

Dorman Products, Inc.
Form 10-Q
August 03, 2017
Table of Contents

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 July 1, 2017

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, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 31, 2017, the registrant had 34,073,578 shares of common stock, par value \$0.01 per share, outstanding.

Table of Contents

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q

July 1, 2017

	Page
Part I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Consolidated Statements of Income:</u>	
<u>Thirteen Weeks Ended July 1, 2017 and June 25, 2016</u>	3
<u>Twenty-six Weeks Ended July 1, 2017 and June 25, 2016</u>	4
<u>Consolidated Balance Sheets</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 4. <u>Controls and Procedures</u>	17
Part II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	18
Item 1A. <u>Risk Factors</u>	18
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
Item 3. <u>Defaults Upon Senior Securities</u>	18
Item 4. <u>Mine Safety Disclosures</u>	18
Item 5. <u>Other Information</u>	19
Item 6. <u>Exhibits</u>	19
<u>Signatures</u>	20
<u>Exhibit Index</u>	21

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

	For the Thirteen Weeks Ended	
	July 1, 2017	June 25, 2016
(in thousands, except per share data)		
Net sales	\$ 229,262	\$ 209,573
Cost of goods sold	138,410	127,409
Gross profit	90,852	82,164
Selling, general and administrative expenses	45,853	41,175
Income from operations	44,999	40,989
Interest income (expense), net	241	(62)
Income before income taxes	45,240	40,927
Provision for income taxes	16,803	14,945
Net income	\$ 28,437	\$ 25,982
Earnings Per Share:		
Basic	\$ 0.83	\$ 0.75
Diluted	\$ 0.83	\$ 0.75
Weighted Average Shares Outstanding:		
Basic	34,128	34,546
Diluted	34,225	34,626

See accompanying Notes to Consolidated Financial Statements

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

	For the Twenty-six Weeks Ended	
	July 1, 2017	June 25, 2016
(in thousands, except per share data)		
Net sales	\$ 450,887	\$ 417,721
Cost of goods sold	271,292	254,963
Gross profit	179,595	162,758
Selling, general and administrative expenses	89,554	82,838
Income from operations	90,041	79,920
Interest income (expense), net	305	(119)
Income before income taxes	90,346	79,801
Provision for income taxes	32,722	29,148
Net income	\$ 57,624	\$ 50,653
Earnings Per Share:		
Basic	\$ 1.68	\$ 1.46
Diluted	\$ 1.68	\$ 1.46
Weighted Average Shares Outstanding:		
Basic	34,256	34,615
Diluted	34,350	34,669

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)	July 1, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 129,208	\$ 149,121
Accounts receivable, less allowance for doubtful accounts and customer credits of \$99,723 and \$99,995	230,414	230,526
Inventories	200,383	168,851
Prepays and other current assets	5,048	3,116
Total current assets	565,053	551,614
Property, plant and equipment, net	90,216	88,436
Goodwill and intangible assets, net	32,642	29,788
Deferred tax asset, net	15,095	12,429
Other assets	42,028	29,525
Total	\$ 745,034	\$ 711,792
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 90,611	\$ 72,629
Accrued compensation	7,134	11,899
Other accrued liabilities	13,924	19,320
Total current liabilities	111,669	103,848
Other long-term liabilities	8,724	6,302
Commitments and contingencies		
Shareholders Equity:		
Common stock, par value \$0.01; authorized 50,000,000 shares; issued and Outstanding 34,144,244 and 34,517,633 in 2017 and 2016, respectively	341	345
Additional paid-in capital	44,268	44,187
Retained earnings	580,032	557,110
Total shareholders equity	624,641	601,642
Total	\$ 745,034	\$ 711,792

