

Dorman Products, Inc.
Form 10-Q
October 28, 2010
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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 25, 2010

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)
(215) 997-1800

18915
(Zip Code)

(Registrant's telephone number, including area code)

[None]

(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, 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 x
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, 2010 the Registrant had 17,831,008 shares of common stock, \$.01 par value, outstanding.

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

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

(unaudited)

| | For the Thirteen Weeks Ended | |
|--|---|-----------------------|
| | September 25, 2010 | September 26, 2009 |
| (in thousands, except for per share data) | | |
| Net Sales | \$ 119,212 | \$ 98,007 |
| Cost of goods sold | 74,088 | 62,710 |
| Gross profit | 45,124 | 35,297 |
| Selling, general and administrative expenses | 24,628 | 22,318 |
| Income from operations | 20,496 | 12,979 |
| Interest expense, net | 57 | 52 |
| Income before taxes | 20,439 | 12,927 |
| Provision for taxes | 7,622 | 4,994 |
| Net Income | \$ 12,817 | \$ 7,933 |
| Earnings Per Share: | | |
| Basic | \$ 0.72 | \$ 0.45 |
| Diluted | \$ 0.71 | \$ 0.44 |
| Average Shares Outstanding: | | |
| Basic | 17,800 | 17,657 |
| Diluted | 18,176 | 17,998 |

See accompanying notes to consolidated financial statements

Table of Contents**DORMAN PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

| | For the Thirty-nine Weeks Ended | |
|--|--|-----------------------|
| | September 25, 2010 | September 26, 2009 |
| (in thousands, except for per share data) | | |
| Net Sales | \$ 333,196 | \$ 280,680 |
| Cost of goods sold | 206,967 | 184,958 |
| Gross profit | 126,229 | 95,722 |
| Selling, general and administrative expenses | 70,936 | 65,003 |
| Income from operations | 55,293 | 30,719 |
| Interest expense, net | 180 | 204 |
| Income before taxes | 55,113 | 30,515 |
| Provision for taxes | 21,196 | 11,757 |
| Net Income | \$ 33,917 | \$ 18,758 |
| Earnings Per Share: | | |
| Basic | \$ 1.91 | \$ 1.06 |
| Diluted | \$ 1.87 | \$ 1.04 |
| Average Shares Outstanding: | | |
| Basic | 17,749 | 17,647 |
| Diluted | 18,125 | 17,976 |

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 25, 2010 | December 26, 2009 |
|--|-----------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 18,890 | \$ 10,626 |
| Accounts receivable, less allowance for doubtful accounts and customer credits of \$45,980 and \$36,433 | 113,775 | 88,164 |
| Inventories | 104,528 | 89,927 |
| Deferred income taxes | 13,351 | 12,620 |
| Prepays and other current assets | 2,282 | 2,248 |
| Total current assets | 252,826 | 203,585 |
| Property, Plant and Equipment, net | 26,499 | 25,218 |
| Goodwill | 26,553 | 26,553 |
| Other Assets | 1,869 | 2,046 |
| Total | \$ 307,747 | \$ 257,402 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$ 93 | \$ 90 |
| Accounts payable | 29,971 | 16,098 |
| Accrued compensation | 10,229 | 10,376 |
| Other accrued liabilities | 5,055 | 3,868 |
| Total current liabilities | 45,348 | 30,432 |
| Other Long-Term Liabilities | 2,873 | 2,675 |
| Long-Term Debt | 196 | 266 |
| Deferred Income Taxes | 8,762 | 8,694 |
| Commitments and Contingencies | | |
| Shareholders' Equity: | | |
| Common stock, par value \$.01; authorized 25,000,000 shares: issued and outstanding 17,832,969 and 17,679,573 | 178 | 177 |
| Additional paid-in capital | 34,019 | 32,708 |
| Cumulative translation adjustments | 2,746 | 2,089 |
| Retained earnings | 213,625 | 180,361 |
| Total shareholders' equity | 250,568 | 215,335 |
| Total | \$ 307,747 | \$ 257,402 |

See accompanying notes to consolidated financial statements.

