

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

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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

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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.

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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 |

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

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 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.

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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.

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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:

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| (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.

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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.

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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.

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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 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: (i) competition in the automotive aftermarket industry; (ii) concentration of the Company's sales and accounts receivable among a small number of customers and the extension of customer payment terms; (iii) the impact of consolidation in the automotive aftermarket industry; (iv) foreign currency fluctuations; (v) dependence on senior management and control by officers, directors, and family members; (vi) increase in OE patent filings; and (vii) product quality. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. 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 27, 2008.

Introduction

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes of Dorman Products, Inc. and its subsidiaries included elsewhere in this Quarterly Report on Form 10-Q and with Management's Discussion and Analysis of Financial Condition and Results of Operations and audited financial statements and notes included in the Company's Annual Report on Form 10-K.

Overview

We are a leading supplier of Original Equipment (OE) Dealer "Exclusive" automotive replacement parts, automotive hardware, brake products, and household hardware to the automotive aftermarket and mass merchandise markets. Dorman automotive parts and hardware are marketed under the OE Solutions™, HELP!®, AutoGrade™, First Stop™, Conduct-Tite®, Pik-A-Nut®, and Scan-Tech™ brand names. We design, package and market over 92,000 different automotive replacement parts (including brake parts), fasteners and service line products manufactured to our specifications. Our products are sold under one of the seven Dorman brand names listed above. Our products are sold primarily in the United States through automotive aftermarket retailers (such as AutoZone, Advance and O'Reilly), national, regional and local warehouse distributors (such as Carquest and NAPA) and specialty markets including parts manufacturers for resale under their own private labels and salvage yards. Through our Scan-Tech subsidiary we are increasing our international distribution of automotive replacement parts, with sales into Europe, the Middle East and the Far East.

During 2008, there was a slowdown in overall global economic activity as well as instability in the financial markets. These challenges have impacted the global economy, the capital markets, our operating costs and demand for our

products. The results of these challenges include continued higher material and oil-related costs, a liquidity strain on some of our customers and suppliers, decreased consumer confidence and reduced consumer discretionary spending. We expect these conditions to continue in the foreseeable future.

The credit markets have been volatile in recent quarters as well. To succeed in this environment, we are taking aggressive steps to further reduce cost, conserve working capital and control capital expenditures. Fortunately our balance sheet is strong and our revolving credit facility does not mature until June 2010. The strength of our balance sheet provides us with flexibility to expand or pursue attractive opportunities that may present themselves in these difficult times.

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The automotive aftermarket in which we compete has been growing in size; however, the industry which we supply continues to consolidate. As a result, our customers regularly seek more favorable pricing, product returns and extended payment terms when negotiating with us. While we do our best to avoid such concessions, in some cases pricing concessions have been made, customer payment terms have been extended and returns of product have exceeded historical levels. The product returns and more favorable pricing primarily affect our profit levels while payment term extensions generally reduce operating cash flow and require additional capital to finance the business. We expect both of these trends to continue for the foreseeable future. Gross profit margins have declined over the past three years as a result of this pricing pressure. Another contributing factor in our gross profit margin decline is a shift in mix to higher-priced, but lower gross margin products. This trend is also expected to continue for the foreseeable future. We have increased our focus on efficiency improvements and product cost reduction initiatives to offset the impact of these trends.

In addition, we are relying on new product development as a way to offset some of these trends and as our primary vehicle for growth. As such, new product development is a critical factor for our future success. We have invested heavily in resources necessary for us to increase our new product development efforts and to strengthen our relationships with our customers. These investments are primarily in the form of increased product development resources and awareness programs, customer service improvements and increased customer credits and allowances. This has enabled us to provide an expanding array of new product offerings and grow our revenues.

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. We operate on a fifty-two, fifty-three week period ending on the last Saturday of the calendar year.

Sale of Assets

On May 15, 2008, we sold certain assets of our Canadian subsidiary for \$0.9 million. We realized a \$0.7 million tax benefit upon disposition of the business.

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:

| | Percentage of Net Sales | |
|--|---------------------------------|-------------------|
| | For the Thirteen Weeks Ended | |
| | March 28, 2009 | March 29, 2008 |
| Net Sales | 100.0% | 100.0% |
| Cost of goods sold | 67.1 | 69.2 |
| Gross profit | 32.9 | 30.8 |
| Selling, general and administrative expenses | 24.3 | 24.9 |
| Income from operations | 8.6 | 5.9 |
| Interest expense, net | 0.1 | 0.4 |

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| | | |
|---------------------|------|------|
| Income before taxes | 8.5 | 5.6 |
| Provision for taxes | 3.2 | 2.3 |
| Net Income | 5.3% | 3.3% |

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Thirteen Weeks Ended March 28, 2009 Compared to Thirteen Weeks Ended March 29, 2008

Net sales increased 8% to \$86.4 million for the first quarter ended March 28, 2009 from \$80.1 million in the same period last year. Revenues before the impact of exchange and the sale of our Canadian subsidiary were up 11% over the prior year. Our revenue growth was driven by overall strong demand for our products and higher new product sales.