See accompanying Notes to Consolidated Financial Statements

Table of Contents

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

(in thousands)	For the Twenty-six Weeks Ended	
	July 1, 2017	June 25, 2016
Cash Flows from Operating Activities:		
Net income	\$ 57,624	\$ 50,653
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization and accretion	10,192	9,179
Provision for doubtful accounts	150	1,071
Benefit for deferred income taxes	(2,666)	(85)
Provision for non-cash stock compensation	1,478	1,048
Changes in assets and liabilities:		
Accounts receivable	(38)	(13,932)
Inventories	(29,690)	14,753
Prepays and other current assets	(1,932)	(1,172)
Other assets	(2,503)	(3,230)
Accounts payable	18,158	(11,408)
Accrued compensation and other liabilities	(8,850)	(10,333)
Cash provided by operating activities	41,923	36,544
Cash Flows from Investing Activities:		
Property, plant and equipment additions	(11,932)	(10,118)
Purchase of investments	(13,127)	
Cash used in investing activities	(25,059)	(10,118)
Cash Flows from Financing Activities:		
Other stock related activity	(1,043)	(97)
Purchase and cancellation of common stock	(35,734)	(17,091)
Cash used in financing activities	(36,777)	(17,188)
Net Increase in Cash and Cash Equivalents	(19,913)	9,238
Cash and Cash Equivalents, Beginning of Period	149,121	78,659
Cash and Cash Equivalents, End of Period	\$ 129,208	\$ 87,897
Supplemental Cash Flow Information		
Cash paid for interest expense	\$ 129	\$ 133
Cash paid for income taxes	\$ 38,679	\$ 32,053

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See accompanying Notes to Consolidated Financial Statements

Table of Contents

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWENTY-SIX WEEKS ENDED JULY 1, 2017 AND JUNE 25, 2016

(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 twenty-six weeks ended July 1, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2017. We may experience significant fluctuations from quarter to quarter in our results of operations due to the timing of orders placed by our customers. 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 31, 2016.

2. Acquisition

On January 6, 2017, we acquired certain assets of Ingalls Engineering Company, Inc., a chassis and suspension business, primarily to expand our product portfolio. The purchase price was \$4.8 million, comprised of \$3.1 million of cash and \$1.7 million of estimated contingent payments. The contingent payment arrangement is based upon future net sales of the acquired business. In connection with this acquisition, we preliminarily recorded \$2.9 million in goodwill and other intangible assets and \$1.9 million of other net assets pending final valuation. All of the intangible assets resulting from the asset purchase are expected to be deductible for tax purposes. The financial results of the acquisition 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 \$299.1 million and \$257.8 million of accounts receivable during the twenty-six weeks ended July 1, 2017 and June 25, 2016, respectively. If receivables had not been sold, \$373.3 million and \$338.3 million of additional accounts receivable would have been outstanding at July 1, 2017 and December 31, 2016, respectively, based on standard payment terms. Selling, general and

administrative expenses for the twenty-six weeks ended July 1, 2017 and June 25, 2016 included \$5.6 million and \$4.4 million, respectively, in financing costs associated with these accounts receivable sales programs.

4. 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 net realizable value. Inventories were as follows:

(in thousands)	July 1, 2017	December 31, 2016
Bulk product	\$ 75,523	\$ 72,833
Finished product	122,047	93,223
Packaging materials	2,813	2,795
Total	\$ 200,383	\$ 168,851

Table of Contents**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 vests in accordance with the terms set forth in each restricted stock agreement. At July 1, 2017, 1,400,533 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 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 calculated based upon the probable outcome of the performance conditions and is recognized over the performance period. Compensation cost related to restricted stock was \$1.3 million and \$1.0 million for the twenty-six weeks ended July 1, 2017 and June 25, 2016, respectively.

The following table summarizes our restricted stock activity for the twenty-six weeks ended July 1, 2017:

	Shares	Weighted Average Price
Balance at December 31, 2016	145,363	\$ 49.22
Granted	60,356	\$ 78.32
Vested	(45,942)	\$ 53.35
Cancelled	(276)	\$ 52.19
Balance at July 1, 2017	159,501	\$ 59.04

As of July 1, 2017, there was approximately \$8.1 million of unrecognized compensation cost related to nonvested restricted stock, which is expected to be recognized over a weighted-average period of approximately 2.7 years.

Cash flows resulting from tax deductions in excess of the tax effect of compensation cost recognized in the financial statements are classified as operating cash flows. In accordance with ASU No. 2016-09 (see Note 11), the excess tax benefit generated from restricted shares which vested in the twenty-six weeks ended July 1, 2017 was \$0.3 million and was credited to income tax expense. The excess tax benefit generated from restricted shares which vested in the twenty-six weeks ended June 25, 2016 was \$0.2 million and was credited to additional paid-in capital.