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

| | For the Thirty-nine Weeks Ended | |
|---|------------------------------------|-----------------------|
| | September 25, 2010 | September 26, 2009 |
| (in thousands) | | |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 33,917 | \$ 18,758 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 6,016 | 5,774 |
| Provision for doubtful accounts | 158 | 365 |
| Provision for deferred income tax | (663) | 513 |
| Provision for non-cash stock compensation | 170 | 193 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (25,584) | (11,357) |
| Inventories | (14,189) | (1,163) |
| Prepays and other current assets | (12) | 302 |
| Other assets | 111 | (523) |
| Accounts payable | 13,801 | (1,957) |
| Accrued compensation and other liabilities | 1,204 | 3,629 |
| Cash provided by operating activities | 14,929 | 14,534 |
| Cash Flows from Investing Activities: | | |
| Property, plant and equipment additions | (7,187) | (5,926) |
| Cash used in investing activities | (7,187) | (5,926) |
| Cash Flows from Financing Activities: | | |
| Repayment of long-term debt obligations | (67) | (64) |
| Net repayment of revolving credit facility | (9,050) | |
| Proceeds from exercise of stock options | 480 | 254 |
| Other stock related activity | 727 | 279 |
| Purchase and cancellation of common stock | (718) | (815) |
| Cash provided by (used in) financing activities | 422 | (9,396) |
| Effect of exchange rate changes on cash and cash equivalents | 100 | 661 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 8,264 | (127) |
| Cash and Cash Equivalents, Beginning of Period | 10,626 | 5,824 |
| Cash and Cash Equivalents, End of Period | \$ 18,890 | \$ 5,697 |
| Supplemental Cash Flow Information | | |
| Cash paid for interest expense | \$ 187 | \$ 260 |
| Cash paid for income taxes | \$ 20,370 | \$ 9,878 |

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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 25, 2010 AND SEPTEMBER 26, 2009
(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 thirty-nine week period ended September 25, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending December 25, 2010. 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, however, 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 26, 2009.

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. Pursuant to these arrangements, we sold \$63.0 million and \$55.7 million during the thirty-nine weeks ended September 25, 2010 and September 26, 2009, respectively.

The sales of receivables were accounted for as a sale and were removed from the balance sheet at the time of the sales. Selling, general and administrative expenses for the thirty-nine weeks ended September 25, 2010 and September 26, 2009 include \$1.2 million and \$1.5 million, respectively, in financing costs associated with these accounts receivable sales programs.

If receivables had not been sold, \$59.3 million and \$55.9 million of additional receivables would have been outstanding at September 25, 2010 and December 26, 2009, respectively. We retained no rights or interest, and have no obligations, with respect to the sold receivables. We do not service the receivables after the sales.

3. 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:

| | September 25, 2010 | December 26, 2009 |
|---------------------|-----------------------|----------------------|
| (in thousands) | | |
| Bulk product | \$ 37,145 | \$ 29,158 |
| Finished product | 64,952 | 58,742 |
| Packaging materials | 2,431 | 2,027 |

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| | | |
|-------|------------|-----------|
| Total | \$ 104,528 | \$ 89,927 |
|-------|------------|-----------|

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Table of Contents**4. Stock-Based Compensation**

Our 2008 Stock Option and Stock Incentive Plan was approved by our shareholders on May 20, 2009 (the "Plan"). Under the Plan, our Board of Directors may grant incentive stock options, non-qualified stock options and shares of restricted stock to purchase up to 1,000,000 shares of common stock to officers, directors, and employees. Grants under the Plan must be made within 10 years of the date the plan was approved and are exercisable upon the terms set forth in the grant agreement approved by the Board of Directors, but in no event more than 10 years from the date of grant. At September 25, 2010, 952,500 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 our stock-based compensation program for the thirty-nine weeks ended September 25, 2010 and September 26, 2009 was \$129,000 and \$193,000, respectively, before taxes. The compensation cost recognized is classified as selling, general and administrative expense in the consolidated statement of operations. No compensation cost was capitalized during 2010 and 2009. We included a forfeiture assumption of 5.2% in 2010 and 2009 in the calculation of expense. Cash flows resulting from tax deductions in excess of compensation cost recognized in the financial statements is classified as financing cash flows.

