

Dorman Products, Inc.
Form 10-Q
October 31, 2014
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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 27, 2014

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)

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, 2014, the registrant had 35,664,573 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) | For the Thirteen Weeks Ended | |
|--|---|-------------------------------|
| | September 27, 2014 | September 28, 2013 |
| Net sales | \$ 197,796 | \$ 177,953 |
| Cost of goods sold | 121,915 | 108,249 |
| Gross profit | 75,881 | 69,704 |
| Selling, general and administrative expenses | 37,405 | 34,034 |
| Income from operations | 38,476 | 35,670 |
| Interest expense, net | 58 | 47 |
| Income before income taxes | 38,418 | 35,623 |
| Provision for income taxes | 13,882 | 12,736 |
| Net income | \$ 24,536 | \$ 22,887 |
| Earnings Per Share: | | |
| Basic | \$ 0.68 | \$ 0.63 |
| Diluted | \$ 0.68 | \$ 0.62 |
| Weighted Average Shares Outstanding: | | |
| Basic | 35,898 | 36,362 |
| Diluted | 36,024 | 36,632 |

See accompanying Notes to Consolidated Financial Statements

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

| (in thousands, except for per share data) | For the Thirty-nine Weeks Ended | |
|--|--|-------------------------------|
| | September 27, 2014 | September 28, 2013 |
| Net sales | \$ 577,495 | \$ 494,657 |
| Cost of goods sold | 357,011 | 299,774 |
| Gross profit | 220,484 | 194,883 |
| Selling, general and administrative expenses | 108,361 | 98,551 |
| Income from operations | 112,123 | 96,332 |
| Interest expense, net | 160 | 148 |
| Income before income taxes | 111,963 | 96,184 |
| Provision for income taxes | 40,632 | 34,883 |
| Net income | \$ 71,331 | \$ 61,301 |
| Earnings Per Share: | | |
| Basic | \$ 1.97 | \$ 1.69 |
| Diluted | \$ 1.96 | \$ 1.67 |
| Weighted Average Shares Outstanding: | | |
| Basic | 36,217 | 36,343 |
| Diluted | 36,372 | 36,610 |

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 27, 2014 | December 28, 2013 |
|--|-------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 44,210 | \$ 60,593 |
| Accounts receivable, less allowance for doubtful accounts and customer credits of \$88,005 and \$65,879 | 189,220 | 180,777 |
| Inventories | 180,155 | 164,421 |
| Deferred income taxes | 21,258 | 20,798 |
| Prepays and other current assets | 3,422 | 5,851 |
| Total current assets | 438,265 | 432,440 |
| Property, plant and equipment, net | 80,972 | 64,786 |
| Goodwill and intangible assets, net | 30,014 | 30,089 |
| Other assets | 2,935 | 1,854 |
| Total | \$ 552,186 | \$ 529,169 |
| Liabilities and shareholders equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 53,955 | \$ 61,255 |
| Accrued compensation | 8,917 | 11,779 |
| Other accrued liabilities | 19,429 | 18,704 |
| Total current liabilities | 82,301 | 91,738 |
| Other long-term liabilities | 5,694 | 5,310 |
| Deferred income taxes | 18,506 | 18,480 |
| Commitments and contingencies | | |
| Shareholders equity: | | |
| Common stock, par value \$0.01; authorized 50,000,000 shares; issued and outstanding 35,670,143 and 36,464,958 in 2014 and 2013, respectively | 356 | 365 |
| Additional paid-in capital | 43,605 | 43,119 |
| Retained earnings | 401,724 | 370,157 |
| Total shareholders equity | 445,685 | 413,641 |
| Total | \$ 552,186 | \$ 529,169 |