We grant stock options to certain employees and members of our 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 twenty-six weeks ended July 1, 2017 and June 25, 2016 was \$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 twenty-six

weeks ended July 1, 2017 and June 25, 2016.

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 twenty-six weeks ended July 1, 2017 and June 25, 2016, we granted 58,204 and 61,084 stock options, respectively.

Table of Contents

The following table summarizes our stock option activity for the twenty-six weeks ended July 1, 2017:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term (In years)	Aggregate Intrinsic Value
Balance at December 31, 2016	101,084	\$ 29.52		
Granted	58,024	\$ 78.58		
Exercised	(32,000)	\$ 6.90		
Balance at July 1, 2017	127,108	\$ 57.61	4.0	\$ 3,198,087
Options exercisable at July 1, 2017	23,271	\$ 31.41	3.1	\$ 1,195,152

There were 32,000 options exercised during the twenty-six weeks ended July 1, 2017. There were no options exercised in the twenty-six weeks ended June 25, 2016. As of July 1, 2017, there was \$1.2 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 3.4 years.

The cash received from stock option exercises was less than \$0.1 million in the twenty-six weeks ended July 1, 2017. There was no cash generated from stock option exercises in the twenty-six weeks ended June 25, 2016.

In accordance with ASU No. 2016-09 (see Note 11), the excess tax benefit generated from stock options exercises in the twenty-six weeks ended July 1, 2017 was \$0.6 million and was credited to income tax expense. There was no excess tax benefit generated from stock option exercises in the twenty-six weeks ended June 25, 2016.

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. Stock-based awards of 17,226 shares and 15,710 shares were excluded from the calculation of diluted earnings per share as of July 1, 2017 and June 25, 2016, 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		Twenty-six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Numerator				
Net income	\$ 28,437	\$ 25,982	\$ 57,624	\$ 50,653
Denominator:				

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Weighted average basic shares outstanding	34,128	34,546	34,256	34,615
Effect of stock-based compensation awards	97	80	94	54
Weighted average diluted shares outstanding	34,225	34,626	34,350	34,669
Earnings Per Share:				
Basic	\$ 0.83	\$ 0.75	\$ 1.68	\$ 1.46
Diluted	\$ 0.83	\$ 0.75	\$ 1.68	\$ 1.46

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 twenty-six weeks ended July 1, 2017, we repurchased and cancelled 9,290 shares of common stock for \$0.7 million at an average price of \$79.07 per share. During the fifty-three weeks ended December 31, 2016, we repurchased and cancelled 38,970 shares of common stock for \$2.2 million at an average price of \$56.66 per share.

Table of Contents

Our Board of Directors authorized a share repurchase program of up to \$250 million through December 31, 2018. 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 twenty-six weeks ended July 1, 2017, we repurchased and cancelled 439,485 shares of common stock for \$35.0 million at an average price of \$79.64 per share under this program. For the fifty-three weeks ended December 31, 2016, we repurchased and cancelled 430,866 shares of common stock for \$22.5 million at an average price of \$52.15 per share under this program.

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 Executive Chairman, and his family members, are partners. Based upon the terms of the lease, payments will be \$1.6 million in fiscal 2017 and were \$1.6 million in fiscal 2016. The lease with the partnership expires December 31, 2022. 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 when the lease was renewed in fiscal 2016.

We are partner in a joint venture with one of our suppliers and own minority interests in three other suppliers. Each of these investments is accounted for according to the equity method. This includes a 33% minority equity interest in a supplier, which we purchased on January 27, 2017 for \$10.0 million.

9. Income Taxes

At July 1, 2017, we had \$4.6 million of net unrecognized tax benefits, \$3.1 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 July 1, 2017, we had approximately \$0.2 million of accrued interest related to uncertain tax positions.

We file income tax returns in the United States, China, India and Mexico. All years before 2013 are closed for federal tax purposes. We are currently under examination by one state tax authority for years 2011-2012. Tax years before 2011 are closed for the remaining states in which we file. We filed tax returns in Sweden through 2012 and all years prior to 2009 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.