Cost of goods sold, as a percentage of net sales, decreased to 67.1% for the thirteen weeks ended March 28, 2009 from 69.2% in the same period last year. The decrease is primarily the result of lower provisions for excess and obsolete inventory in 2009 and a reduction of \$0.8 million in air freight costs over last year.

Selling, general and administrative expenses for the thirteen weeks ended March 28, 2009 increased 5% to \$20.9 million from \$20.0 million in the same period last year. The increase is the result of higher incentive compensation expense, which was \$1.0 million higher than the prior year due to higher earnings levels. Excluding this higher provision, expenses were essentially flat despite our 8% growth in net sales as our tighter focus on cost control offset the variable costs associated with higher sales and inflationary cost increases.

Interest expense, net, decreased to \$0.1 million in the thirteen weeks ended March 28, 2009 from \$0.3 million in the same period last year due to lower borrowing levels and lower interest rates.

Our effective tax rate decreased to 38.3% in the thirteen weeks ended March 28, 2009 from 39.7% in the same period last year. Our 2008 tax provision included a \$0.1 million provision for a valuation allowance on the deferred tax assets of our Canadian subsidiary which resulted in a higher effective tax rate last year.

Liquidity and Capital Resources

Historically, we have financed our growth through a combination of cash flow from operations, accounts receivable sales programs provided by certain customers and through the issuance of senior indebtedness through our bank credit facility and senior note agreements. At March 28, 2009, working capital was \$157.4 million, total long-term debt (including the current portion and revolving credit borrowings) was \$7.9 million and shareholders' equity was \$192.3 million. Cash and cash equivalents as of March 28, 2009 was \$4.7 million.

Over the past several years we have continued to extend payment terms to certain customers as a result of customer requests and market demands. These extended terms have resulted in increased accounts receivable levels and significant uses of cash flow. We participate in accounts receivable sales programs with several customers which allow us to sell our accounts receivable on a non-recourse basis to financial institutions to offset the negative cash flow impact of these payment terms extensions. As of March 28, 2009 and December 27, 2008, we had sold \$53.2 million and \$55.0 million in accounts receivable under these programs and had removed them from our balance sheets based upon standard payment terms. We expect continued pressure to extend our payment terms for the foreseeable future. Further extensions of customer payment terms will result in additional uses of cash flow or increased costs associated with the sale of accounts receivable.

We have a \$30.0 million revolving credit facility which expires in June 2010. Borrowings under the facility are on an unsecured basis with interest at rates ranging from LIBOR plus 65 basis points to LIBOR plus 150 basis points based upon the achievement of certain benchmarks related to the ratio of funded debt to EBITDA. The interest rate at March 28, 2009 was LIBOR plus 65 basis points (1.17%). Borrowings under the facility were \$7.5 million as of March 28, 2009. We had approximately \$20.7 million available under the facility at March 28, 2009. The loan agreement also contains covenants, the most restrictive of which pertain to net worth and the ratio of debt to EBITDA.

We also have outstanding \$0.4 million under a commercial loan granted in connection with the opening of a new distribution facility which bears interest at 4% payable monthly. The principal balance is paid monthly in equal installments through September 2013. The loan is secured by a letter of credit issued under our revolving credit facility.

Our business activities do not include the use of unconsolidated special purpose entities, and there are no significant business transactions that have not been reflected in the accompanying financial statements.

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Cash generated from our operating activities was \$8.5 million in the thirteen weeks ended March 28, 2009. Net income, depreciation and a \$10.1 million decrease in inventory were the primary sources of operating cash flow. Inventory decreased primarily as a result of strong sales levels and recently implemented inventory management changes. The primary uses of cash were accounts receivable, which increased \$4.2 million, and accounts payable, which decreased \$6.0 million. Accounts receivable increased due to sales growth and lower sales of accounts receivable. Accounts payable decreased as a result of lower inventory purchases and the timing of payments to several of our suppliers.