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

| (in thousands) | For the Thirty-nine Weeks Ended | |
|---|--|---------------------------|
| | September 27, 2014 | September 28, 2013 |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 71,331 | \$ 61,301 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 9,001 | 7,417 |
| Provision for doubtful accounts | 219 | 101 |
| (Benefit) provision for deferred income taxes | (434) | 236 |
| Provision for non-cash stock compensation | 1,510 | 769 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (8,662) | (38,623) |
| Inventories | (15,734) | (3,722) |
| Prepays and other current assets | (1,878) | (799) |
| Accounts payable | (9,168) | 2,493 |
| Accrued compensation and other liabilities | 1,221 | 7,668 |
| Cash provided by operating activities | 47,406 | 36,841 |
| Cash Flows from Investing Activities: | | |
| Property, plant and equipment additions | (22,992) | (12,949) |
| Acquisition | | (1,897) |
| Cash used in investing activities | (22,992) | (14,846) |
| Cash Flows from Financing Activities: | | |
| Proceeds from exercise of stock options | 463 | 503 |
| Other stock related activity | 81 | 793 |
| Purchase and cancellation of common stock | (41,341) | (2,664) |
| Cash used in financing activities | (40,797) | (1,368) |
| Net (Decrease) Increase in Cash and Cash Equivalents | (16,383) | 20,627 |
| Cash and Cash Equivalents, Beginning of Period | 60,593 | 27,708 |
| Cash and Cash Equivalents, End of Period | \$ 44,210 | \$ 48,335 |
| Supplemental Cash Flow Information | | |
| Cash paid for interest expense | \$ 176 | \$ 150 |
| Cash paid for income taxes | \$ 38,192 | \$ 31,325 |

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRTY-NINE WEEKS ENDED SEPTEMBER 27, 2014 AND SEPTEMBER 28, 2013

(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 normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the thirty-nine weeks ended September 27, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 27, 2014. We may experience significant fluctuations from quarter to quarter in our results of operations due to the timing of orders placed by our customers. Generally, the second and third quarters have the highest level of customer orders. The introduction of new products and product lines to customers may cause significant fluctuations from quarter to quarter. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

2. Acquisition

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

3. 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 \$380.2 million and \$296.5 million of accounts receivable during the thirty-nine weeks ended September 27, 2014 and September 28, 2013, respectively. If receivables had not been sold, \$328.3 million and \$267.8 million of additional accounts receivables would have been outstanding at September 27, 2014 and December 28, 2013, respectively, based on standard payment terms. Selling,

general and administrative expenses for the thirty-nine weeks ended September 27, 2014 and September 28, 2013 included \$5.0 million and \$3.6 million, respectively, in financing costs associated with these accounts receivable sales programs.

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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 27, 2014 | December 28, 2013 |
|---------------------|-----------------------|----------------------|
| Bulk product | \$ 61,072 | \$ 63,550 |
| Finished product | 116,364 | 97,742 |
| Packaging materials | 2,719 | 3,129 |
| Total | \$ 180,155 | \$ 164,421 |

5. 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 vest in accordance with the terms set forth in each restricted stock agreement. At September 27, 2014, 1,708,827 shares were available for grant under the Plan.

We grant restricted stock to certain employees and members of our Board of Directors. The value of restricted stock granted 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 thereto, until the vesting conditions have been met. For awards with a service condition only, compensation cost related to restricted 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 restricted 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 \$1.5 million and \$0.7 million for the thirty-nine weeks ended September 27, 2014 and September 28, 2013, respectively.

The following table summarizes our restricted stock activity for the thirty-nine weeks ended September 27, 2014:

| | Shares | Weighted Average Price |
|------------------------------|----------|------------------------------|
| Balance at December 28, 2013 | 109,459 | \$ 24.47 |
| Granted | 21,347 | \$ 52.37 |
| Vested | (32,000) | \$ 24.33 |
| Forfeited | (5,348) | \$ 35.43 |

| | | |
|-------------------------------|--------|----------|
| Balance at September 27, 2014 | 93,458 | \$ 30.25 |
|-------------------------------|--------|----------|

As of September 27, 2014, there was approximately \$1.8 million of unrecognized compensation cost related to nonvested restricted stock, which is expected to be recognized over a weighted-average period of approximately 1.9 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 in the thirty-nine weeks ended September 27, 2014 was \$0.4 million and was credited to additional paid-in capital.