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 is calculated using historical option exercise data. 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 thirty-nine weeks ended September 25, 2010 or September 26, 2009.

The following table summarizes information about stock option activity for the thirty-nine weeks ended September 25, 2010:

| | Shares | Weighted Average Price | Term (In years) | Weighted Average Remaining Aggregate Intrinsic Value |
|---|-----------|------------------------|-----------------|--|
| Balance at December 26, 2009 | 731,400 | \$ 6.72 | | |
| Exercised | (175,650) | 3.43 | | |
| Cancelled | | | | |
| | | | | |
| Balance at September 25, 2010 | 555,750 | \$ 7.76 | 3.8 | \$ 11,551,000 |
| | | | | |
| Options exercisable at September 25, 2010 | 449,750 | \$ 6.48 | 2.8 | \$ 9,920,000 |

The total intrinsic value of stock options exercised during 2010 was \$3.2 million. Cash received from option exercises under the Plan during 2010 was \$471,000. The excess tax benefit generated from options which were exercised during 2010 was \$779,000 and was credited to additional paid in capital.

As of September 25, 2010, there was approximately \$0.4 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 3.1 years.

In the first quarter of 2010, 22,500 shares of non-vested restricted stock were issued to certain members of the board of directors. These shares vest ratably over the next five years. Compensation expense recorded on these shares is based on the fair value of the shares at the date of grant of \$15.68, which is expensed on a straight-line basis over the vesting period. Compensation expense was \$41,000 for the thirty-nine weeks ended September 25, 2010.

Table of Contents**5. Earnings Per Share**

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 25, 2010 | September 26, 2009 | September 25, 2010 | September 26, 2009 |
| Numerator: | | | | |
| Net income | \$ 12,817 | \$ 7,933 | \$ 33,917 | \$ 18,758 |
| Denominator: | | | | |
| Weighted average shares outstanding used in basic earnings per share calculation | 17,800 | 17,657 | 17,749 | 17,647 |
| Effect of dilutive stock options and non-vested stock | 376 | 341 | 376 | 329 |
| Adjusted weighted average shares outstanding used in diluted earnings per share calculation | 18,176 | 17,998 | 18,125 | 17,976 |
| Basic earnings per share | \$ 0.72 | \$ 0.45 | \$ 1.91 | \$ 1.06 |
| Diluted earnings per share | \$ 0.71 | \$ 0.44 | \$ 1.87 | \$ 1.04 |

Options to purchase 25,000 and 192,000 shares were outstanding at September 25, 2010 and September 26, 2009, 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 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 at an average price of \$6.36 per share. No shares have been repurchased in 2010 under this program.

We periodically repurchase at the then current market price and cancel common stock issued to our defined contribution profit sharing and 401(k) plan. Shares are generally purchased from this profit sharing and 401(k) plan when participants sell units as permitted by the plan or elect to leave the plan upon retirement, termination or other reasons. For the thirty-nine weeks ended September 25, 2010, we repurchased and cancelled 36,115 shares of common stock at an average price of \$19.89 per share. During 2009, we repurchased and cancelled 67,416 shares of common stock at an average price of \$12.60 per share.

7. Related-Party Transactions

We have entered into a non-cancelable 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 2010 will be \$1.4 million. Total rental payments to the partnership under the lease arrangement were \$1.4 million in 2009.

8. Income Taxes

At September 25, 2010, we have \$2.2 million of net unrecognized tax benefits, \$1.5 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 25, 2010, we have approximately \$0.6 million of accrued interest related to uncertain tax positions.

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The last United States federal return examined by the Internal Revenue Service 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 2005-2009 remain open to examination by the remaining major taxing jurisdictions in the United States to which we are subject. The tax years 2005-2009 remain open to examination in Sweden for our Swedish subsidiary.

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9. 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 \$14.2 million and \$9.5 million for the thirteen weeks ended September 25, 2010 and September 26, 2009, respectively. Total comprehensive income was \$34.6 million and \$20.5 million for the thirty-nine weeks ended September 25, 2010 and September 26, 2009, respectively.

10. 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. Based on borrowing rates currently available to us for loans with similar terms and average maturities, the fair value of total long-term debt, including the current portion, was \$0.3 million at September 25, 2010 and \$0.4 million at December 26, 2009.

