derivative instruments.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

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Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures, as defined in Rule 13a-15(e), were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter ended September 28, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there was no such change during the quarter ended September 28, 2013.

Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are a party to or otherwise involved in legal proceedings that arise in the ordinary course of business, such as various claims and legal actions involving contracts, competitive practices, patent rights, trademark rights, product liability claims and other matters arising out of the conduct of our business. In the opinion of management, none of the actions, individually or in the aggregate, would likely have a material financial impact on us and we believe the range of reasonably possible losses from current matters continues to be immaterial.

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 29, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Issuer Purchases of Equity Securities**

During the thirteen weeks ended September 28, 2013, we purchased shares of our common stock as follows:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
June 30, 2013 through July 27, 2013		\$		
July 28, 2013 through August 24, 2013	14,810	\$ 51.04		
August 25, 2013 through September 28, 2013	5,260	\$ 50.96		
Total	20,070	\$ 51.02		

(1) Includes shares of our common stock withheld from participants for income tax withholding purposes in connection with the vesting of restricted stock grants during the period, if any. The restricted stock was issued to participants pursuant to our 2008 Stock Option and Incentive Plan. Also includes shares purchased from the 401(k) Plan (as described in Note 8 to the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q).

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures
Not Applicable

Item 5. Other Information
None

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Item 6. Exhibits

Item 601

Exhibit

Number

Title

10.1	General Release and Waiver signed by Joseph M. Beretta dated July 11, 2013 (incorporated by reference to the Exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2013).
10.2	First Amendment to the Dorman Products, Inc. 2008 Stock Option and Stock Incentive Plan dated May 30, 2013 (filed with this report).
31.1	Certification of Chief Executive Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002 (filed with this report).
31.2	Certification of Chief Financial Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002 (filed with this report).
32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished with this report).
101	The following financial statements from the Dorman Products, Inc. Quarterly Report on Form 10-Q as of and for the quarter ended September 28, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dorman Products, Inc.

November 1, 2013

\s\ Steven Berman

Steven Berman

Chairman and Chief Executive Officer

(Principal Executive Officer)

November 1, 2013

\s\ Matthew Kohnke

Matthew Kohnke

Chief Financial Officer

(Principal Financial Officer and

Principal Accounting Officer)

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