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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 27, 2014 and September 28, 2013 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 27, 2014 or September 28, 2013.

No stock options were granted during the thirty-nine weeks ended September 27, 2014 or September 28, 2013. Historically, we have used the Black-Scholes option valuation model to estimate the fair value of stock options granted. Expected volatility and expected dividend yield were 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. We included a forfeiture assumption of 5.4% for fiscal 2014 and fiscal 2013 in the calculation of compensation cost.

The following table summarizes our stock option activity for the thirty-nine weeks ended September 27, 2014:

| | Shares | Weighted Average Price | Weighted Average Remaining Term (In years) | Aggregate Intrinsic Value |
|---|----------|------------------------|--|---------------------------|
| Balance at December 28, 2013 | 141,500 | \$ 7.13 | | |
| Exercised | (66,500) | \$ 6.97 | | |
| Balance at September 27, 2014 | 75,000 | \$ 7.28 | 3.8 | \$ 2,518,020 |
| Options exercisable at September 27, 2014 | 65,000 | \$ 6.49 | 3.5 | \$ 2,233,420 |

The total intrinsic value of stock options exercised in the thirty-nine weeks ended September 27, 2014 was \$2.8 million. As of September 27, 2014, there was less than \$0.1 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 1 year.

Cash received from option exercises were approximately \$0.5 million in each of the thirty-nine weeks ended September 27, 2014 and September 28, 2013. The excess tax benefit generated from options which were exercised in the thirty-nine weeks ended September 27, 2014 and September 28, 2013 was \$0.1 million and \$0.8 million, respectively, and was credited to additional paid-in capital.

6. 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. However, in periods when the price of our stock-based awards, by grant, is greater than our average stock price during the period, those common share equivalents are considered

anti-dilutive and are excluded from the calculation of diluted earnings per share. No stock-based awards were considered anti-dilutive in the thirteen or thirty-nine weeks ended September 27, 2014 or September 28, 2013.

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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 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Numerator: | | | | |
| Net income | \$ 24,536 | \$ 22,887 | \$ 71,331 | \$ 61,301 |
| Denominator: | | | | |
| Weighted average basic shares outstanding | 35,898 | 36,362 | 36,217 | 36,343 |
| Effect of stock-based compensation awards | 126 | 270 | 155 | 267 |
| Weighted average diluted shares outstanding | 36,024 | 36,632 | 36,372 | 36,610 |
| Earnings Per Share: | | | | |
| Basic | \$ 0.68 | \$ 0.63 | \$ 1.97 | \$ 1.69 |
| Diluted | \$ 0.68 | \$ 0.62 | \$ 1.96 | \$ 1.67 |

7. Common Stock Repurchases

We periodically repurchase, at the then current market price, and cancel common stock issued to the Dorman Products, Inc. 401(k) Retirement Plan and Trust (the "401(k) Plan"). Shares are generally purchased from the 401(k) Plan when participants sell units as permitted by the 401(k) Plan or elect to leave the 401(k) Plan upon retirement, termination or other reasons. For the thirty-nine weeks ended September 27, 2014, we repurchased and cancelled 38,100 shares of common stock for \$2.1 million at an average price of \$54.02 per share. During the fifty-two weeks ended December 28, 2013, we repurchased and cancelled 78,580 shares of common stock at an average price of \$44.39 per share.

The Board of Directors has authorized a share repurchase program, authorizing the repurchase of up to \$50 million of our outstanding common stock through May 31, 2015. Under this program, share repurchases may be made from time to time depending on market conditions, share price, share availability and other factors at our discretion. The share repurchase program does not obligate us to acquire any specific number of shares. For the thirty-nine weeks ended September 27, 2014, we repurchased and cancelled 833,100 shares of common stock for \$39.3 million at an average price of \$47.15 per share under this program. At September 27, 2014, we had approximately \$10.7 million remaining under the program. As discussed in Note 12, on October 28, 2014 this share repurchase program was increased and extended.