11. New Accounting Pronouncements

In June 2009, the FASB issued new guidance concerning the transfer of financial assets. This guidance amends the criteria for a transfer of a financial asset to be accounted for as a sale, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, changes the initial measurement of a transferor's interest in transferred financial assets, eliminates the qualifying special-purpose entity concept and provides for new disclosures. We adopted the new guidance on December 27, 2009, and there was no impact on our consolidated results of operations and financial position.

In June 2009, the FASB issued new guidance concerning the determination of the primary beneficiary of a variable interest entity (VIE). This new guidance amends current U.S. GAAP by: requiring ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE; amending the quantitative approach previously required for determining the primary beneficiary of the VIE; modifying the guidance used to determine whether an entity is a VIE; adding an additional reconsideration event (e.g. troubled debt restructurings) for determining whether an entity is a VIE; and requiring enhanced disclosures regarding an entity's involvement with a VIE. We adopted the new guidance on December 27, 2009, and there was no impact on our 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) unfavorable economic conditions, (ii) competition in the automotive aftermarket industry; (iii) concentration of the Company's sales and accounts receivable among a small number of customers and the extension of customer payment terms, increased product returns, and price concessions; (iv) the impact of consolidation in the automotive aftermarket industry; (v) weakness in the dollar and value of the Chinese Renminbi increasing; (vi) dependence on senior management and control by officers, directors, and family members; (vii) product quality; (viii) reliance on new product development; (ix) loss of a key supplier(s) or third-party transportation providers, (x) limited customer shelf space, (xi) patent filings made by original equipment manufacturers continuing to increase, and/or (xii) the impact of increases in the cost of production. 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 26, 2009.

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 2009 Annual Report on Form 10-K.

Overview

We are a supplier of automotive replacement parts, fasteners and service line products primarily for the automotive aftermarket. We market over 103,000 different automotive replacement parts (including brake parts), fasteners and service line products manufactured to our specifications. Approximately 21% of our parts and 69% of our net sales consists of parts and fasteners that were original equipment dealer exclusive items at the time of their introduction. Original equipment dealer exclusive parts are those which were traditionally available to consumers only from original equipment manufacturers or salvage yards and include, among other parts, intake manifolds, exhaust manifolds, oil cooler lines, window regulators, radiator fan assemblies, power steering pulleys and harmonic balancers. Fasteners include such items as oil drain plugs and wheel lug nuts. Approximately 90% of our products are sold under our brand names and the remainder is sold for resale under customers' private labels, other brands or in bulk. Our products are sold primarily in the United States and Canada through automotive aftermarket retailers (such as AutoZone, Advance Auto and O'Reilly), national, regional and local warehouse distributors (such as Carquest and NAPA) and specialty markets and salvage yards. Our Scan-Tech subsidiary provides international distribution of automotive replacement parts with sales into Europe, the Middle East and Asia.

We generate over 90% of our revenues from customers in the North American automotive aftermarket. The aftermarket has benefitted from some of the factors affecting the general economy including tighter credit and higher unemployment. These conditions contributed to a significant decline in new vehicle sales and a reduction in the number of original equipment dealerships in the North American aftermarket. Another important statistic impacting our market is total miles driven. Total U.S. miles driven were up slightly in 2009 after being down in each of the two prior years. We believe that the combination of these factors aided our 2009 and 2010 sales growth.

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While the overall automotive aftermarket in which we compete has benefited from the conditions mentioned above, our customer base has been consolidating over the past several years. As a result, our customers regularly seek more favorable pricing, product returns and extended payment terms when negotiating with us. While we attempt to avoid or minimize 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 these trends to continue for the foreseeable future. Gross profit margins declined in each of the three years prior to 2009 as a result of this pricing pressure. During 2009 and 2010, we were able to offset the negative impact of the pricing pressures by reducing product warranty and return costs, and by lowering freight and material costs. As a result our 2009 and 2010 gross profit margins improved despite the negative factors mentioned above. We expect our customers to continue to exert pressure on our margins. We have increased our focus on efficiency improvements and product cost reduction initiatives to offset the impact of further price pressures.

