

Dorman Products, Inc.  
Form 10-Q  
October 26, 2016  
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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 24, 2016**

**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)**  
**(215) 997-1800**

**18915**  
**(Zip Code)**

**(Registrant's telephone number, including area code)**

**N/A**

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of October 24, 2016, the registrant had 34,613,547 shares of common stock, par value \$0.01 per share, outstanding.



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**DORMAN PRODUCTS, INC. AND SUBSIDIARIES**

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

(in thousands, except per share data)	<b>For the Thirteen Weeks Ended</b>	
	<b>September 24, 2016</b>	<b>September 26, 2015</b>
<b>Net sales</b>	\$ 212,786	\$ 210,928
Cost of goods sold	129,641	130,134
Gross profit	83,145	80,794
Selling, general and administrative expenses	41,512	39,554
Income from operations	41,633	41,240
Interest expense, net	61	48
Income before income taxes	41,572	41,192
Provision for income taxes	14,877	15,132
<b>Net income</b>	<b>\$ 26,695</b>	<b>\$ 26,060</b>
Earnings Per Share:		
Basic	\$ 0.77	\$ 0.73
Diluted	\$ 0.77	\$ 0.73
Weighted Average Shares Outstanding:		
Basic	34,572	35,514
Diluted	34,672	35,575

See accompanying Notes to Consolidated Financial Statements

Table of Contents**DORMAN PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)**

	<b>For the Thirty-nine Weeks Ended</b>	
	<b>September 24, 2016</b>	<b>September 26, 2015</b>
(in thousands, except per share data)		
<b>Net sales</b>	\$ 630,507	\$ 598,123
Cost of goods sold	384,604	367,866
<b>Gross profit</b>	245,903	230,257
Selling, general and administrative expenses	124,350	118,470
<b>Income from operations</b>	121,553	111,787
Interest expense, net	180	152
<b>Income before income taxes</b>	121,373	111,635
Provision for income taxes	44,025	41,093
<b>Net income</b>	\$ 77,348	\$ 70,542
Earnings Per Share:		
Basic	\$ 2.24	\$ 1.99
Diluted	\$ 2.23	\$ 1.98
Weighted Average Shares Outstanding:		
Basic	34,560	35,535
Diluted	34,626	35,611

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)	<b>September 24, 2016</b>	<b>December 26, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 95,142	\$ 78,659
Accounts receivable, less allowance for doubtful accounts and customer credits of \$85,797 and \$86,986	245,006	203,923
Inventories	168,245	193,725
Prepays and other current assets	4,259	2,326
<b>Total current assets</b>	<b>512,652</b>	<b>478,633</b>
Property, plant and equipment, net	88,384	87,046
Goodwill and intangible assets, net	29,814	29,889
Deferred tax asset, net	7,581	7,557
Other assets	29,574	18,740
<b>Total</b>	<b>\$ 668,005</b>	<b>\$ 621,865</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Accounts payable	\$ 52,481	\$ 63,967
Accrued compensation	8,668	10,970
Other accrued liabilities	22,156	23,633
<b>Total current liabilities</b>	<b>83,305</b>	<b>98,570</b>
Other long-term liabilities	5,536	5,259
Commitments and contingencies		
Shareholders Equity:		
Common stock, par value \$0.01; authorized 50,000,000 shares; issued and outstanding 34,613,547 and 34,863,396 in 2016 and 2015, respectively	346	349
Additional paid-in capital	43,756	42,799
Retained earnings	535,062	474,888
<b>Total shareholders equity</b>	<b>579,164</b>	<b>518,036</b>
<b>Total</b>	<b>\$ 668,005</b>	<b>\$ 621,865</b>