8. Related-Party Transactions

We have a non-cancelable operating lease for our primary operating facility with a partnership in which Steven L. Berman, our Chief Executive Officer, and his family members, are partners. Based upon the terms of the lease, payments will be approximately \$1.5 million in fiscal 2014 and were \$1.5 million in fiscal 2013. The lease with the partnership expires December 31, 2017. In the opinion of our Audit Committee, the terms and rates of this lease are no less favorable than those which could have been obtained from an unaffiliated party.

9. Income Taxes

At September 27, 2014, we had \$1.1 million of net unrecognized tax benefits, \$0.8 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 27, 2014, we had approximately \$0.2 million of accrued interest related to uncertain tax positions.

We file income tax returns in the United States. All years before 2011 are closed for federal tax purposes. We are currently under examination by the Internal Revenue Service for the 2012 tax year. In regards to state tax, we are currently under examination by one state tax authority for the years 2009-2012. Tax years before 2009 are closed for the remaining states in which we file. We filed tax returns in Sweden through 2012 and all years prior to 2008 are closed. It is reasonably possible that audit settlements, the conclusion of current examinations or the expiration of the statute of limitations could impact the Company's unrecognized tax benefits.

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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.

11. New and Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard will be effective for annual periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

12. Subsequent Event

On October 28, 2014, we announced that our Board of Directors authorized an increase to the existing share repurchase program from \$50 million to \$100 million and an extension to the expiration of the program from May 31, 2015 to December 31, 2015. Including the additional authorization, we have approximately \$60.7 million remaining under the program.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward Looking Statements

Certain statements in this document constitute forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. While forward-looking statements sometimes are presented with numerical specificity, they are based on various assumptions made by management regarding future circumstances over many of which the Company has little or no control. Forward-looking statements may be identified by words including anticipate, believe, estimate, expect, and similar expressions. The Company cautions readers that forward-looking statements, including, without limitation, those relating to future business prospects, revenues, working capital, liquidity, and income, are subject to certain risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Factors that may cause actual results to differ from forward-looking statements include but are not limited to: competition in the automotive aftermarket industry, unfavorable economic conditions, loss of key suppliers, loss of third-party transportation providers, an increase in patent filings by original equipment manufacturers, quality problems, delay in the development and design of new products, space limitations on our customers' shelves, concentration of the Company's sales and accounts receivable among a small number of customers, the impact of consolidation in the automotive aftermarket industry, foreign currency fluctuations, timing and amount of customers' orders of Company's products, dependence on senior management, disruption from events beyond the Company's control and other risks and factors identified from time to time in the reports the Company files with the SEC. For additional information concerning factors that could cause actual results to differ materially from the information contained in this report, reference is made to the information in Part I Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2013. You should not place undue reliance on forward-looking statements. Such statements speak only as to the date on which they are made, and we undertake no obligation to update publicly or revise any forward-looking statement, regardless of future developments or availability of new information.

Introduction

The following discussion and analysis, as well as other sections in this Quarterly Report on Form 10-Q, should be read in conjunction with the unaudited consolidated financial statements and footnotes thereto of Dorman Products, Inc. and its subsidiaries included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q and with Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

Overview

We are a leading supplier of replacement parts and fasteners for passenger cars, light trucks and heavy trucks in the automotive aftermarket. We distribute and market approximately 150,000 stock keeping units (SKU's) of automotive replacement parts many of which we design and engineer. These SKU's are sold under our various brand names, under our customers' private label brands or in bulk. We believe we are the dominant aftermarket supplier of original equipment dealer exclusive items. Original equipment dealer exclusive parts are those parts which were traditionally available to consumers only from original equipment manufacturers or salvage yards. These parts include, among other parts, intake manifolds, exhaust manifolds, window regulators, radiator fan assemblies, tire pressure monitor sensors, complex electronics devices and exhaust gas recirculation (EGR) coolers.

