

Dorman Products, Inc.
Form 10-Q
May 07, 2009

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 March 28, 2009

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)

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)

Not Applicable
(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

Edgar Filing: Dorman Products, Inc. - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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

As of May 4, 2009 the Registrant had 17,649,275 shares of common stock, \$.01 par value, outstanding.

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q

March 28, 2009

	Page
Part I — FINANCIAL INFORMATION	
Item 1.	<u>Consolidated Financial Statements (unaudited)</u>
	<u>Statements of Operations:</u>
	<u>Thirteen Weeks Ended March 28, 2009 and March 29, 2008</u> 3
	<u>Balance Sheets</u> 4
	<u>Statements of Cash Flows</u> 5
	<u>Notes to Consolidated Financial Statements</u> 6
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 10
Item 3.	<u>Quantitative and Qualitative Disclosure about Market Risk</u> 15
Item 4.	<u>Controls and Procedures</u> 15
Part II — OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u> 16
Item 1A	<u>Risk Factors</u> 16
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 16
Item 3.	<u>Defaults Upon Senior Securities</u> 16
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u> 16
Item 5.	<u>Other Information</u> 16
Item 6.	<u>Exhibits</u> 17
<u>Signatures</u>	19
<u>Exhibit Index</u>	20

Index

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except for share data)	For the Thirteen Weeks Ended	
	March 28, 2009	March 29, 2008
Net Sales	\$ 86,431	\$ 80,125
Cost of goods sold	58,034	55,422
Gross profit	28,397	24,703
Selling, general and administrative expenses	20,934	19,984
Income from operations	7,463	4,719
Interest expense, net	81	268
Income before taxes	7,382	4,451
Provision for taxes	2,826	1,769
Net Income	\$ 4,556	\$ 2,682
Earnings Per Share:		
Basic	\$ 0.26	\$ 0.15
Diluted	\$ 0.25	\$ 0.15
Average Shares Outstanding:		
Basic	17,643	17,699
Diluted	17,965	18,087

See accompanying notes to consolidated financial statements.

Index

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

(in thousands, except for share data)	March 28, 2009	December 27, 2008
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,731	\$ 5,824
Accounts receivable, less allowance for doubtful accounts and customer credits of \$32,196 and \$32,563	80,980	77,101
Inventories	83,365	93,577
Deferred income taxes	11,684	11,626
Prepays and other current assets	1,325	2,135
Total current assets	182,085	190,263
Property, Plant and Equipment, net	25,095	25,053
Goodwill	26,553	26,553
Other Assets	1,508	1,553
Total	\$ 235,241	\$ 243,422
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 87	\$ 86
Accounts payable	15,908	21,900
Accrued compensation	3,720	4,775
Other accrued liabilities	4,975	3,265
Total current liabilities	24,690	30,026
Other Long-Term Liabilities	2,108	2,108
Long-Term Debt	7,834	15,356
Deferred Income Taxes	8,333	8,088
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, par value \$.01; authorized 2-5,000,000 shares; issued and outstanding 17,654,573 and 17,644,371	176	176
Additional paid-in capital	32,126	31,985
Cumulative translation adjustments	888	1,073
Retained earnings	159,086	154,610

Edgar Filing: Dorman Products, Inc. - Form 10-Q

Total shareholders' equity	192,276	187,844
Total	\$ 235,241	\$ 243,422

See accompanying notes to consolidated financial statements.

Index

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)	For the Thirteen Weeks Ended	
	March 28, 2009	March 29, 2008
Cash Flows from Operating Activities:		
Net income	\$ 4,556	\$ 2,682
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	1,890	1,929
Provision for doubtful accounts	306	(11)
Provision for deferred income tax	187	192
Provision for non-cash stock compensation	79	91
Changes in assets and liabilities:		
Accounts receivable	(4,192)	(7,322)
Inventories	10,134	(3,758)
Prepays and other current assets	787	394
Other assets	7	135
Accounts payable	(5,961)	1,126
Accrued compensation and other liabilities	667	(3,444)
Cash provided by (used in) operating activities	8,460	(7,986)
Cash Flows from Investing Activities:		
Property, plant and equipment additions	(1,911)	(1,535)
Cash used in investing activities	(1,911)	(1,535)
Cash Flows from Financing Activities:		
Repayment of long-term debt obligations	(21)	(20)
Net (repayment of) proceeds from revolving credit facility	(7,500)	9,250
Proceeds from exercise of stock options	77	3
Other stock related activity	4	(6)
Purchase and cancellation of common stock	(99)	(178)
Cash (used in) provided by financing activities	(7,539)	9,049
Effect of exchange rate changes on cash and cash equivalents	(103)	453
Net Decrease in Cash and Cash Equivalents	(1,093)	(19)
Cash and Cash Equivalents, Beginning of Period	5,824	6,918
Cash and Cash Equivalents, End of Period	\$ 4,731	\$ 6,899
Supplemental Cash Flow Information		
Cash paid for interest expense	\$ 112	\$ 308
Cash paid for income taxes	\$ 437	\$ 981

See accompanying notes to consolidated financial statements.