Investing activities used \$1.9 million of cash in the thirteen weeks ended March 28, 2009 primarily as a result of additions to property, plant and equipment. Capital spending in 2009 consisted of tooling associated with new products, equipment associated with the expansion of a distribution center, upgrades to information systems and scheduled equipment replacements.

Financing activities used \$7.5 million of cash in the thirteen weeks ended March 28, 2009, primarily related to our repayment of outstanding amounts under our revolving credit facility.

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.

Foreign Currency Fluctuations

In 2008, approximately 80% of our products were purchased from a variety of foreign countries. The products generally are purchased through purchase orders with the purchase price specified in U.S. dollars. Accordingly, we 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. However, weakness in the dollar has resulted in materials price increases and pressure from several foreign suppliers to increase prices further. To the extent that the dollar decreases in value to foreign currencies in the future or the present weakness in the dollar continues for a sustained period of time, the price of the product in dollars for new purchase orders may increase further.

The largest portion of our overseas purchases come from China. The value of the Chinese Yuan has increased relative to the U.S. Dollar since July 2005 when it was allowed to fluctuate against a basket of currencies. Most experts believe that the value of the Yuan will increase further relative to the U.S. Dollar over the next few years. Such a move would most likely result in an increase in the cost of products that are purchased 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 by the Company. During the second and third quarter of 2008 we experienced significant increases in the cost of our materials costs as a result of commodity price increases and weakness in the U.S. Dollar. The upward pressure on materials costs has eased somewhat over the past six months as the U.S. economy weakened, but costs are up over the beginning of 2008 levels. We have been able to offset a portion of these cost increases with higher selling prices; however, we do not expect to be able to do so completely. We will attempt to offset any further cost increases by passing along selling price increases to customers, through the use of alternative suppliers and by resourcing products to other countries. However, there can be no assurance that we will be successful in these efforts.

Related-Party Transactions

We have 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 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.

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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 revenue recognition, bad debts, customer credits, inventories, 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 under 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 81% and 71% of net accounts receivable as of December 27, 2008 and December 29, 2007, 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. 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. Actual Customer Credits have not differed materially from estimated amounts for each period presented.

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. We follow the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". We employ a discounted cash flow analysis and a market comparable approach in conducting our impairment tests. Earnings multiples of 5.25 to 5.5 times EBITDA were used when conducting these tests in 2008.

Income Taxes. We follow the 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.

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Recent 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 is not expected to impact the Company's consolidated results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, established 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 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.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Our market risk is the potential loss arising from adverse changes in interest rates. Substantially all of our borrowings as well as our accounts receivable sale programs bear interest 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 borrow funds thereunder. Hypothetically, a one percentage point increase in LIBOR would increase our interest expense on our variable rate debt and our financing costs associated with our sales of accounts receivable by approximately \$0.6 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

Quarterly Evaluation of Our Disclosure Controls and Internal Controls

As of March 28, 2009, the Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to paragraph (b) of Exchange Act Rules 13a-15 or 15d-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

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Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 4T. Controls and Procedures Not Applicable

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.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item A, Risk Factors" in our Annual Report on Form 10-K for the year ended December 27, 2008, 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

The following table details information regarding our purchase of shares under our Stock Repurchase Program:

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May yet Be Purchased Under the Plans or Programs |
|---|--|---|---|--|
| Month #1 December 28, 2008 to January 31, 2009 | - | - | - | - |
| Month #2 February 1, 2009 to February 28, 2009 | - | - | - | - |
| Month #3 March 1, 2009 | | | | |

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| | | | | |
|-------------------|-------|------|-------|---------|
| to March 28, 2009 | 3,600 | 6.36 | 3,600 | 496,400 |
|-------------------|-------|------|-------|---------|

Item 3. Defaults Upon Senior Securities Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders Not Applicable