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 FASB issued 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. As originally issued, the new standard would have been effective for annual periods beginning after December 15, 2016. The FASB has amended the standard to be effective for annual periods beginning after

December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. We have completed an initial evaluation of the ASU. Based on the evaluation conducted to date, we do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements. However, we have not yet completed our assessment, especially as it relates to disclosure and presentation matters. As a result, we continue to evaluate the effect the ASU will have on our consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. The amendments in this guidance do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out or average cost. Within the scope of this new guidance, an entity should measure inventory at the lower of cost and net realizable value; where, net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance was effective for annual periods beginning after December 15, 2016, with early adoption permitted. The new guidance must be applied on a prospective basis. Adoption of this ASU did not have a material impact on our Consolidated Financial Statements.

Table of Contents

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall*, which relates to the recognition and measurement of financial assets and liabilities. The new guidance makes targeted improvements to GAAP impacting equity investments (other than those accounted for under the equity method or consolidated), financial liabilities accounted for under the fair value election, and presentation and disclosure requirements for financial instruments, among other changes. The new guidance is effective for annual periods beginning after December 15, 2017, with early adoption prohibited other than for certain provisions. We are evaluating the impact that the new guidance will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which replaces existing lease guidance. The ASU is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new guidance is effective for annual periods beginning after December 15, 2018, with early application permitted. The new standard is required to be applied with a modified retrospective approach. We are evaluating the effect that the new guidance will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Improvement to Employee Share-Based Payment Accounting*, which amends the current guidance related to stock compensation. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard was effective for annual periods beginning after December 15, 2016, with early application permitted. Adoption of this ASU resulted in a \$0.9 million tax benefit during the twenty-six weeks ended July 1, 2017. The amount of benefit, if any, in future periods will vary.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies and provides guidance on eight cash flow classification issues and is intended to reduce existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are evaluating the effect that the new guidance will have on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates the need to perform a hypothetical purchase price allocation to measure goodwill impairment. ASU 2017-04 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are evaluating the effect that the new guidance will have, however, we do not believe the new guidance will have a material impact on our consolidated financial statements and related disclosures.

Table of Contents

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 competition in the automotive aftermarket industry, unfavorable economic conditions, loss of key vendors, loss of third-party transportation providers, claims of intellectual property infringement, 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, unfavorable results of legal proceedings, disruption from events beyond the Company's control, risks associated with conflict minerals, risks associated with cyber-attacks, the imposition of new taxes or duties, the termination or modification of accounts receivable sales agreements, and other risks and factors identified from time to time in the reports the Company files with the SEC. 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 31, 2016. You should not place an 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 the 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 31, 2016.

Overview

We believe we are a leading supplier of replacement parts and fasteners for passenger cars, light trucks and heavy duty trucks in the automotive aftermarket. We distribute and market approximately 155,000 different 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 a leading 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 modules 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 Advance Auto Parts, Inc., AutoZone, Inc. and O Reilly Automotive, Inc.), national, regional and local warehouse distributors (such as Genuine Parts Co. - NAPA), specialty markets and salvage yards. We also distribute automotive replacement parts outside the United States, with sales primarily into Canada, Mexico, Europe, the Middle East, and Australia.

The automotive aftermarket has benefited from some of the factors affecting the general economy, including the impact of recessions, unemployment, and fluctuating gas prices. We believe vehicle owners have become more likely to 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 11.6 years as of November 2016, which is an increase from 11.5 years as of July 2015 despite increasing new car sales.

Table of Contents

The number of miles driven is another important statistic that impacts our business. According to the United States Department of Transportation, the number of miles driven has increased each year since 2011 with miles driven having increased 3% as of December 2016 as compared to December 2015. Generally, as vehicles are driven more miles, the more likely it is that parts will fail. We believe 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 been consolidating for a number of years. As a result, our customers regularly seek more favorable pricing and product return provisions, 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.

Our complex electronics program capitalizes on the growing number of electronic components being utilized on today's Original Equipment platforms. Current production models contain an average of approximately thirty-five electronic modules, with some high-end luxury vehicles containing over one hundred modules. Our complex electronics products are designed and developed in house and extensively tested to ensure consistent performance.