Index

DORMAN PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRTEEN WEEKS ENDED MARCH 28, 2009 AND MARCH 29, 2008 (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.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 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 thirteen week period ended March 28, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 26, 2009. 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, but 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 year ended December 27, 2008.

2. Sales of Accounts Receivable

We have entered into several customer sponsored programs administered by unrelated financial institutions that permit us to sell, without recourse, certain accounts receivable at discounted rates to the financial institutions. We do not retain any servicing requirements for these accounts receivable. Transactions under these agreements are accounted for as sales of accounts receivable following the provisions of Statement of Financial Accounting Standards (SFAS) No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities - A Replacement of FASB Statement 125.” At March 28, 2009 and December 27, 2008, \$53.2 million and \$55.0 million, respectively, of accounts receivable were sold and removed from the consolidated balance sheets based upon standard payment terms. Selling, general and administrative expenses for the thirteen weeks ended March 28, 2009 and March 29, 2008 include \$0.4 million and \$0.4 million, respectively, in financing costs associated with these accounts receivable sales programs. During the thirteen weeks ended March 28, 2009 and March 29, 2008, we sold \$15.8 million and \$24.2 million, respectively, under these programs.

3. Inventories

Inventories include the cost of material, freight, direct labor and overhead utilized in the processing of our products. Inventories were as follows:

(in thousands)	March 28, 2009	December 27, 2008
Bulk product	\$ 30,746	\$ 35,385
Finished product	50,231	55,558

Packaging materials	2,388	2,634
Total	\$ 83,365	\$ 93,577

4. Stock-Based Compensation

Effective May 18, 2000 we amended and restated our Incentive Stock Option Plan (the "Plan"). Under the terms of the Plan, our Board of Directors may grant incentive stock options or non-qualified stock options or combinations thereof to purchase up to 2,345,000 shares of common stock to officers, directors and employees. Grants under the Plan must be made within 10 years of the plan amendment date and are exercisable at the discretion of the Board of Directors, but in no event more than 10 years from the date of grant. At March 28, 2009, options to acquire 334,447 shares were available for grant under the Plan. The Plan expires on December 13, 2009. On December 12, 2008, our Board of Directors approved the 2008 Stock Option and Stock Incentive Plan, subject to shareholder approval at the Company's Annual Meeting to be held on May 20, 2009.

Index

We account for stock based compensation in accordance with SFAS No. 123R "Share-Based Payment," and related interpretations and expense the grant-date fair value of employee stock options. In accordance with SFAS No. 123R, cash flows resulting from tax deductions in excess of compensation cost recognized in the financial statements is classified as financing cash flows.

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 our stock-based compensation program for the thirteen weeks ended March 28, 2009 and March 29, 2008 was \$79,000 and \$91,000 before taxes. The compensation cost recognized is classified as selling, general and administrative expense in the consolidated statement of operations. No cost was capitalized during 2009 and 2008. We included a forfeiture assumption of 5.2% in 2009 and 4.6% in 2008 in the calculation of expense.

We use the Black-Scholes option valuation model to estimate the fair value of options granted. Expected volatility and expected dividend yield are based on the actual historical experience of our stock. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using the simplified method prescribed by the Securities and Exchange Commission Staff Accounting Bulletin No. 107. The risk-free rate is based on the U.S. Treasury security with terms equal to the expected time of exercise as of the grant date. There were no stock options granted in the thirteen weeks ended March 28, 2009 or March 29, 2008.

Transactions under the Plan were as follows:

	Shares	Weighted Average Price	Weighted Average Remaining Term (In years)	Aggregate Intrinsic Value
Balance at December 27, 2008	820,100	\$ 5.91		
Exercised	(22,750)	2.95		
Balance at March 28, 2009	797,350	\$ 5.99	4.4	\$ 3,018,000
Options exercisable at March 28, 2009	679,650	\$ 4.89	3.6	\$ 3,018,000

The total intrinsic value of stock options exercised during 2009 was \$136,000.