We generate virtually all of our revenues from customers in the North American automotive aftermarket, primarily in the United States. Our products are sold primarily through automotive aftermarket retailers (such as AutoZone,

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Advance Auto Parts and O'Reilly Auto Parts), national, regional and local warehouse distributors (such as Carquest and NAPA), specialty markets and salvage yards. We also distribute automotive replacement parts outside the United States, with sales into Europe, Mexico, the Middle East, Asia and Canada.

The automotive aftermarket has benefited from some of the factors affecting the general economy, including the impact of the recent recession, continued high unemployment, and fluctuating gas prices. We believe vehicle owners have become more likely to

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keep their current vehicles longer and perform necessary repairs and maintenance in order to keep those vehicles well maintained as a result of these factors. According to data published by POLK, a division of IHS Automotive, the average age of vehicles was 11.4 years as of December 2013. The number of miles driven is another statistic that impacts our business. Generally, as vehicles are driven more miles, the more likely it is that parts will fail. The combination of the vehicle age increase and number of miles driven has accounted for a portion of our sales growth.

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

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

In 2012, we introduced a new line of products to be marketed for the medium and heavy duty truck aftermarket. We believe that this market provides many of the same opportunities for growth that the automotive aftermarket has provided us over the past several years. Similar to the automotive side of our business, our focus is on Formerly Dealer Only parts. We launched the initial program with a limited offering, but have made additional investments in new product development efforts to expand our product offering. We currently have approximately 430 SKU's in our medium and heavy duty product line.

In September 2013, we launched our Hybrid Drive Battery program, which provides broad coverage for the most popular hybrid vehicles in service. Our hybrid drive battery packs are completely remanufactured and are extensively tested to ensure performance. Our hybrid drive batteries are plug and play direct replacements, ready to install and requiring no programming time or expense thus saving the service technicians time and the hybrid vehicle owner's money.

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

We operate on a fifty-two or fifty-three week fiscal year period ended on the last Saturday of the calendar year. Our 2014 fiscal year will be a fifty-two week period that will end on December 27, 2014. The fiscal year ended December 28, 2013 was also a fifty-two week period.

Table of Contents**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 Income:

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|--|-----------------------------|-----------------------|--------------------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 61.6 | 60.8 | 61.8 | 60.6 |
| Gross profit | 38.4 | 39.2 | 38.2 | 39.4 |
| Selling, general and administrative expenses | 18.9 | 19.2 | 18.8 | 19.9 |
| Income from operations | 19.5 | 20.0 | 19.4 | 19.5 |
| Interest expense, net | 0.1 | 0.0 | 0.0 | 0.1 |
| Income before income taxes | 19.4 | 20.0 | 19.4 | 19.4 |
| Provision for income taxes | 7.0 | 7.1 | 7.0 | 7.0 |
| Net income | 12.4% | 12.9% | 12.4% | 12.4% |

Thirteen Weeks Ended September 27, 2014 Compared to Thirteen Weeks Ended September 28, 2013

Net sales increased 11% to \$197.8 million for the thirteen weeks ended September 27, 2014 from \$178.0 million for the thirteen weeks ended September 28, 2013. Our revenue growth was primarily driven by strong overall demand for our products and the shipment of approximately \$10 million of customer stocking orders in advance anticipation of our quarter-end conversion to a new enterprise resource planning (ERP) system.

Gross profit was \$75.9 million, or 38.4% of net sales, for the thirteen weeks ended September 27, 2014 compared to \$69.7 million, or 39.2% of net sales, for the thirteen weeks ended September 28, 2013. The gross profit percentage was negatively impacted by competitive pricing pressures and mix shift that resulted in lower overall selling prices. A \$0.7 million increase in the provision for excess and obsolete inventory was offset by lower provisions for customer returns in the quarter.