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. Our focus here is on formerly dealer only parts similar to the automotive side of the business. 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 990 SKUs in our medium and heavy duty product line.

We may experience significant fluctuations from quarter to quarter in our results of operations due to the timing of orders placed by our customers. 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 2017 fiscal year will be a fifty-two week period that will end on December 30, 2017. The fiscal year ended December 31, 2016 was a fifty-three week period.

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:

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	Thirteen Weeks Ended				Twenty-six Weeks Ended			
	July 1, 2017		June 25, 2016		July 1, 2017		June 25, 2016	
Net sales	\$ 229.3	100.0%	\$ 209.6	100.0%	\$ 450.9	100.0%	\$ 417.7	100.0%
Cost of goods sold	\$ 138.4	60.4%	\$ 127.4	60.8%	\$ 271.3	60.2%	\$ 255.0	61.0%
Gross profit	\$ 90.9	39.6%	\$ 82.2	39.2%	\$ 179.6	39.8%	\$ 162.8	39.0%
Selling, general and administrative expenses	\$ 45.9	20.0%	\$ 41.2	19.6%	\$ 89.6	19.8%	\$ 82.8	19.9%
Income from operations	\$ 45.0	19.6%	\$ 41.0	19.6%	\$ 90.0	20.0%	\$ 79.9	19.1%
Interest income (expense), net	\$ 0.2	0.1%	\$ (0.1)	(0.1%)	\$ 0.3	0.0%	\$ (0.1)	(0.0%)
Income before income taxes	\$ 45.2	19.7%	\$ 40.9	19.5%	\$ 90.3	20.0%	\$ 79.8	19.1%
Provision for income taxes	\$ 16.8	7.3%	\$ 14.9	7.1%	\$ 32.7	7.2%	\$ 29.1	7.0%
Net income	\$ 28.4	12.4%	\$ 26.0	12.4%	\$ 57.6	12.8%	\$ 50.7	12.1%

Table of Contents

Thirteen Weeks Ended July 1, 2017 Compared to Thirteen Weeks Ended June 25, 2016

Net sales increased 9% to \$229.3 million for the thirteen weeks ended July 1, 2017 from \$209.6 million for the thirteen weeks ended June 25, 2016. The increase in net sales is primarily due to overall increased demand for our products at several of our large customers, including our new products.

Gross profit margin was 39.6% of net sales for the thirteen weeks ended July 1, 2017 compared to 39.2% of net sales for the thirteen weeks ended June 25, 2016. The improvement in gross profit margin was primarily the result of a favorable sales mix towards higher margin products and leverage of costs across a higher sales volume.

Selling, general and administrative expenses were \$45.9 million for the thirteen weeks ended July 1, 2017 compared to \$41.2 million for the thirteen weeks ended June 25, 2016. The increase in expense during the thirteen weeks ended July 1, 2017 was primarily due to increased variable costs associated with higher net sales and an increase in wage and benefit costs. In addition, accounts receivable sales costs increased \$1.1 million due to a higher volume of receivables sold and increased interest rates associated with the program.

Our effective tax rate was 37.1% for the thirteen weeks ended July 1, 2017 compared to 36.5% for the thirteen weeks ended June 25, 2016. The effective tax rate increased primarily due to higher provisions for state income taxes.

Twenty-six Weeks Ended July 1, 2017 Compared to Twenty-six Weeks Ended June 25, 2016

Net sales increased 8% to \$450.9 million for the twenty-six weeks ended July 1, 2017 from \$417.7 million for the twenty-six weeks ended June 25, 2016. The increase in net sales is primarily due to overall increased demand for our products at several of our large customers, including our new products.

Gross profit margin was 39.8% of net sales for the twenty-six weeks ended July 1, 2017 and 39.0% of net sales for the twenty-six weeks ended June 25, 2016. The improvement in gross profit margin was due to a favorable sales mix towards higher margin products and leverage of costs across a higher sales volume during the twenty-six weeks ended July 1, 2017 compared to the twenty-six weeks ended June 25, 2016.