As of March 28, 2009, there was approximately \$0.6 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 3.4 years.

Cash received from option exercises during 2009 was \$67,000. The excess tax benefit generated from options which were exercised during 2009 was \$36,000 and was credited to additional paid in capital.

5. Earnings Per Share

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

Index

(in thousands, except per share data)	Thirteen Weeks Ended	
	March 28, 2009	March 29, 2008
Numerator:		
Net income	\$ 4,556	\$ 2,682
Denominator:		
Weighted average shares outstanding used in basic earnings per share calculation	17,643	17,699
Effect of dilutive stock options	322	388
Adjusted weighted average shares outstanding used in diluted earnings per share calculation	17,965	18,087
Basic earnings per share	\$ 0.26	\$ 0.15
Diluted earnings per share	\$ 0.25	\$ 0.15

Options to purchase 203,500 and 173,500 shares were outstanding at March 28, 2009 and March 29, 2008, respectively, but were not included in the computation of diluted earnings per common share, as their effect would have been antidilutive.

6. Common Stock Repurchases

On February 22, 2008, we announced that our Board of Directors authorized the repurchase of up to 500,000 shares of our outstanding common stock. Under this program, share repurchases may be made from time to time depending upon market conditions, share price and availability, and other factors at our discretion. Repurchases will take place in open market transactions or in privately negotiated transactions in accordance with applicable laws. During 2009, we repurchased and cancelled 3,600 shares of common stock under the plan.

We periodically repurchase at the then current market price and cancel common stock issued to our defined contribution profit sharing and 401(k) plan. For the thirteen weeks ended March 28, 2009, we repurchased and cancelled 6,865 shares of common stock. During 2008, we repurchased and cancelled 108,033 shares of common stock.

7. Related-Party Transactions

We have entered into a noncancelable operating lease for our primary operating facility from a partnership in which Richard N. Berman, our Chief Executive Officer, and Steven L. Berman, our Executive Vice President, are partners. Based upon the terms of the lease, payments in 2009 will be \$1.4 million. Total rental payments to the partnership under the lease arrangement were \$1.4 million in 2008.

8. Income Taxes

We apply the provisions of Financial Accounting Standards Board Interpretation No.48, "Accounting for Un-certainty in Income Taxes an interpretation of FASB Statement No. 109"("FIN 48"). At March 28, 2009, we have \$1.8 million of net unrecognized tax benefits, \$1.1 million of which would affect our effective tax rate if recognized.

Edgar Filing: Dorman Products, Inc. - Form 10-Q

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of March 28, 2009, we have approximately \$0.4 million of accrued interest related to uncertain tax positions.

The last year examined by the IRS was 2005, and all years up through and including that year are closed by examination. We are currently under examination for tax years 2003-2007 by one state tax authority to which we are subject to tax. The tax years 2004-2008 remain open to examination by the remaining major taxing jurisdictions in the United States to which we are subject. The tax years 2004-2008 remain open to examination in Sweden for our Swedish subsidiary.

Index

9. Comprehensive Income

Pursuant to the provisions of SFAS No. 130, "Reporting Comprehensive Income," comprehensive income includes all changes to shareholders' equity during a period, except those resulting from investment by and distributions to shareholders. Components of comprehensive income include net income and changes in foreign currency translation adjustments. Total comprehensive income was \$4.4 million for the thirteen weeks ended March 28, 2009, and \$3.7 million for the thirteen weeks ended March 29, 2008.

10. New Accounting Pronouncements

In April 2008, the FASB issued FASB Staff Position 142-3, "Determination of the Useful Life of Intangible Assets: ("FSP 142-3")." FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is not expected to impact the Company's consolidated results of operations and financial position.

In December 2007, the FASB issued SFAS 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) changes the requirements for an acquirer's recognition and measurement of the assets acquired and the liabilities assumed in a business combination. SFAS No. 141(R) is effective for annual periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. The adoption of the provisions of SFAS No. 160 did not have a material impact the Company's consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurements. The provisions of SFAS No. 157 are to be applied prospectively and are effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB has agreed to a one-year deferral of SFAS No. 157's fair value measurement requirements for non-financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. We adopted SFAS No. 157 for financial assets and liabilities on December 30, 2007, and there was no impact on the Company's consolidated results of operations and financial position. We adopted SFAS No. 157 for non-financial assets and liabilities on December 28, 2008, and there was no impact on the Company's consolidated results of operations and financial position.

Index

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

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