See accompanying Notes to Consolidated Financial Statements





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

(in thousands)	<b>For the Thirty-nine Weeks Ended</b>	
	<b>September 24, 2016</b>	<b>September 26, 2015</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 77,348	\$ 70,542
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization and accretion	13,890	11,739
Provision for doubtful accounts	1,146	85
Benefit for deferred income taxes	(24)	(2,462)
Provision for non-cash stock compensation	1,718	752
Changes in assets and liabilities:		
Accounts receivable	(42,229)	6,693
Inventories	24,480	(21,727)
Prepays and other current assets	(911)	(397)
Other assets	(4,639)	(4,652)
Accounts payable	(11,646)	377
Accrued compensation and other liabilities	(4,627)	(3,467)
<b>Cash provided by operating activities</b>	<b>55,506</b>	<b>57,483</b>
<b>Cash Flows from Investing Activities:</b>		
Property, plant and equipment additions	(14,890)	(16,534)
Purchase of equity investment	(6,195)	(2,000)
<b>Cash used in investing activities</b>	<b>(21,085)</b>	<b>(18,534)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from exercise of stock options		16
Other stock related activity	(109)	34
Purchase and cancellation of common stock	(17,829)	(7,334)
<b>Cash used in financing activities</b>	<b>(17,938)</b>	<b>(7,284)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>16,483</b>	<b>31,665</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>78,659</b>	<b>47,656</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 95,142</b>	<b>\$ 79,321</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest expense	\$ 200	\$ 211

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Cash paid for income taxes	\$ 46,121	\$ 41,709
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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 24, 2016 AND SEPTEMBER 26, 2015**

**(UNAUDITED)**

**1. Basis of Presentation**

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). However, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the thirty-nine weeks ended September 24, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016. 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 net sales. The introduction of new products and product lines to customers may cause significant fluctuations from quarter to quarter. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 26, 2015.

**2. Sales of Accounts Receivable**

We have entered into several customer sponsored programs administered by unrelated financial institutions that permit us to sell certain accounts receivable at discounted rates to the financial institutions. Transactions under these agreements were accounted for as sales of accounts receivable and were removed from our Consolidated Balance Sheet at the time of the sales transactions. Pursuant to these agreements, we sold \$366.6 million and \$391.9 million of accounts receivable during the thirty-nine weeks ended September 24, 2016 and September 26, 2015, respectively. If receivables had not been sold, \$337.3 million and \$335.9 million of additional accounts receivable would have been outstanding at September 24, 2016 and December 26, 2015, respectively, based on standard payment terms. Selling, general and administrative expenses for the thirty-nine weeks ended September 24, 2016 and September 26, 2015 included \$6.3 million and \$5.4 million, respectively, in financing costs associated with these accounts receivable sales programs.

**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 cost or market. Inventories were as follows:

(in thousands)	September 24, 2016	December 26, 2015
Bulk product	\$ 62,445	\$ 78,533
Finished product	102,331	112,012
Packaging materials	3,469	3,180
Total	\$ 168,245	\$ 193,725

#### **4. Stock-Based Compensation**

Our 2008 Stock Option and Stock Incentive Plan (the Plan) was approved by our shareholders on May 20, 2009. Under the terms of the Plan, our Board of Directors may grant up to 2,000,000 shares of common stock in the form of shares of restricted stock, incentive stock options and non-qualified stock options or combinations thereof to officers, directors, employees, consultants and advisors. Grants under the Plan must be made within ten years of the date the Plan was approved and stock options are exercisable upon the terms set forth in the grant agreement approved by the Board of Directors, but in no event more than ten years from the date of grant. Restricted stock vests in accordance with the terms set forth in each restricted stock agreement. At September 24, 2016, 1,532,856 shares were available for grant under the Plan.

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We grant restricted stock to certain employees and members of our Board of Directors. The value of restricted stock issued is based on the fair value of our common stock on the grant date. Vesting of restricted stock is conditional based on continued employment or service for a specified period and, in certain circumstances, the attainment of financial goals. We retain the restricted stock, and any dividends paid thereon, until the vesting conditions have been met. For awards with a service condition only, compensation cost related to the stock is recognized on a straight-line basis over the vesting period. For awards that have a service condition and require the attainment of financial goals, compensation cost related to the stock is recognized over the vesting period if it is probable that the financial goals will be attained. Compensation cost related to restricted stock was \$1.6 million and \$0.7 million for the thirty-nine weeks ended September 24, 2016 and September 26, 2015, respectively. The compensation costs were classified as selling, general and administrative expense in the Consolidated Statements of Income. No cost was capitalized during the thirty-nine weeks ended September 24, 2016 or the thirty-nine weeks ended September 26, 2015.