Item 5. Other Information Not Applicable

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Item 6. Exhibits

Item 601

Exhibit

Number Title

| | |
|-------------|--|
| 3.1 (1) | Amended and Restated Articles of Incorporation of the Company dated May 23, 2007. |
| 3.2 (2) | Amended and Restated Bylaws of the Company. |
| 4.1 (3) | Amended and Restated Shareholder's Agreement dated July 1, 2006 |
| 10.1 (4) | Lease, dated December 1, 1990, between the Company and the Berman Real Estate Partnership, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania. |
| 10.1.1 (6) | Amendment to Lease, dated September 10, 1993, between the Company and the Berman Real Estate Partnership, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania, amending 10.1. |
| 10.1.2 (7) | Assignment of Lease, dated February 24, 1997, between the Company, the Berman Real Estate Partnership and BREP 1, for the premises located at 3400 East Walnut Street, Colmar, Pennsylvania, assigning 10.1. |
| 10.1.3 (10) | Amendment to Lease, dated April 1, 2002, between the Company and the BREP I, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania, amending 10.1. |
| 10.1.4 (13) | Amendment to Lease, dated December 12, 2007, between the Company and BREP I, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania, amending 10.1. |
| 10.2 (14) | Lease, dated January 31, 2006, between the Company and First Industrial, L.P. for premises located at 3150 Barry Drive, Portland, Tennessee. |
| 10.2.1 (15) | Amendment to Lease, dated January 28, 2008, between the Company and First Industrial, L.P. for premises located at 3150 Barry Drive, Portland, Tennessee. |
| 10.3 (11) | Third Amended and Restated Credit Agreement dated as of July 24, 2006, between the Company and Wachovia Bank, N.A. |
| 10.3.1 (16) | Amendment to Amended and Restated Credit Agreement, dated December 24, 2007, between the Company and Wachovia Bank, N.A. |
| 10.4 (12) | Commercial Loan Agreement, dated September 27, 2006, between the Company and the Tennessee Valley Authority. |
| 10.5 (8)† | Dorman Products, Inc. Amended and Restated Incentive Stock Plan. |
| 10.6 (5)† | Dorman Products, Inc. 401(k) Retirement Plan and Trust. |
| 10.6.1 (9)† | Amendment No. 1 to the Dorman Products, Inc. 401(k) Retirement Plan and Trust. |

- 10.7 (5)† Dorman Products, Inc. Employee Stock Purchase Plan.
- 10.9 (17) Employment Agreement, dated April 1, 2008, between the Company and Richard N. Berman.
- 10.10 (18) Employment Agreement, dated April 1, 2008, between the Company and Steven L. Berman.
- 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 as required by Section 906 of the Sarbanes-Oxley Act of 2002 (filed with this report).

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† Management Contracts and Compensatory Plans, Contracts or Arrangements.

- (1) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 24, 2007.
- (2) Incorporated by reference to the Exhibits filed with Company's Current Report on Form 8-K dated February 23, 2007.
- (3) Incorporated by reference to the Exhibits filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 2008.
- (4) Incorporated by reference to the Exhibits filed with Company's Registration Statement on Form S-1 and Amendments No. 1, No. 2, and No. 3 thereto (Registration 33-37264).
- (5) Incorporated by reference to the Exhibits files with the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 1992.
- (6) Incorporated by reference to the Exhibits filed with the Company's Registration Statement on Form S-1 and Amendment No. 1 thereto (Registration No. 33-68740).
- (7) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 1996.
- (8) Incorporated by reference to the Exhibits filed with the Company's Registration Statement on Form S-8 (Registration 333-157150).
- (9) Incorporated by reference to the Exhibits filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 25, 1994.
- (10) Incorporate by reference to the Exhibits filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2002.
- (11) Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated May 24, 2005.
- (12) Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated September 28, 2006
- (13) Incorporated by reference to the Exhibits filed with the Company's Current Report on Form 8-K dated December 12, 2007.
- (14) Incorporated by reference to the Exhibits filed with the Company's Current Report on Form 8-K dated February 2, 2006.
- (15) Incorporated by reference to the Exhibits filed with the Company's Current Report on Form 8-K dated January 29, 2008.
- (16) Incorporated by reference to the Exhibits filed with the Company's Current Report on Form 8-K dated January 2, 2008.
- (17) Incorporated by reference to Exhibits filed with the Company's Current Report on Form 8-K dated April 1, 2008.
- (18) Incorporated by reference to Exhibits filed with the Company's Current Report on Form 8-K dated April 1, 2008.

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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.

Date May 7, 2009

Richard
Berman
Richard Berman
Chairman and Chief Executive Officer
(Principal executive officer)

Date May 7, 2009

Mathias
Barton
Mathias Barton
Chief Financial Officer and
Principal Accounting Officer
(Principal financial officer)

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EXHIBIT INDEX

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| 10.5 | Dorman Products, Inc. Amended and Restated Incentive Stock Plan. |
| 10.6 | Dorman Products, Inc. 401(k) Retirement Plan and Trust. |
| 10.6.1 | Amendment No. 1 to the Dorman Products, Inc. 401(k) Retirement Plan and Trust. |
| 10.7 | Dorman Products, Inc. Employee Stock Purchase Plan. |
| 10.8 | Dorman Products, Inc. 2008 Stock Option and Stock Incentive Plan |

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- 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 as required by Section 906 of the Sarbanes-Oxley Act of 2002