In addition, we rely on new product development as a way to offset the impact 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 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 and customer service improvement initiatives. This increased focus has enabled us to provide an expanding array of new product offerings and, as a result, 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, however, 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.

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 | | For the Thirty-nine Weeks Ended | |
| | September 25, 2010 | September 26, 2009 | September 25, 2010 | September 26, 2009 |
| Net Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 62.1 | 64.0 | 62.1 | 65.9 |
| Gross profit | 37.9 | 36.0 | 37.9 | 34.1 |
| Selling, general and administrative expenses | 20.7 | 22.8 | 21.3 | 23.2 |
| Income from operations | 17.2 | 13.2 | 16.6 | 10.9 |
| Interest expense, net | 0.1 | | 0.1 | |
| Income before taxes | 17.1 | 13.2 | 16.5 | 10.9 |
| Provision for taxes | 6.3 | 5.1 | 6.3 | 4.2 |
| Net Income | 10.8% | 8.1% | 10.2% | 6.7% |

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Thirteen Weeks Ended September 25, 2010 Compared to Thirteen Weeks Ended September 26, 2009

Net sales increased 22% to \$119.2 million for the thirteen weeks ended September 25, 2010 from \$98.0 million in the same period last 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 62.1% for the thirteen weeks ended September 25, 2010 from 64.0% in the same period last year. The reduction is due primarily to a reduction in freight expenses and certain material costs.

Selling, general and administrative expenses for the thirteen weeks ended September 25, 2010 increased 10.4% to \$24.6 million from \$22.3 million in the same period last year. The increase is the result of higher variable costs as a result of the 22% increase in sales, increased new product development spending and increased incentive compensation expense due to higher earnings levels. These increases were offset partially by lower operating costs in most other areas due to cost reduction initiatives.

Interest expense, net, approximated prior year levels for the thirteen weeks ended September 25, 2010.

Our effective tax rate decreased to 37.3% in the thirteen weeks ended September 25, 2010 from 38.6% in the same period last year as a result of lower state taxes.

Thirty-nine Weeks Ended September 25, 2010 Compared to Thirty-nine Weeks Ended September 26, 2009

Net sales increased 19% to \$333.2 million for the thirty-nine weeks ended September 25, 2010 from \$280.7 million in the same period last 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 62.1% for the thirty-nine weeks ended September 25, 2010 from 65.9% in the same period last year. The reduction is due primarily to a reduction in freight expenses and certain material costs along with lower product return costs.

Selling, general and administrative expenses for the thirty nine ended September 25, 2010 increased 9.1% to \$70.9 million from \$65.0 million in the same period last year. The increase is the result of higher variable costs as a result of the 19% increase in sales, increased new product development spending and increased incentive compensation expense due to higher earnings levels. These increases were offset partially by lower operating costs in most other areas due to cost reduction initiatives.

Interest expense, net, approximated prior year levels for the thirty-nine weeks ended September 25, 2010.

Our effective tax rate in the thirty-nine weeks ended September 25, 2010 was 38.5%, which is consistent with the same period 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 September 25, 2010, working capital was \$207.5 million, total long-term debt (including the current portion and revolving credit borrowings) was \$0.3 million and shareholders' equity was \$250.6 million. Cash and cash equivalents as of September 25, 2010 was \$18.9 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 September 25, 2010 and December 26, 2009, we sold \$59.3 million and \$55.9 million, respectively, in accounts receivable under these programs and 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.

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On April 26, 2010, we extended the term of our \$30.0 million revolving credit facility to June 2013. Borrowings under the facility are on an unsecured basis with interest at rates ranging from LIBOR plus 100 basis points to LIBOR plus 250 basis points based upon the achievement of certain benchmarks related to the ratio of funded debt to EBITDA. The interest rate at September 25, 2010 was LIBOR plus 100 basis points (1.3%). There were no borrowings under the facility as of September 25, 2010. We had approximately \$27.6 million available under the facility at September 25, 2010. 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 \$0.3 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.