The following table summarizes our restricted stock activity for the thirty-nine weeks ended September 24, 2016:

	Shares	Weighted Average Price
Balance at December 26, 2015	43,242	\$ 34.49
Granted	117,144	\$ 45.63
Vested	(23,822)	\$ 30.27
Cancelled	(240)	\$ 18.94
Balance at September 24, 2016	136,324	\$ 44.83

As of September 24, 2016, there was approximately \$4.5 million of unrecognized compensation cost related to nonvested restricted stock, which is expected to be recognized over a weighted-average period of 2.9 years.

Cash flows resulting from tax deductions in excess of the tax effect of compensation cost recognized in the financial statements are classified as financing cash flows. The excess tax benefit generated from restricted shares which vested was \$0.2 million and \$0.3 million in the thirty-nine weeks ended September 24, 2016 and September 26, 2015, respectively, and was credited to additional paid-in capital.

We grant stock options to certain employees and members of the Board of Directors. We expense the grant-date fair value of stock options. Compensation cost is recognized on a straight-line basis over the vesting period for which related services are performed. The compensation cost charged against income for the thirty-nine weeks ended September 24, 2016 and September 26, 2015 was less than \$0.1 million in each period. The compensation costs were classified as selling, general and administrative expense in the Consolidated Statements of Income. No cost was capitalized during the thirty-nine weeks ended September 24, 2016 or the thirty-nine weeks ended September 26, 2015. We included a forfeiture assumption of 5.4% in the calculation of expense in each of the thirty-nine weeks ended September 24, 2016 and September 26, 2015.

We use the Black-Scholes option valuation model to estimate the fair value of stock options granted. Expected volatility and expected dividend yield are based on the actual historical experience of our common stock. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using historical option exercise data. The risk-free rate was based on a U.S. Treasury security with terms equal to the expected time of exercise as of the grant date. During the thirty-nine weeks ended September 24, 2016, we granted

61,084 stock options. There were no stock options granted in the thirty-nine weeks ended September 26, 2015.

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The following table summarizes our stock option activity for the thirty-nine weeks ended September 24, 2016:

	Shares	Weighted Average Price	Weighted Average Remaining Term (In years)	Aggregate Intrinsic Value
Balance at December 26, 2015	40,000	\$ 6.86		
Granted	61,084	\$ 44.36		
Balance at September 24, 2016	101,084	\$ 29.52	3.3	\$ 3,737,400

Options exercisable at September 24, 2016	40,000	\$ 6.86	1.5	\$ 2,385,320
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No stock options were exercised during the thirty-nine weeks ended September 24, 2016. As of September 24, 2016, there was \$0.5 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 3.5 years.

There was no cash received or excess tax benefit generated from stock option exercises in the thirty-nine weeks ended September 24, 2016 or September 26, 2015.

**5. Earnings Per Share**

Basic earnings per share is calculated by dividing our net income by the weighted average number of common shares outstanding during the period, excluding nonvested restricted stock which is considered to be contingently issuable. To calculate diluted earnings per share, common share equivalents are added to the weighted average number of common shares outstanding. Common share equivalents are calculated using the treasury stock method and are computed based on outstanding stock-based awards. Stock-based awards of approximately 16,000 shares and 7,000 shares were excluded from the calculation of diluted earnings per share as of September 24, 2016 and September 26, 2015, respectively, as their effect would have been anti-dilutive.

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

(in thousands, except per share data)	Thirteen Weeks Ended		Thirty-nine Weeks Ended
	September 24, 2016	September 26, 2015	September