Selling, general and administrative expenses were approximately \$37.4 million for the thirteen weeks ended September 27, 2014 compared to \$34.0 million for the thirteen weeks ended September 28, 2013. The increase was primarily due to higher variable costs associated with our 11% sales growth, approximately \$0.7 million in additional investment in new product development initiatives and approximately \$0.6 million in distribution costs related to training and other ERP conversion activities as compared to prior year. However, selling, general and administrative expenses decreased to 18.9% of net sales from 19.2% of net sales as we were able to leverage our expenses over growing net sales.

Our effective tax rate was 36.1% for the thirteen weeks ended September 27, 2014 compared to 35.8% for the thirteen weeks ended September 28, 2013.

Thirty-nine Weeks Ended September 27, 2014 Compared to Thirty-nine Weeks Ended September 28, 2013

Net sales increased 17% to \$577.5 million for the thirty-nine weeks ended September 27, 2014 from \$494.7 million for the thirty-nine weeks ended September 28, 2013. Our revenue growth was primarily driven by strong overall demand for our products and higher revenue from recently introduced products.

Gross profit was \$220.5 million, or 38.2% of net sales, for the thirty-nine weeks ended September 27, 2014 compared to \$194.9 million, or 39.4% of net sales, for the thirty-nine weeks ended September 28, 2013. The gross profit percentage was negatively impacted by competitive pricing pressures and mix shift that resulted in lower overall selling prices, a \$1.8 million increase in the provision for excess and obsolete inventory and higher transportation costs.

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Selling, general and administrative expenses were approximately \$108.4 million for the thirty-nine weeks ended September 27, 2014 compared to \$98.6 million for the thirty-nine weeks ended September 28, 2013. The spending increase was primarily due to higher variable costs associated with our 17% sales growth, approximately \$1.9 million in additional investment in new product development and other resources to support our new product growth efforts, and inflationary increases as compared to the prior year. However, selling, general and administrative expenses decreased to 18.8% of net sales from 19.9% of net sales as we were able to leverage our expenses over growing net sales.

Our effective tax rate was 36.3% for the thirty-nine weeks ended September 27, 2014 and the thirty-nine weeks ended September 28, 2013.

Liquidity and Capital Resources

Historically, we have financed our growth through a combination of cash flow from operations, accounts receivable sales programs and our revolving credit facility. At September 27, 2014, working capital was \$356.0 million, while shareholders' equity was \$445.7 million. Cash and cash equivalents as of September 27, 2014 was \$44.2 million.

Over the past several years we extended payment terms to certain customers as a result of customer requests and market demands. We participate in accounts receivable sales programs with several customers which allow us to sell our accounts receivable to financial institutions to offset the negative cash flow impact of these payment terms extensions. Without these programs, these extended terms would have resulted in increased accounts receivable and significant uses of cash flow. Pursuant to these agreements, we sold accounts receivable in the aggregate amount of \$380.2 million and \$296.5 million during the thirty-nine weeks ended September 27, 2014 and September 28, 2013, respectively. If receivables had not been sold, \$328.3 million and \$267.8 million of additional receivables would have been outstanding at September 27, 2014 and December 28, 2013, respectively, based on standard payment terms.

We have a \$30.0 million revolving credit facility which expires in June 2015. Borrowings under the facility are on an unsecured basis with interest at rates ranging from LIBOR plus 75 basis points to LIBOR plus 250 basis points based upon the achievement of certain benchmarks related to the ratio of funded debt to EBITDA, as defined by our credit agreement. The interest rate at September 27, 2014 was LIBOR plus 75 basis points (.90%). There were no borrowings under the facility as of September 27, 2014. As of September 27, 2014, we had two outstanding letters of credit for approximately \$1.0 million in the aggregate which were issued to secure ordinary course of business transactions. Net of these letters of credit, we had approximately \$29.0 million available under the facility at September 27, 2014. The credit agreement also contains covenants, the most restrictive of which pertain to net worth and the ratio of debt to EBITDA. As of September 27, 2014, we are in compliance with all financial covenants contained in the revolving credit facility.