Cash generated from our operating activities was \$14.9 million in the thirty-nine weeks ended September 25, 2010. Net income, depreciation and a \$13.8 million increase in accounts payable were the primary sources of operating cash flow. Accounts payable increased primarily due to the timing of payments to our suppliers. The primary uses of cash were accounts receivable, which increased \$25.6 million due to sales growth, and inventory, which increased \$14.2 million due to the sales growth and adjustments made in safety stock levels.

Investing activities used \$7.2 million of cash in the thirty-nine weeks ended September 25, 2010 primarily as a result of additions to property, plant and equipment. Capital spending in 2010 consisted of tooling associated with new products, upgrades to information systems and scheduled equipment replacements. In the third quarter of 2010, we began a project to replace our enterprise resource planning system. This project is expected to cost approximately \$9 million in software and installation services over the next 3 years and no disruption to our operations is anticipated. In addition, we are expanding our distribution facility located in Warsaw, Kentucky. The total cost of this expansion will approximate \$9 million, of which \$3 million is expected to be spent in 2010 and another \$5 million is expected to be spent in 2011.

Financing activities provided \$0.4 million of cash in the twenty-six weeks ended June 26, 2010, primarily related to stock option exercise activity.

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 2009, approximately 78% of our products were purchased from suppliers 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 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 come from China. The value of the Chinese Yuan was relatively constant relative to the U.S. Dollar for the past two years. However, since June 2010 it had increased approximately 2.5% 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 that we use. We do, however, have exposure to increases in the cost of materials and transportation as a result of commodity price increases, vendor capacity limitations or weakness in the U.S. Dollar. We will seek to offset cost increases through improved efficiencies, by passing along selling price increases to customers, through the use of alternative suppliers and by resourcing purchases to other countries. However there can be no assurance that we will be successful in these efforts.

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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 2010 will be \$1.4 million. Total rental payments to the partnership under the lease arrangement were \$1.4 million in 2009.

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 76% and 81% of net accounts receivable as of December 26, 2009 and December 27, 2008, 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 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 employ a market comparable approach in conducting our impairment tests. Earnings multiples of 5.25 to 5.5 times EBITDA were used when conducting our annual assessment during the fourth quarter of 2009.

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

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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.

Recent Accounting Pronouncements

In June 2009 the FASB issued new guidance concerning the transfer of financial assets. This guidance amends the criteria for transfer of a financial asset to be accounted for as a sale, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, changes the initial measurement of a transferor's interest in transferred financial assets, eliminates the qualifying special-purpose entity concept and provides for new disclosures. We adopted the new guidance on December 27, 2009, and there was no impact on our consolidated results of operations and financial position.

In June 2009, the FASB issued new guidance concerning the determination of the primary beneficiary of a variable interest entity (VIE). This new guidance amends current U.S. GAAP by: requiring ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE; amending the quantitative approach previously required for determining the primary beneficiary of the VIE; modifying the guidance used to determine whether an entity is a VIE; adding an additional reconsideration event (e.g. troubled debt restructurings) for determining whether an entity is a VIE; and requiring enhanced disclosures regarding an entity's involvement with a VIE. We adopted the new guidance on December 27, 2009, and there was no impact on our 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 borrowing capacity as well as 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 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 September 25, 2010, 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.

Table of Contents**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

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 26, 2009, 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

We made no purchase of shares under our board-authorized Stock Repurchase Program this period.

During the three months ended September 25, 2010, 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 27, 2010 through July 24, 2010 | | \$ | | |
| July 25, 2010 through August 21, 2010 | 2,348 | \$ 24.02 | | |
| August 22, 2010 through September 25, 2010 | | \$ | | |

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| | | |
|-------|-------|----------|
| Total | 2,348 | \$ 24.02 |
|-------|-------|----------|

- (1) All of the shares indicated in the above table were purchased from our defined contribution profit sharing and 401(k) Plan (as described in Note 6 to Consolidated Financial Statements). This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with equity awards.

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Item 3. Defaults Upon Senior Securities

None

Item 4. [Removed and Reserved]

Item 5. Other Information

Not Applicable

Item 6. Exhibits

Item 601

| Exhibit Number | Title |
|----------------|---|
| 31 | Certification of Chief Executive Officer and 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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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 October 28, 2010

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

Date October 28, 2010

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

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EXHIBIT INDEX

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- 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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