Selling, general and administrative expenses were \$89.6 million for the twenty-six weeks ended July 1, 2017 compared to \$82.8 million for the twenty-six weeks ended June 25, 2016. The increase in expense during the twenty-six weeks ended July 1, 2017 was primarily due to increased variable costs associated with higher net sales and an increase in wage and benefit costs compared to the twenty-six weeks ended June 25, 2016. In addition, accounts receivable sales costs increased \$1.2 million due to a higher volume of receivables sold and increased interest rates associated with the program. Results for the twenty-six weeks ended June 25, 2016 included a \$0.9 million provision for doubtful accounts due to a customer that was in bankruptcy.

Our effective tax rate was 36.2% for the twenty-six weeks ended July 1, 2017 and 36.5% for the twenty-six weeks ended June 25, 2016. The effective tax rate decreased primarily due to increased benefits from stock compensation expenses in accordance with our adoption of ASU No. 2016-09 which were partially offset by higher provisions for state income taxes.

Liquidity and Capital Resources

Historically, our primary sources of liquidity have been our invested cash and the cash flow we generate from our operations, including accounts receivable sales programs provided by our customers. Cash and cash equivalents at July 1, 2017 decreased to \$129.2 million from \$149.1 million at December 31, 2016. Working capital was

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\$453.4 million at July 1, 2017 compared to \$447.8 million at December 31, 2016. Shareholders' equity was \$624.6 million at July 1, 2017 and \$601.6 million at December 31, 2016. 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. However, our liquidity could be negatively affected by extending payment terms to customers, a decrease in demand for our products, or other factors.

Table of Contents

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 flows. 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. During the twenty-six weeks ended July 1, 2017 and June 25, 2016, we sold approximately \$299.1 million and \$257.8 million, respectively, under these programs. We had the ability to sell significantly more accounts receivable under these programs if the needs of the business warranted. 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 sales of accounts receivable.

In June 2017, we amended our \$30 million revolving credit facility to extend the expiration to June 2018. Borrowings under the facility are on an unsecured basis with interest rates ranging from LIBOR plus 65 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 July 1, 2017 was LIBOR plus 65 basis points (1.88%). There were no borrowings under the facility as of July 1, 2017. As of July 1, 2017, we had two outstanding letters of credit for approximately \$0.8 million in the aggregate which were issued to secure ordinary course of business transactions. Net of these letters of credit, we had approximately \$29.2 million available under the facility at July 1, 2017. The credit agreement also contains covenants, the most restrictive of which pertain to net worth and the ratio of debt to EBITDA. As of July 1, 2017, we were 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)	Twenty-six Weeks Ended	
	July 1, 2017	June 25, 2016
Cash provided by operating activities	\$ 41,923	\$ 36,544
Cash used in investing activities	(25,059)	(10,118)
Cash used in financing activities	(36,777)	(17,188)
Net (decrease) increase in cash and cash equivalents	\$ (19,913)	\$ 9,238

During the twenty-six weeks ended July 1, 2017, cash provided by operating activities was \$41.9 million primarily as a result of \$57.6 million in net income, non-cash adjustments to net income of \$9.1 million and a net increase in operating assets and liabilities of \$24.8 million. Compared to the Consolidated Balance Sheet at December 31, 2016, inventory increased \$29.7 million due to higher inventory purchases to support customer order fill rates. Accounts payable increased by \$18.2 million due to the increase in inventory and timing of payments to our vendors. Other assets and liabilities, net, increased by \$13.3 million primarily due to decreases in accrued income taxes and accrued compensation.

During the twenty-six weeks ended June 25, 2016, cash provided by operating activities was \$36.5 million primarily as a result of \$50.7 million in net income, non-cash adjustments to net income of \$11.2 million and a net increase in operating assets and liabilities of \$25.4 million. Accounts receivable increased \$13.9 million due to increased net

sales, which were partially offset by sales of accounts receivable. Inventory decreased \$14.8 million due to lower inventory purchases and increased net sales. Accounts payable decreased by \$11.4 million due to lower inventory purchases. Other liabilities decreased by \$10.3 million due to a decrease in the income taxes payable and a decrease in accrued customer rebates.

Investing activities used \$25.1 million of cash in the twenty-six weeks ended July 1, 2017 and \$10.1 million in the twenty-six weeks ended June 25, 2016.

Capital spending in the twenty-six weeks ended July 1, 2017 was primarily related to \$5.2 million in tooling associated with new products and \$4.2 million in enhancements and upgrades to our information systems.

Capital spending in the twenty-six weeks ended June 25, 2016 was primarily related to \$5.0 million in tooling associated with new products and \$2.6 million in enhancements and upgrades to our information systems.

Additionally, during the twenty-six weeks ended July 1, 2017, we used \$3.1 million to acquire certain assets of Ingalls Engineering Co., Inc. and \$10.0 million to acquire a minority equity interest in a supplier.

The remaining capital spending in both periods resulted from scheduled equipment replacements, certain facility improvements and other capital projects.

Table of Contents

Financing activities used \$36.8 million of cash in the twenty-six weeks ended July 1, 2017 and \$17.2 million in the twenty-six weeks ended June 25, 2016.

In the twenty-six weeks ended July 1, 2017, we paid \$35.0 million to repurchase 439,485 common shares. In the twenty-six weeks ended June 25, 2016, we paid \$16.1 million to repurchase 329,666 common shares.

The remaining sources and uses of cash from financing activities in each period result from stock compensation plan activity and the repurchase of common stock from our 401(k) Plan.

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 twenty-six weeks ended July 1, 2017, we experienced no material changes to our contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Foreign Currency Fluctuations

In fiscal 2016, approximately 77% 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 U.S. Dollar and various foreign currencies between the time of execution of the purchase order and payment for the product. To the extent that the U.S. Dollar changes in value relative to foreign currencies in the future, the price of the product for new purchase orders may change in equivalent U.S. Dollars.

The largest portion of our overseas purchases comes from China. The Chinese Yuan to U.S. Dollar exchange rate has fluctuated over the past several years. Any future changes in the value of the Chinese Yuan relative to the U.S. Dollar may result in a change 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 commodities that are used in our products has fluctuated over time resulting in increases and decreases in the cost 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 sourcing purchases from other countries. However there can be no assurance that we will be successful in these efforts.

New and Recently Adopted Accounting Pronouncements

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

Table of Contents

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 available credit 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 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. A one percentage point increase in LIBOR or the discount rates under the accounts receivable sales programs 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 \$3.7 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 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 July 1, 2017 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 July 1, 2017.

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, intellectual property infringement, 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 the Company and we believe the range of reasonably possible losses from current matters is 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 31, 2016, 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 July 1, 2017, 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)
April 2, 2017 through April 29, 2017	152,100	\$ 78.68	152,100	\$ 128,430,202
April 30, 2017 through May 27, 2017	68,414	\$ 81.78	61,700	\$ 123,384,984
May 28, 2017 through July 1, 2017	87,808	\$ 80.14	86,785	\$ 116,430,701
Total	308,322	\$ 79.79	300,585	\$ 116,430,701

- (1) Includes 5,460 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 2,278 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. Through several expansions and extensions, our Board of Directors expanded the program up to \$250 million and extended the program through December 31, 2018. 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 300,585 shares under this program during the twenty-six weeks ended July 1, 2017.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Table of Contents

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.

Table of Contents

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.

August 3, 2017

/s/ Mathias J. Barton
Mathias J. Barton
President and Chief Executive Officer
(principal executive officer)
August 3, 2017

/s/ Kevin M. Olsen
Kevin M. Olsen
Executive Vice President and
Chief Financial Officer
(principal financial and accounting officer)

Table of Contents

EXHIBIT INDEX

- 3.1 Amended and Restated Article of Incorporation, as amended, of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, as filed with the Commission on May 19, 2017).
- 3.2 Amended and Restated Bylaws, as amended, of the Registrant (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K, as filed with the Commission on May 19, 2017).
- 10.3.5 Amendment No. 5 to the Third Amended and Restated Credit Agreement, dated as of June 27, 2017, by and between the Company and Wells Fargo Bank, National Association, (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, as filed with the Commission on June 28, 2017).
- 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 July 1, 2017, 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.