Cash Flows

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

| (in thousands) | Thirty-nine Weeks Ended | |
|---------------------------------------|-------------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 |
| Cash provided by operating activities | \$ 47,406 | \$ 36,841 |
| Cash used in investing activities | (22,992) | (14,846) |

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| | | |
|--|-------------|-----------|
| Cash used in financing activities | (40,797) | (1,368) |
| Net (decrease) increase in cash and cash equivalents | \$ (16,383) | \$ 20,627 |

Cash provided by operating activities during the thirty-nine weeks ended September 27, 2014 increased by \$10.6 million compared to the thirty-nine weeks ended September 28, 2013 due primarily to higher net income levels. Accounts receivable increased \$8.7 million in 2014 due to higher net sales. Inventory increased \$15.7 million in 2014 due to higher net sales and additional investment in new product inventory. Accounts payable decreased by \$9.2 million due to timing of purchases and payments to our vendors.

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Investing activities used \$23.0 million of cash in the thirty-nine weeks ended September 27, 2014 and \$14.8 million in the thirty-nine weeks ended September 28, 2013. Capital spending was primarily related to the following significant projects:

We replaced our ERP system in September 2014. Through September 27, 2014, we have paid \$35.0 million for the project of which \$12.3 was spent in the thirty-nine weeks ended September 27, 2014 and \$2.4 million was spent during the thirty-nine weeks ended September 28, 2013. This project is expected to cost approximately \$38.0 million for capitalized software, installation services and internal costs.

The remaining capital spending in each thirty-nine week period was related to tooling associated with new products, scheduled equipment replacements, facility improvements and other capital projects.

Financing activities used \$40.8 million of cash in the thirty-nine weeks ended September 27, 2014 compared to \$1.4 million of cash in the thirty-nine weeks ended September 28, 2013. In 2014, we used approximately \$41.3 million of cash to repurchase and retire 833,100 common shares in conjunction with our stock repurchase program and 38,100 common shares from our 401(k) plan. The other sources and uses of cash in each period result from stock compensation plan activities.

On October 28, 2014, we announced that our Board of Directors authorized an increase to the existing share repurchase program from \$50 million to \$100 million and an extension to the expiration of the program from May 31, 2015 to December 31, 2015.

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

During the thirty-nine weeks ended September 27, 2014, we experienced no material changes to our contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended December 28, 2013.

Foreign Currency Fluctuations

In fiscal 2013, approximately 75% of our products were purchased from vendors in a variety of foreign countries. The products generally are purchased through purchase orders with the purchase price specified in U.S. dollars. Accordingly, we generally do not have exposure to fluctuations in the relationship between the dollar and various foreign currencies between the time of execution of the purchase order and payment for the product. To the extent that the dollar decreases in value to foreign currencies in the future, the price of the product in dollars for new purchase orders may increase.

The largest portion of our overseas purchases comes from China. Since January 1, 2013, the Chinese Yuan has increased in value relative to the U.S. Dollar. Any future increases in the value of the Yuan relative to the U.S. Dollar will likely result in an increase in the cost of products that we purchase from China.

Impact of Inflation

The overall impact of inflation has not resulted in a significant change in labor costs or the cost of general services utilized. The cost of many of the commodities that are used in our products have fluctuated over time resulting in increases and decreases in the prices of our products. In addition, we have periodically experienced increased

transportation costs as a result of higher fuel prices. We will attempt to offset cost increases by passing along selling price increases to customers, using alternative suppliers and by resourcing purchases to other countries. However, there can be no assurance that we will be successful in these efforts.

