

COAST DISTRIBUTION SYSTEM INC  
Form 10-Q  
November 14, 2007  
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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 30, 2007

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 1-9511

**THE COAST DISTRIBUTION SYSTEM, INC.**

(Exact name of Registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction)

**94-2490990**  
(I.R.S. Employer

of incorporation or organization)

Identification Number)

**350 Woodview Avenue, Morgan Hill, California**  
(Address of principal executive offices)

**95037**  
(Zip Code)

**(408) 782-6686**

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Securities Exchange Act Rule 12b-2). YES  NO

### **APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

4,439,225 shares of Common Stock as of November 1, 2007

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**THE COAST DISTRIBUTION SYSTEM, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2007**

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS**

(Dollars in Thousands)

	September 30, 2007 (unaudited)	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 875	\$ 721
Accounts receivable net of allowances of \$1,047 and \$1,376 as of September 30, 2007 and December 31, 2006, respectively	14,786	14,193
Inventories	44,860	46,642
Other current assets	2,028	4,233
Total current assets	62,549	65,789
PROPERTY, PLANT, AND EQUIPMENT, NET	3,353	2,461
OTHER ASSETS	1,031	1,244
	\$ 66,933	\$ 69,494
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term obligations	\$ 122	\$ 137
Accounts payable	5,610	9,231
Accrued liabilities	4,107	3,717
Total current liabilities	9,839	13,085
LONG-TERM OBLIGATIONS	22,884	24,562
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.001 par value: 2,000,000 shares authorized; none issued or outstanding:		
Common stock, \$.001 par value: 10,000,000 shares authorized; 4,439,225 and 4,414,547 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	15,800	15,702
Accumulated other comprehensive income	2,138	650
Retained earnings	16,272	15,495
	34,210	31,847
	\$ 66,933	\$ 69,494

The accompanying notes are an integral part of these statements.

**Table of Contents****THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS****(Dollars in thousands, except per share data)****Three and Nine Months Ended September 30,****(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2007</b>	<b>2006</b>	<b>September 30, 2007</b>	<b>2006</b>
Net Sales	\$ 43,173	\$ 44,286	\$ 137,638	\$ 152,599
Cost of sales, including distribution costs	34,757	36,293	111,305	121,884
Gross profit	8,416	7,993	26,333	30,715
Selling, general and administrative expenses	6,582	6,227	21,809	21,322
Operating income	1,834	1,766	4,524	9,393
Other income (expense)				
Interest	(485)	(419)	(1,723)	(1,340)
Other	(5)	(12)	(102)	(64)
	(490)	(431)	(1,825)	(1,404)
Earnings before income taxes	1,344	1,335	2,699	7,989
Income tax provision	510	630	992	3,166
Net earnings	\$ 834	\$ 705	\$ 1,707	\$ 4,823
Basic earnings per share	\$ 0.19	\$ 0.16	\$ 0.39	\$ 1.09
Diluted earnings per share	\$ 0.18	\$ 0.15	\$ 0.38	\$ 1.05
Dividends per common share	\$ 0.07	\$ 0.07	\$ 0.21	\$ 0.17

The accompanying notes are an integral part of these statements.

**Table of Contents****THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

Nine months ended September 30,

(Unaudited)

	2007	2006
Cash flows from operating activities:		
Net earnings	\$ 1,707	\$ 4,823
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	667	582
Stock-based Compensation expense	153	70
Equity in net earnings of affiliated companies, net of distributions	34	34
Gain on sale of property and equipment	(3)	(27)
Changes in assets and liabilities:		
Accounts receivable	(593)	2,811
Inventories	1,782	(5,829)
Other current assets	2,205	1,349
Accounts payable	(3,621)	(4,544)
Accrued liabilities	390	(303)
Total adjustments	1,014	(5,857)
Net cash provided by (used in) operating activities	2,721	(1,034)
Cash flows from investing activities:		
Capital expenditures	(1,443)	(345)
Proceeds from sale of property and equipment	10	33
Change in other assets	141	(118)
Net cash used in investing activities	(1,292)	(430)
Cash flows from financing activities:		
Borrowings under notes payable and line-of-credit agreements	170,239	184,143
Repayments under notes payable and line-of-credit agreements	(171,819)	(182,830)
Issuance of common stock pursuant to employee stock option and purchase plans	267	637
Dividends paid	(930)	(754)
Retirement of common stock	(322)	(750)
Net cash provided by (used in) financing activities	(2,565)	446
Effect of exchange rate changes on cash	1,290	118
NET INCREASE (DECREASE) IN CASH	154	(900)
Cash beginning of period	721	1,744
Cash end of period	\$ 875	\$ 844

The accompanying notes are an integral part of these statements.



**Table of Contents****THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

- The accompanying condensed consolidated interim financial statements have been prepared in accordance with accounting principles and Securities Exchange Commission ( SEC ) rules applicable to interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the Company's financial position as of September 30, 2007 and the results of its operations and cash flows for the three and nine month periods ended September 30, 2007 and 2006. The accounting policies followed by the Company are set forth in Note A to the Company's financial statements in its Annual Report on Form 10-K for its fiscal year ended December 31, 2006. Therefore, these condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and the notes thereto contained in that Annual Report.
- The Company's business is seasonal and its results of operations for the three and nine month periods ended September 30, 2007 and 2006 are not necessarily indicative of the results to be expected in any other interim period during, or for the full year ending, December 31, 2007. See Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonality and Inflation in Item 2 of Part I of this Report.
- Basic earnings per share for each period are computed using the weighted average number of common shares outstanding during such period. Diluted earnings per share are computed using the weighted average number of common and potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of the incremental common shares issuable upon the exercise of stock options (using the treasury stock method). Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. For the three and nine months ended September 30, 2007, 342,000 and 286,000 shares of common stock issuable on exercise of stock options were excluded from the computation of diluted earnings per share because their exercise prices were greater than the average market price of the Company's common stock during these periods; whereas for the three and nine months ended September 30, 2006, 8,000 shares of common stock issuable on exercise of stock options were excluded from the computation of diluted earnings per share.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(In thousands)			
Numerator:				
Net earnings	\$ 834	\$ 705	\$ 1,707	\$ 4,823
Denominator:				
Weighted average shares outstanding	4,431	4,434	4,425	4,421
Dilutive effect of stock options	92	180	111	178
Denominator for diluted net income per share	4,523	4,614	4,536	4,599

- The Company leases its corporate offices, warehouse facilities and data processing equipment. Those leases are classified as operating leases as they do not meet the capitalization criteria of SFAS No. 13. The office and warehouse leases expire over the next ten years. Minimum future rental commitments under non-cancelable operating leases are as follows:

Year Ending

(In thousands)



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<b>December 31,</b>	
2007 (remaining three months)	\$ 1,096
2008	4,224
2009	3,598
2010	3,003
2011	2,533
Thereafter	10,695
	\$ 25,149

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5. The Company has one operating segment, the distribution of replacement parts, accessories and supplies for recreational vehicles and boats. The following table sets forth our net sales, by region, for the periods presented below:

	Three Months		Nine Months	
	Ended September 30, 2007	2006	Ended September 30, 2007	2006
	(In thousands)			
USA	\$ 31,843	\$ 34,332	\$ 102,549	\$ 118,056
Canada	11,330	9,954	35,089	34,543
	\$ 43,173	\$ 44,286	\$ 137,638	\$ 152,599

6. Comprehensive Earnings.

Three Months Ended		Nine Months Ended	
September 30, 2007	2006	September 30, 2007	2006
(In thousands)			