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New and Recently Adopted Accounting Pronouncements

Please refer to Note 11, New and Recently Adopted Accounting Pronouncements, to the Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risk is the potential loss arising from adverse changes in interest rates. Substantially all of our borrowing capacity and our accounts receivable sale programs bear interest at rates tied to LIBOR. Under the terms of our revolving credit facility and customer-sponsored programs to sell accounts receivable, a change in either the lender's base rate, LIBOR or discount rates under our accounts receivable sale programs would affect the rate at which we could access funds thereunder. Hypothetically, a one percentage point increase in LIBOR would increase our interest expense on our variable rate debt, if any, and our financing costs associated with our sales of accounts receivable by approximately \$3.3 million annually. This estimate assumes that our variable rate debt balance and the level of sales of accounts receivable remains constant for an annual period and the interest rate change occurs at the beginning of the period. The hypothetical changes and assumptions may be different from what actually occurs in the future.

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

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter ended September 27, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there was no such change during the quarter ended September 27, 2014.

Limitations on the Effectiveness of Controls

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

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

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

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 28, 2013, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

During the thirteen weeks ended September 27, 2014, we purchased shares of our common stock as follows:

| Period | Total Number of Shares Purchased (1) (2) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2) | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)(3) |
|--|---|------------------------------|---|--|
| June 29, 2014 through July 26, 2014 | 239,850 | \$ 48.78 | 234,800 | \$ 30,005,383 |
| July 27, 2014 through August 23, 2014 | 269,384 | \$ 44.37 | 268,900 | \$ 18,072,823 |
| August 24, 2014 through September 27, 2014 | 169,840 | \$ 43.85 | 167,500 | \$ 10,716,946 |
| Total | 679,074 | \$ 45.80 | 671,200 | \$ 10,716,946 |

(1)

Includes 7,390 shares purchased from the Dorman Products, Inc. 401(k) Plan and Trust (as described in Note 7 to the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q). Also includes 484 shares of our common stock withheld from participants for income tax withholding purposes in connection with the vesting of restricted stock grants during the period. The restricted stock was issued to participants pursuant to our 2008 Stock Option and Incentive Plan.

- (2) On December 12, 2013, we announced that our Board of Directors authorized a share repurchase program, authorizing the repurchase of up to \$10 million of our outstanding common stock by the end of 2014. We announced that our Board of Directors increased the share repurchase program authorization to \$30 million on May 20, 2014 and to \$50 million in July 30, 2014. In addition, on May 20, 2014, we announced that our Board of Directors extended the share repurchase program through May 31, 2015. Under this program, share repurchases may be made from time to time depending on market conditions, share price, share availability and other factors at our discretion. The share repurchase program does not obligate us to acquire any specific number of shares. We repurchased 671,200 shares under this program during the thirteen weeks ended September 27, 2014. On October 28, 2014, we announced that our Board of Directors increased the share repurchase program authorization to \$100 million and extended the share repurchase program through December 31, 2015.
- (3) Numbers in this column assume that the repurchase program had been expanded to authorize the repurchase of up to \$50 million at the beginning of the thirteen week period ended September 27, 2014.

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Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

The Exhibits included in this report are listed in the Exhibit Index on page 21, which is incorporated herein by reference.

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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.

October 31, 2014

/s/ Steven Berman
Steven Berman
Chief Executive Officer and
Chairman of the Board of Directors
(Principal Executive Officer)

October 31, 2014

/s/ Matthew Kohnke
Matthew Kohnke
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

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EXHIBIT INDEX

- 31.1 Certification of Chief Executive Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002 (filed with this report).
- 31.2 Certification of Chief Financial Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002 (filed with this report).
- 32 Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished with this report).
- 101 The following financial statements from the Dorman Products, Inc. Quarterly Report on Form 10-Q as of and for the quarter ended September 27, 2014, formatted in XBRL (eXtensible Business Reporting Language):
(i) the Consolidated Statements of Income (ii) the Consolidated Balance Sheets; (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements.