Dorman Products, Inc.
Form 10-K
February 26, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2018

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	23-2078856
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

3400 East Walnut Street, Colmar, Pennsylvania 18915

(Address of principal executive offices) (Zip Code)

(215) 997-1800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, $0.01 Par Value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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	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 February 18, 2019 the registrant had 32,994,991 shares of common stock, $0.01 par value, outstanding. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2018 was $1,588,586,757.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement, in connection with its Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days after December 29, 2018, are incorporated by reference into Part III of this Annual Report on Form 10-K

DORMAN PRODUCTS, INC.

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DECEMBER 29, 2018

The Company’s fiscal year ends on the last Saturday of the calendar year.

References to	Refers to the year ended
Fiscal 2014	December 27, 2014
Fiscal 2015	December 26, 2015
Fiscal 2016	December 31, 2016
Fiscal 2017	December 30, 2017
Fiscal 2018	December 29, 2018

PART I

Item 1. Business.

General

Dorman Products, Inc. was incorporated in Pennsylvania in October 1978. As used herein, unless the context otherwise requires, “Dorman”, the “Company”, “we”, “us”, or “our” refers to Dorman Products, Inc. and its subsidiaries.

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. As of December 29, 2018, we marketed approximately 77,000 unique parts as compared to approximately 70,000 as of December 30, 2017, many of which we designed and engineered. Unique parts exclude private label stock keeping units (“SKU’s”) and other variations in how we market, package and distribute our products, but include unique parts of acquired companies. We believe we are a leading aftermarket supplier of original equipment “dealer exclusive” items. Original equipment “dealer exclusive” items are those which were traditionally available to consumers only from original equipment manufacturers or used parts from salvage yards and include, among other parts, intake manifolds, exhaust manifolds, window regulators, radiator fan assemblies, tire pressure monitor sensors, exhaust gas recirculation (EGR) coolers and complex electronics modules. Fasteners include such items as oil drain plugs, wheel bolts, and wheel lug nuts. Approximately 84% of our products are sold under brands that we own and the remainder of our products are sold for resale under customers' private labels, other brands or in bulk. Our products are sold primarily in the United States through automotive aftermarket retailers (such as Advance Auto Parts, Inc. (“Advance”), AutoZone, Inc. (“AutoZone”), and O'Reilly Automotive, Inc. (“O’Reilly”)), national, regional and local warehouse distributors (such as Genuine Parts Co. – NAPA (“NAPA”)) and specialty markets, and salvage yards. We also distribute automotive replacement parts internationally, with sales primarily into Canada and Mexico, and to a lesser extent, Europe, the Middle East, and Australia.

The Automotive Aftermarket

The automotive replacement parts market has two components: parts for passenger cars and light trucks, which accounted for projected industry sales of approximately $296.0 billion in 2018[1], and parts for medium and heavy duty trucks, which accounted for projected industry sales of approximately $96.4 billion in 2018[1]. We market products primarily for passenger cars and light trucks, including those with diesel engines and, since 2012, for medium and heavy duty trucks. Two distinct groups of end-users buy replacement vehicle (automotive and truck) parts: (i) individual consumers, who purchase parts to perform "do-it-yourself" repairs on their own vehicles; and (ii) professional installers, which include vehicle repair shops and the dealership service departments. The individual consumer market is typically supplied through retailers and through the retail arms of warehouse distributors. Vehicle repair shops generally purchase parts through local independent parts wholesalers and through national parts distributors. Automobile dealership service departments generally obtain parts through the distribution systems of vehicle manufacturers and specialized national and regional parts distributors.

Spending in the light vehicle aftermarket can be generally grouped into three categories: discretionary, maintenance, and repair. Discretionary, such as accessories and performance, tends to move in-line with consumer discretionary spending. Maintenance is composed of products and services, such as oil and oil changes, and tends to be less correlated with discretionary spending. The repair category consists mainly of replacement parts which fail over time and tends to be less cyclical as it is largely comprised of parts necessary for a vehicle to function properly or safely. The majority of our products fall into the repair category. The increasing complexity of automobiles and the number of different makes and models of automobiles have resulted in a significant increase in the number of products required to service the domestic and foreign automotive fleet. Accordingly, the number of parts required to be carried by retailers and wholesale distributors has increased substantially. The requirement to include more products in inventory and the significant consolidation among distributors of automotive replacement parts have in turn resulted in larger distributors.

[1] Source: 2019 Auto Care Association Factbook

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Retailers and others who purchase aftermarket automotive repair and replacement parts for resale are constrained to a finite amount of space in which to display and stock products. Thus, the reputation for quality, customer service, and line profitability which a supplier enjoys are significant factors in a purchaser's decision as to which product lines to carry in the limited space available. Further, because of the efficiencies achieved through the ability to order all or part of a complete line of products from one supplier (with possible volume discounts), as opposed to satisfying the same requirements through a variety of different sources, retailers and other purchasers of automotive parts seek to purchase products from fewer but stronger suppliers.

Brands and Products

The DORMAN® Products brand name is known as a leader in the automotive and heavy duty markets. DORMAN® is the parent brand covering a number of sub-brands within the DORMAN® portfolio.

A unique differentiator for the DORMAN® brand is our OE Fix sub-brand. OE Fix products can be found throughout our portfolio of sub-brands and feature extensive engineering to eliminate known OE failures or allows for the replacement of the part, not the assembly, saving time and money.

DORMAN® OE Solutions ™ - A wide variety of formerly “dealer only” replacement parts covering many product categories including fluid reservoirs, variable value timing components, complex electronics, and integrated door lock actuators.

DORMAN® HELP! ® - Broad assortment of formerly “dealer only” automotive replacement parts that are primarily sold in retail store fronts such as door handles, keyless remotes and cases and door hinge repair.

DORMAN® HD Solutions™ - A line of formerly “dealer only” heavy duty aftermarket parts for class 4-8 vehicles. These products are focused on lighting, cooling, engine management, and cab products.

DORMAN® Premium Chassis - A complete premium chassis line. DORMAN® Premium® offers leading low-friction technology found in today’s late model automobiles. DORMAN® Premium RD®, offers solutions for rugged duty and fleet applications. MAS® offers replacement chassis part solutions for everyday driving.

Other trade brands in the portfolio include: DORMAN FirstStop™, a complete offering of brake hardware products, DORMAN® ConductTite®, electrical components and DORMAN® AutoGrade™, application specific repair hardware.

We group our products into four major classes: power-train, automotive body, chassis, and hardware. The following table represents each of the four classes as a percentage of net sales for each of the last three fiscal years:

	Percentage of Net Sales Year Ended		
	December 29,	December 30,	December 31,
	2018	2017	2016
Power-train	40 %	41 %	41 %
Chassis	29 %	27 %	25 %
Automotive Body	26 %	27 %	29 %
Hardware	5 %	5 %	5 %
Total	100 %	100 %	100 %

Our power-train product line includes intake and exhaust manifolds, cooling products, harmonic balancers, fluid lines, fluid reservoirs, connectors, 4 wheel drive components and axles, drain plugs, and other engine, transmission and axle components. Our line of automotive body products include door handles and hinges, window lift motors, window regulators, switches and handles, wiper components, lighting, electrical, and other interior and exterior automotive body components. Chassis products include control arms, brake hardware and hydraulics, wheel and axle hardware, suspension arms, knuckles, links, bushings, and other suspension, steering, and brake components. Hardware products include threaded bolts, auto body and home fasteners, automotive and home electrical wiring components, and other hardware assortments and merchandise.

We warrant our products against certain defects in material and workmanship when used as designed on the vehicle on which it was originally installed. We offer a limited lifetime warranty on most of our products. Our warranty limits the customer’s remedy to the repair or replacement of the part that is defective.

Product Development

Product development and continuous innovation are central to our business. The development of a broad range of products, many of which are not conveniently or economically available elsewhere, has enabled us to grow to our present size and is an important driver to our future growth. Our product strategy has been to design and engineer products, many of which are better and easier to install and/or use than the original parts they replace and to commercialize automotive parts for the broadest possible range of uses. New product ideas are reviewed by our product management staff, as well as by members of the supply chain, sales, finance, marketing, legal, and administrative staffs. The following table represents the number of unique parts we introduced for each of the last three fiscal years:

	2018	2017	2016
New to the aftermarket	1,716	1,192	1,255
Line extensions (many of which are exclusive items)	3,827	2,887	2,965
Total unique parts introduced	5,543	4,079	4,220

Through careful evaluation of high failure-prone parts, exacting design and precise engineering, we are frequently able to offer products which fit a broader range of makes and models, as well as a wider range of application years than the original equipment parts they replace. One such innovation is our HVAC climate control module specifically designed to provide optimal performance at a more economical price than a dealer replacement part. Our product development included consolidating multiple year, make and model vehicle solutions, to reduce customer inventory complexity, with a direct replacement/fit of matching design to the original equipment part. The development process ensures ease of installation to save technician time. Extensive on-vehicle testing was conducted to confirm proper function across all vehicle applications.

Our new truck bed floor support system provides a time-saving and cost-efficient repair solution for rusted original bed supports across a number of truck platforms ranging from 1999-2018 models. There were limited viable solutions for repairing rusted truck bed floor and support components to deliver the required functionality for these vehicles. Dorman's direct replacement truck bed floor supports provide a superior economic solution by replacing only the failed original supports, instead of the entire truck bed assembly. Dorman’s truck bed floor support includes all necessary components needed for a complete installation.

Additionally, Dorman introduced a line of nitrogen oxide sensors which represent another new-to the-aftermarket solution which we have pioneered, leveraging a strong team of mechanical and software engineers to redesign this emission sensor to meet stringent, regulated EPA standards. We designed, developed and engineered an aftermarket solution to meet the needs of the end technician servicing diesel fueled vehicles. The NOx (Nitrogen Oxide) Sensor is a high-temperature sensor designed to detect NOx levels in diesel-fueled vehicles that must comply with state emissions regulations. As state emissions requirements become more demanding for diesel vehicles, it is imperative to have a quality sensor to notify the driver when high amounts of NOx levels are in the engine.

Ideas for expansion of our product lines arise through a variety of sources. We maintain an in-house product management staff that routinely generates ideas for new parts and the expansion of existing lines. Further, we maintain an "800" telephone number and an Internet site for "new product ideas" and receive, through our sales force, product development team, and our website, many ideas from our customers and end-users as to which types of presently unavailable parts the ultimate consumers are seeking.

Sales and Marketing

We market our products to three groups of purchasers who in turn supply individual consumers and professional installers. Our products are also available in our customer’s retail stores, on our customer’s websites, and through warehouse distributors. Based on net sales to our customers as of December 29, 2018:

(i) approximately 49% of our revenues were generated from sales to automotive aftermarket retailers (such as, Advance, AutoZone and O'Reilly), local independent parts wholesalers and national general merchandise chain retailers. We sell many of our products to virtually all major chains of automotive aftermarket retailers;

(ii) approximately 46% of our revenues were generated from sales to automotive parts distributors (such as NAPA), which may be local, regional or national in scope, and which may also engage in retail sales; and

(iii) the balance of our revenues (approximately 5%) are generated from international sales and sales to special markets, which include, among others, mass merchants (such as Wal-Mart), salvage yards and the parts distribution systems of parts manufacturers.

We use a number of different methods to sell our products. Our direct sales and sales support staff of over 80 people solicits purchases of our products directly from customers, as well as manages the activities of independent manufacturers’ representative agencies worldwide. We use independent manufacturers’ representative agencies to help service existing automotive retail, automotive and heavy duty parts distribution customers, providing frequent on-site contact. We increase sales by securing new customers, by adding new product lines and expanding product selection within existing customers.

Our sales efforts are not directed merely at selling individual products, but rather more broadly towards selling our entire product portfolio in an effort to make our customers a destination for new to the aftermarket products.

We prepare a number of on-line catalogs, application guides, digital marketing tools, training materials and videos designed to describe our products and other applications as well as to train our customers' sales teams in the promotion and sale of our products. Catalogs of all our parts are available on our website.

We currently service more than 2,500 active accounts. During fiscal 2018, fiscal 2017 and fiscal 2016, four customers (Advance, AutoZone, NAPA, and O'Reilly) each accounted for more than 10% of net sales and in the aggregate accounted for approximately 63% of net sales in fiscal 2018, 61% in fiscal 2017, and 60% in fiscal 2016.

Manufacturing and Procurement

Substantially all of our products are manufactured by third parties. We engage professional manufacturing firms around the world to develop and manufacture products according to our performance and design specifications, using tooling that we own. In fiscal 2018, as a percentage of our total dollar volume of purchases, approximately 23% of our products were purchased from various suppliers throughout the United States and the balance of our products were purchased directly from suppliers in a variety of foreign countries. Our global supplier network provides access to a broad array of manufacturing capabilities and technologies while limiting our dependency on any single source of supply. While our supplier selection and sourcing programs will continue to leverage our strategic manufacturing firms, for a substantial portion of our product portfolio, we also have qualified alternative sources available to provide additional support and capacity if needed. We make a concerted effort to build and nurture strong, healthy relationships with our suppliers. We purchase automotive products in substantial volumes from over 260 suppliers. For fiscal 2018, no single manufacturer accounted for more than 10% of total product purchases.

Packaging, Inventory and Shipping

Finished products are received at one or more of our facilities, depending on the type of part. It is our practice to inspect samples of shipments based upon supplier performance. If cleared, these shipments of finished parts are logged into our computerized production tracking systems and staged for packaging, if necessary.

We employ a variety of custom-designed packaging machines which include blister sealing, skin film sealing, clamshell sealing, bagging and boxing lines. Packaged product contains our label (or a private label), a part number, a universal packaging bar code suitable for electronic scanning, a description of the part and, if appropriate, installation instructions. Products are also sold in bulk to automotive parts manufacturers and packagers. Computerized tracking systems, mechanical counting devices and experienced workers combine to assure that the proper variety and numbers of parts meet the correct packaging materials at the appropriate places and times to produce the required quantities of finished products.

Packaged inventory is stocked in the warehouse portions of our facilities and is organized to facilitate the most efficient methods of retrieving product to fill customer orders. We strive to maintain a level of inventory to adequately meet current customer order demand with additional inventory to satisfy new customer orders and special programs.

We ship our products from each of our locations by contract carrier, common carrier or parcel service. Products are generally shipped to the customer's main warehouses for redistribution within their network. In certain circumstances, at the request of the customer, we ship directly to the customer's warehouses, stores or other locations either via smaller direct ship orders or consolidated store orders that are cross docked.

Competition

The replacement automotive parts industry is highly competitive. Various competitive factors affecting the automotive aftermarket are price, product quality, breadth of product line, range of applications and customer service. Substantially all of our products are subject to competition with similar products manufactured by other manufacturers of aftermarket automotive repair and replacement parts. Some of these competitors are divisions and subsidiaries of companies much larger than us, and possess a longer history of operations and greater financial and other resources than we do. We also face competition from automobile manufacturers who sell through their dealerships many of the same replacement parts that we sell, although these manufacturers generally sell parts only for cars they produce. Our customers may also be successful in sourcing some of our products directly from suppliers. Further, some of our private label customers also compete with us.

Seasonality

Our business is somewhat seasonal in nature, with the highest sales usually occurring in the spring and summer months. In addition, our business can be affected by weather conditions. Extremely hot or cold weather tends to enhance sales by causing automotive parts to fail at an accelerated rate.

Proprietary Rights

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While we take steps to register our trademarks and copyrights when possible, we believe that our business is not heavily dependent on such trademark and copyright registrations. Similarly, while we actively seek patent protection for the products and improvements which we develop, we do not believe that patent protection is critical to the success of our business. Rather, the quality, price, customer service and availability of our products is critical to our success.

Employees

As noted below, at December 29, 2018, we had 2,370 employees worldwide, essentially all of which were employed full-time. “Operations” consists of employees engaged in production, inventory and quality control. “Product Development” includes employees involved in product development and purchasing. “Quality and Engineering” consists of employees involved in internal and external quality management, manufacturing engineering, design, and testing. “Sales” includes employees employed in sales and customer service. “Administration” includes executive officers, finance, legal and human resources. The number of employees will be affected by planned and unplanned open positions at any point in time.

	2018		
	U.S.	Foreign	Total
Operations	1,506	104	1,610
Product Development	234	28	262
Quality and Engineering	134	16	150
Sales	104	15	119
Administration	218	11	229
Total Employees	2,196	174	2,370

None of our global employees are covered by a collective bargaining agreement. We consider our relations with our employees to be generally good.

Available Information

Our Internet address is www.dormanproducts.com. The information on this website is not and should not be considered part of this Form 10-K and is not incorporated by reference in this Form 10-K. This website is, and is only intended to be, for reference purposes only. We make available free of charge on or through our website our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the “SEC”). In addition, we will provide, at no cost, paper or electronic copies of our reports and other filings made with the SEC. Requests should be directed to: Dorman Products, Inc. - Office of General Counsel, 3400 East Walnut Street, Colmar, Pennsylvania 18915.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition or future results. The risks described below 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 affect our business, financial conditions or results of operations. The risks are listed below in no particular order.

We May Lose Business to Competitors.

Competition within the automotive aftermarket parts business is intense. We compete in North America with both original equipment parts manufacturers and with companies that, like us, supply parts only to the automotive aftermarket. We also face competition from automobile manufacturers who sell through their dealerships many of the same replacement parts that we sell. Our customers may also be successful in sourcing some of our products directly from suppliers. We expect such competition to continue. If we are unable to compete successfully in our industry, we could lose customers.

Unfavorable Economic Conditions May Adversely Affect Our Business.

Adverse changes in economic conditions, including inflation, recession, tariffs, or instability in the financial markets or credit markets may either lower demand for our products or increase our operational costs, or both. Such conditions may also materially impact our customers, suppliers and other parties with whom we do business. Our revenue will be adversely affected if demand for our products declines. The impact of unfavorable economic conditions may also impair the ability of our customers to pay for products they have purchased. As a result, reserves for doubtful accounts and write-offs of accounts receivables may increase and failure to collect a significant portion of amounts due on those receivables could have a material adverse effect on our results of operations and financial condition.

The Loss or Decrease in Sales Among One of Our Top Customers Could Have a Substantial Negative Impact on Our Sales and Operating Results.

A significant percentage of our sales has been, and is expected to be, concentrated among a relatively small number of customers. During fiscal 2018, fiscal 2017 and fiscal 2016, four customers (Advance, AutoZone, NAPA and O'Reilly) each accounted for more than 10% of net sales and in the aggregate accounted for approximately 63% of net sales in fiscal 2018, 61% in fiscal 2017, and 60% in fiscal 2016. We anticipate that this concentration of sales among these customers will continue in the future. The loss of a significant customer or a substantial decrease in sales to such a customer could have a material adverse effect on our sales and operating results.

Customer Consolidation in the Automotive Aftermarket May Lead to Customer Contract Terms Less Favorable to Us Which May Negatively Impact Our Financial Results.

The automotive aftermarket has been consolidating over the past several years. As a result of such consolidations, many of our customers have grown larger and therefore have more leverage in the arms-length negotiations of agreements with us for the sale of our products. Customers may require us to provide extended payment terms and returns of slow moving product in order to obtain new, or retain existing, business. While we attempt to avoid or minimize such concessions, in some cases payment terms to customers have been extended and returns of product have exceeded historical levels. The product returns primarily affect our profit levels while payment terms extensions generally reduce operating cash flow and require additional capital to finance our business. We expect both of these trends to continue for the foreseeable future.

Our Business May be Negatively Impacted By Foreign Currency Fluctuations and Our Dependence on Foreign Suppliers.

In fiscal 2018, approximately 77% of our products were purchased from suppliers in a variety of foreign countries. The products generally are purchased through purchase orders with the purchase price specified in U.S. Dollars. Accordingly, we 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 decreases in value relative to foreign currencies in the future, the price of the product in U.S. Dollars for new purchase orders may increase.

The largest portion of our overseas purchases are from China. However, the products generally are purchased through purchase orders with the purchase price specified in U.S. dollars. The Chinese Yuan to U.S. Dollar exchange rate has fluctuated over the past several years. Any future change in the value of the Chinese Yuan relative to the U.S. Dollar may impact the cost of products that we purchase from China.

As a result of the magnitude of our foreign sourcing, our business may be subject to various risks, including the following:

- uncertainty caused by the elimination of import quotas and the possible imposition of additional quotas or antidumping or countervailing duties, tariffs, or other retaliatory or punitive trade measures;
- imposition of duties, tariffs, taxes and other charges on imports;
- significant devaluation of the dollar against foreign currencies;
- restrictions on the transfer of funds to or from foreign countries;

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- political instability, military conflict or terrorism involving the United States or any of the countries where our products are manufactured or sold, which could cause a delay in transportation or an increase in costs of transportation, raw materials or finished product or otherwise disrupt our business operations; and
- disease, epidemics and health-related concerns could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny and embargoing of goods produced in infected areas.

If these risks limit or prevent us from acquiring products from foreign suppliers or significantly increase the cost of our products, our operations could be seriously disrupted until alternative suppliers are found, which could negatively impact our business.

Additionally, in 2017 we acquired a business based in Montreal, Canada, whose operations are conducted in both U.S. Dollar and Canadian Dollar currencies. Since our consolidated financial statements are denominated in U.S. dollars, amounts of assets, liabilities, net sales, and other revenues and expenses denominated in local currencies must be translated into U.S. dollars using exchange rates for the current period. As a result, foreign currency exchange rates and fluctuations in those rates could adversely impact our financial performance.

We Extend Credit to Our Customers Who May Be Unable to Pay In the Future.

We regularly extend credit to our customers. A significant percentage of our accounts receivable have been, and expected to continue to be concentrated among a relatively small number of automotive retailers and automotive parts distributors in the United States. Our five largest customers accounted for 79% of total accounts receivable as of December 29, 2018 and 85% of total accounts receivable as of December 30, 2017. Management continually monitors credit terms, credit limits, and the availability of credit insurance for these and other customers. If any of these customers were unable to pay, our business and financial condition could be adversely affected.

The Loss of a Key Supplier Could Lead to Increased Costs and Lower Profit Margins.

The majority of the products we sell are purchased from a number of foreign suppliers. If any of our key suppliers fail to meet our needs, it may not be possible to replace such supplier without a disruption in our operations. Furthermore, replacement of a key supplier is often at higher prices.

Limited Shelf Space May Adversely Affect Our Ability to Expand Our Product Offerings.

Since the amount of space available to a retailer and other purchasers of our products is limited, our products compete with other automotive aftermarket products, some of which are entirely dissimilar and otherwise non-competitive (such as car waxes and engine oil), for shelf and floor space. No assurance can be given that additional space will be available in our customers' stores to support any expansion of the number of products that we offer.

If We Do Not Continue to Develop New Products and Bring Them to Market, Our Business, Financial Condition and Results of Operations Could Be Materially Impacted.

The development and production of new products is often accompanied by design and production delays and related costs typically associated with the development and production of new products. While we expect and plan for such delays and related costs, we cannot predict with precision the time and expense required to overcome these initial problems so that the products comply with specifications. There is a risk that we may not be able to introduce or bring to full-scale production new products as quickly as we expected in our product introduction plans, which could have a material adverse effect on our business, financial condition, and results of operations.

We May Be Adversely Affected By Changes in Automotive Technology and Improvements in the Quality of New Vehicle Parts.

Our business and financial condition may be adversely impacted by changes in automotive technologies, such as vehicles powered by fuel cells or electricity. These factors could result in less demand for our products thereby causing a decline in our business, financial condition, and results of operations.

In addition, improvements in quality by original equipment manufacturers could adversely affect our business. Generally, if original equipment parts last longer, there could be less demand for our products.

Claims of Intellectual Property Infringement by Original Equipment Manufacturers Could Adversely Affect Our Business and Negatively Impact Our Ability to Develop New Products.

From time to time in the past we have been subject to claims that we are infringing the intellectual property of others. We currently are the subject of such claims and it is possible that others will assert infringement claims against us in the future. An adverse finding against us in these or similar intellectual property disputes may have a material adverse effect on our business, financial condition and results of operations if we are not able to successfully develop or license non-infringing alternatives. In addition, an unfavorable ruling in intellectual property litigation could subject us to significant liability, increased legal expense, and require us to cease developing or selling the affected products or using the affected works of authorship or trademarks. Any significant restriction that impedes our ability to develop and commercialize our products could have a material adverse effect on our business, financial condition and results of operations.

Quality Problems with Our Products Could Damage Our Reputation and Adversely Affect Our Business.

We have experienced, and in the future may experience, reliability, quality, or compatibility problems in products after their production and sale to customers. Product quality problems could result in damage to our reputation, loss of customers, a decrease in revenue, litigation, unexpected expenses, and a loss of market share. We have invested and will continue to invest in our engineering, design, and quality infrastructure in an effort to reduce these problems; however, there can be no assurance that we can successfully remedy all of these issues. To the extent we experience significant quality problems in the future, our business and results of operations may be negatively impacted.

Loss of Third-Party Transportation Providers Upon Whom We Depend or Increases in Fuel Prices Could Increase Our Costs or Cause a Disruption in Our Operations.

We depend upon third-party transportation providers for delivery of our products to us and to our customers. Strikes, slowdowns, transportation disruptions or other conditions in the transportation industry, including, but not limited to, shortages of vehicles or drivers, disruptions in rail service, port congestion, or increases in fuel prices, could increase our costs and disrupt our operations and our ability to service our customers on a timely basis.

Unfavorable Results of Legal Proceedings Could Materially Adversely Affect Us.

We are subject to various legal proceedings and claims that have arisen out of the ordinary course of our business which are not yet resolved and additional claims may arise in the future. Although we currently believe that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial position, legal claims and proceedings are subject to inherent uncertainty and our view on these matters may change in the future. Regardless of merit, litigation may be both time-consuming and disruptive to our operations and cause significant expense and diversion of management attention. Should we fail to prevail in certain matters, we may be faced with significant monetary damages or injunctive relief that would materially adversely affect our business and financial condition and operating results.

Dorman’s Executive Chairman and His Family Members Own a Significant Portion of the Company.

As of February 18, 2019, Steven L. Berman, our Executive Chairman, and his family members beneficially own approximately 18% of the Company's outstanding common stock. As such, Mr. Berman and his family members can influence matters requiring approval of shareholders, including the election of the Board of Directors and the approval of significant transactions. Such concentration of ownership may have the effect of delaying, preventing or deterring a change in control of the Company, could deprive shareholders of an opportunity to receive a premium for their common stock as part of a sale of the Company and might ultimately affect the market price of our common stock.

Our Operations, Revenues and Operating Results, and the Operations of Our Third Party Manufacturers, Suppliers and Customers, may be Subject to Quarter to Quarter Fluctuations and Disruptions from Events Beyond Our or Their Control.

Our operations, revenues and operating results, as well as the operations of our third party manufacturers, suppliers and customers, may be subject to quarter to quarter fluctuations and disruptions from a variety of causes outside of our or their control, including work stoppages, market volatility, fuel prices, acts of war, terrorism, cyber incidents, pandemics, fire, earthquake, flooding, changes in weather patterns, weather or seasonal fluctuations or other climate-based changes, including hurricanes or tornadoes, or other natural disasters. If a major disruption were to occur at our operations or the operations of our third party manufacturers, suppliers or customers, it could result in harm to people or the natural environment, delays in shipments of products to customers or suspension of operations, any of which could have a material adverse effect on our business, revenues and operating results.

We rely extensively on our computer systems to manage inventory, process transactions and timely provide products to our customers. Our systems are subject to damage or interruption from power outages, telecommunications failures, computer viruses, security breaches, cyber-attacks or other catastrophic events. If our systems are damaged or fail to function properly, we may experience loss of critical data and interruptions or delays in our ability to manage inventories or process customer transactions. Such a disruption of our systems could negatively impact revenue and potentially have a negative impact on our results of operations, financial condition and cash flows.

Regulations Related to Conflict Minerals Could Adversely Impact Our Business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as “conflict minerals”, originating from the Democratic Republic of Congo (“DRC”) and adjoining countries. These rules could adversely affect the sourcing, supply, and pricing of materials used in our products, as the number of suppliers who provide conflict-free minerals may be limited. We may also suffer reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free or if we are unable to modify our products to avoid the use of such materials. We may also face challenges in satisfying customers who may require that our products be certified as containing conflict-free minerals.

Cyber-attacks or Other Breaches of Information Technology Security Could Adversely Impact Our Business and Operations.

Cyber-attacks or other breaches of network or information technology security may cause equipment failure or disruption to our operations. Such attacks, which include the use of malware, encryption, computer viruses and other means for disruption or unauthorized access, on companies have increased in frequency, scope and potential harm in recent years We take preventive actions to reduce the risk of cyber incidents and protect our information technology and networks, however, such preventative actions may be insufficient to repel a major cyber-attack in the future. To the extent that any disruption or security breach results in a loss or damage to our data or unauthorized disclosure of confidential information, it could cause significant damage to our reputation, affect our relationship with our customers, suppliers and employees, and lead to claims against us and ultimately harm our business. Additionally, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Imposition of New Taxes or Customs Duties on Our Products Could Adversely Affect Our Business.

In fiscal 2018, approximately 77% of our products were purchased from suppliers in a variety of foreign countries. Due to economic and political conditions, tax and duty rates on imported goods may be subject to significant change. The imposition or proposed imposition of new or increased taxes or duties on our products could increase the cost of our products or reduce overall consumption of our products, or both, particularly if tax or duty levels increased substantially relative to those for products manufactured in the United States. The imposition of new taxes on our products or any substantial increase in duty rates on our products could adversely affect our business, financial condition or results of operations.

We are Exposed To Risks Related to Accounts Receivable Sales Agreements.

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. The termination of these agreements could have a material adverse effect on our operating results and operating cash flow. Additionally, the interest rates of these agreements are tied to LIBOR. Increases in LIBOR could have a material adverse effect on our financial condition, results of operations and operating cash flows.

The Market Price of Our Common Stock May Be Volatile and Could Expose Us to Securities Class Action Litigation.

The stock market and the price of our common stock may be subject to wide fluctuations based upon general economic and market conditions. The market price for our common stock may also be affected by our ability to meet analysts' expectations. Failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock. In addition, stock market volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies. Downturns in the stock market may cause the price of our common stock to decline.

Following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Losing the Services of Our Executive Officers or Other Highly Qualified and Experienced Contributors Could Adversely Affect Our Business.

Our future success depends upon the continued contributions of our executive officers and senior management, many of whom have numerous years of experience and would be extremely difficult to replace. We must also attract and maintain experienced and highly skilled engineering, sales and marketing, finance, logistics, and operations personnel. Competition for qualified personnel is often intense, and we may not be successful in hiring and retaining these people. If we lose the services of these key contributors or cannot attract and retain other qualified personnel, our business could be adversely affected.

Our growth may be impacted by acquisitions. We may not be able to identify suitable acquisition candidates, complete acquisitions or integrate acquisitions successfully.

We may not be able to identify suitable acquisition candidates, complete acquisitions, or integrate acquisitions successfully. Our future growth is likely to depend to some degree on our ability to acquire and successfully integrate new businesses. We may seek additional acquisition opportunities, both to further diversify our businesses and to penetrate or expand important product offerings or markets. There are no assurances, however, that we will be able to successfully identify suitable candidates, negotiate appropriate terms, obtain financing on acceptable terms, complete proposed acquisitions, successfully integrate acquired businesses, or expand into new markets. Once acquired, operations may not achieve anticipated levels of revenues or profitability. Acquisitions involve risks, including difficulties in the integration of the operations, technologies, services and products of the acquired companies and the diversion of management's attention from other business concerns. Although our management will endeavor to evaluate the risks inherent in any particular transaction, there are no assurances that we will properly ascertain all such risks. Difficulties encountered with acquisitions may have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

Facilities

As of December 29, 2018 we have 21 warehouse and office facilities located throughout the United States, Canada, China, Taiwan and India.

Two of these facilities are owned and the remainder are leased. Our principal facilities are as follows:

Location	Description	Size		Ownership
Colmar, PA	Corporate Headquarters Warehouse and office	342,000	sq. ft.	Leased (1)
Portland, TN	Warehouse and office	815,670	sq. ft.	Leased
Warsaw, KY	Warehouse and office	710,500	sq. ft.	Owned
Portland, TN	Warehouse and office	581,500	sq. ft.	Leased
Lewisberry, PA	Warehouse and office	163,000	sq. ft.	Leased
Louisiana, MO	Warehouse and office	90,000	sq. ft.	Owned
Montreal, Quebec, Canada	Warehouse and office	87,900	sq. ft.	Leased (2)
Sanford, NC	Warehouse and office	52,000	sq. ft.	Leased
Shanghai, China	Office	16,000	sq. ft.	Leased

(1) We lease the Colmar facility from a partnership of which Steven L. Berman, Executive Chairman, and his family members are partners. Under this lease agreement we paid rent of $4.61 per square foot ($1.6 million per year) in fiscal 2018. The rent payable will be adjusted on January 1 of each year to reflect annual changes in the Consumer Price Index for All Urban Consumers - U.S. City Average, All Items. This lease was renewed during November 2016, effective as of January 1, 2018, and will expire on December 31, 2022. In the opinion of the Audit Committee of our Board of Directors, the terms of this lease were no less favorable than those which could have been obtained from an unaffiliated party when the lease was renewed during November 2016.

(2) We lease the Montreal facility from a corporation of which an employee and his family members are owners. Under this lease agreement we began paying rent of $7.55 per square foot ($0.7 million per year) in October 2017. This lease will expire on February 28, 2019. We are in the process of transferring the distribution activities of this facility to our Portland, TN facility.

Item 3. 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 4. Mine Safety Disclosures.

Not Applicable

Item 4.1. Executive Officers of the Registrant.

Executive Officers of the Registrant.

The following table sets forth certain information with respect to our executive officers:

Name	Age	Position with the Company
Steven L. Berman	59	Executive Chairman, Secretary and Treasurer
Kevin M. Olsen	47	President and Chief Executive Officer
Jeffrey L. Darby	51	Senior Vice President, Sales and Marketing
Michael B. Kealey	44	Executive Vice President, Commercial
Michael P. Ginnetti	42	Corporate Controller and Interim Chief Financial Officer

Steven L. Berman became the Executive Chairman of the Company on September 24, 2015. Additionally, Mr. Berman has served as a director of the Company and as Secretary and Treasurer of the Company since its inception in 1978. From January 30, 2011 to September 24, 2015, Mr. Berman served as Chairman of the Board and Chief Executive Officer of the Company and from October 24, 2007 to January 30, 2011, Mr. Berman served as President of the Company. Prior to October 24, 2007, Mr. Berman served as Executive Vice President of the Company.

Kevin M. Olsen joined the Company in June 2016 as Senior Vice President and Chief Financial Officer. He became Executive Vice President in June 2017, President and Chief Operating Officer in August of 2018 and President and Chief Executive Officer on January 1, 2019. Prior to joining the Company, Mr. Olsen was Chief Financial Officer of Colfax Fluid Handling, a division of Colfax Corporation, a diversified global manufacturing and engineering company that provides gas and fluid-handling and fabrication technology products and services to commercial and governmental customers around the world, from January 2013 through June 2016. Prior to joining Colfax, he served in progressively responsible management roles at the Forged Products Aero Turbine Division of Precision Castparts Corp, Crane Energy Flow Solutions, a division of Crane Co., Netshape Technologies, Inc., and Danaher Corporation. Prior thereto, Mr. Olsen was employed by PwC, LLP.

Jeffrey L. Darby joined the Company in November 1998 as a National Account Manager. He became Senior Vice President, Sales and Marketing in February 2011. He previously held the positions of Group Vice President from 2008 to 2010 and Vice President of Sales – Traditional and Key Accounts from 2006 to 2008. Prior to joining the Company, Mr. Darby worked for Federal Mogul Corporation/Moog Automotive, an automotive parts supplier, beginning in 1990.

Michael B. Kealey joined the Company in November 2002, as a Product Manager. He became Executive Vice President, Commercial in June 2017. He previously held the positions of Senior Vice President, Product from February 2011 through May 2017, Vice President – Product from January 2007 through January 2011, and Director – Product Management from April 2003 through December 2006. Prior to joining the Company, Mr. Kealey was employed by Eastern Warehouse Distributors, Inc., a distributor of automotive replacement parts, most recently as Vice President – Purchasing.

Michael P. Ginnetti is serving as Interim Chief Financial Officer from August 2018 through February 2019. Mr. Ginnetti currently also serves as Vice President, Corporate Controller of the Company. He has served in this position since May 2011. Prior to joining the Company, Mr. Ginnetti was employed by Technitrol, Inc., an electronic components manufacturer, from 2001 to 2011, most recently as Corporate Controller and Chief Accounting Officer. Previously, he was employed by Arthur Andersen LLP in the Audit and Business Advisory practice.

On February 19, 2019, we announced that David M. Hession was appointed to serve as our Senior Vice President and Chief Financial Officer, effective as of March 1, 2019. Mr. Hession, 50, was Vice President, Chief Financial Officer of Johnsonville, LLC, a privately held manufacturer of sausage and other protein products, from May 2013 through January 2019. Prior to joining Johnsonville, he served in progressively responsible management roles at McCormick & Company, Inc., Tradeout, Inc., and Xylum Corporation. Prior thereto, Mr. Hession performed management consulting work at Ernst & Young, LLP and Peterson Consulting LP.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Our shares of common stock are traded publicly on the NASDAQ Global Select Market under the ticker symbol “DORM”. At February 18, 2019 there were 212 holders of record of our common stock.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of future dividends will be at the discretion of our board of directors and will depend upon, among other things, our earnings, financial condition, capital requirements, level of indebtedness, and other factors that our board of directors deems relevant.

For the information regarding our equity compensation plans, see Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.”

Stock Performance Graph. Below is a line graph comparing the cumulative total shareholder return for our common stock with the cumulative total shareholder return for the Automotive Parts & Accessories Peer Group of the Morningstar Group Index (formerly Hemscott Group Index) and the NASDAQ Composite Market Index for the period from December 28, 2013 to December 29, 2018. The Automotive Parts & Accessories Peer Group is comprised of 142 public companies and the information was furnished by Morningstar, Inc. through Zacks Investment Research, Inc. The graph assumes $100 invested on December 28, 2013 in our common stock and each of the indices, and that dividends were reinvested when and as paid. In calculating the cumulative total shareholder returns, the companies included are weighted according to the stock market capitalization of such companies.

Stock Repurchases

During the last thirteen weeks of the fiscal year ended December 29, 2018, we purchased shares of our common stock as follows:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2)
September 30, 2018 through October 27, 2018	123,389	$ 70.16	121,000	$ 184,440,534
October 28, 2018 through November 24, 2018	16,036	$ 77.12	14,736	$ 183,316,391
November 25, 2018 through December 29, 2018	4,440	$ 84.16	—	$ 183,316,391
Total	143,865	$ 71.37	135,736	$ 183,316,391

(1) Includes 2,009 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. Also includes 6,120 shares purchased from the Dorman Products, Inc. 401(k) Plan and Trust (as described in Note 13, Capital Stock, to the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K).

(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 has expanded the program to $400 million and extended the program through December 31, 2020. 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 622,223 and 1,006,365 shares under this program during the fiscal years ended December 29, 2018 and December 30, 2017, respectively.

Item 6. Selected Financial Data.

	Fiscal year ended (1)				
(in thousands, except per share data)	December 29,	December 30,	December 31,	December 26,	December 27,

	2018	2017	2016	2015	2014
Statement of Operations Data:					
Net sales	$973,705	$ 903,221	$ 859,604	$ 802,957	$ 751,476
Income from operations	171,143	176,240	168,601	146,157	140,734
Net income	$133,602	$ 106,599	$ 106,049	$ 92,329	$ 89,987
Earnings per share					
Basic	$4.04	$ 3.14	$ 3.07	$ 2.60	$ 2.50
Diluted	$4.02	$ 3.13	$ 3.07	$ 2.60	$ 2.49
Balance Sheet Data:					
Total assets	$887,557	$ 765,924	$ 711,792	$ 621,865	$ 557,716
Working capital	$488,138	$ 422,068	$ 447,766	$ 380,063	$ 339,528
Long-term debt	$—	$ —	$ —	$ —	$ —
Dividends paid	$—	$ —	$ —	$ —	$ —
Shareholders' equity	$727,623	$ 634,807	$ 601,642	$ 518,036	$ 462,061

(1) We operate on a fifty-two, fifty-three week period ending on the last Saturday of the calendar year. The fiscal year ended December 31, 2016 was a fifty-three week period. All other fiscal years presented were fifty-two week periods.

Item 7. 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 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, 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, loss of key suppliers, space limitations on our customers’ shelves, delay in the development and design of new products, improvements in new vehicle quality, claims of intellectual property infringement, quality problems, loss of third-party transportation providers, unfavorable results of legal proceedings, concentration of ownership, 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, common stock market price volatility, loss of highly qualified Contributors, inability to acquire other businesses, 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.” You should not place an undue reliance on forward-looking statements. Such statements speak only to the date on which they are made and we undertake no obligation to update publicly or revise any forward-looking statements, regardless of future developments or the availability of new information.

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. As of December 29, 2018, we marketed approximately 77,000 unique parts as compared to approximately 70,000 as of December 30, 2017, many of which we designed and engineered. Unique parts exclude private label stock keeping units (“SKU’s”) and other variations in how we market, package and distribute our products, but include unique parts of acquired companies. Our products 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; national, regional and local warehouse distributors and specialty markets; and salvage yards. We also distribute automotive replacement parts outside the United States, with sales primarily into Canada and Mexico, and to a lesser extent, Europe, the Middle East, and Australia.

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

We operate on a fifty-two, fifty-three week period ended on the last Saturday of the calendar year. The fiscal years ended December 29, 2018 (“fiscal 2018”) and December 30, 2017 (“fiscal 2017”) were fifty-two week periods. The fiscal year ended December 31, 2016 (“fiscal 2016”) was a fifty-three week period.

Business Performance

We achieved record net sales and net income in fiscal 2018. Net sales increased 8% over fiscal 2017 levels to $973.7 million, while net income increased 25% to $133.6 million. Additionally, we generated $78.1 million of cash flows from operations and repurchased approximately $45.4 million of our outstanding common stock. Additionally, we acquired Flight Systems Automotive Group, LLC for $27.5 million. We believe our strong financial results have been driven by continued investments in new product development, a thoughtful approach to acquisitions, industry dynamics, and other economic factors.

New Product Development

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. As a result of these investments, we introduced 5,543 new products to our customers and end users in fiscal 2018, including 1,716 “New to the Aftermarket” SKU’s.

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, and, our product portfolio is focused on further developing Dorman’s leadership position in the category.

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 1,230 SKU’s in our medium and heavy duty product line. We will continue to invest aggressively in the medium and heavy duty product category.

Acquisitions

Our growth is also impacted by acquisitions. For example, in August 2018, we acquired Flight Systems Automotive Group LLC (“Flight Systems” or “Flight”). Additionally, in October 2017, we acquired MAS Automotive Distributors, Inc. (“MAS Industries” or “MAS”). We believe Flight and MAS are highly complementary to our business and growth strategy. We may acquire businesses in the future to supplement our financial growth, distribution capabilities, or product development resources.

Economic Factors

Vehicle owners operate their current vehicles longer than they did several years ago. As a result, owners perform necessary repairs and maintenance in order to keep those vehicles well maintained. According to data published by

Polk, a division of IHS Automotive, the average age of vehicles increased to 11.8 years as of October 2018 from 11.7 years as of October 2017 despite increasing new car sales. Additionally, the number of vehicles in operation in the United States continues to increase, growing 2.2% in 2018 to 285.7 million from 279.6 million in 2017. Approximately 48% of vehicles in operation are 11 years old or older. Vehicle scrappage rates have also decreased over the last several years. 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 0.3% as of November 2018 as compared to November 2017. Generally, as vehicles are driven more miles, the more likely it is that parts will fail. The combination of the factors above has accounted for a portion of our sales growth.

Competition among our customer base continues to increase. 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.

Foreign Currency

Our acquisition of MAS increases our exposures to foreign currencies. MAS is headquartered in Montreal, Canada, and its financial transactions occur in both U.S. Dollars and Canadian Dollars. Since our consolidated financial statements are denominated in U.S. Dollars, the assets, liabilities, net sales, and expenses of MAS which are denominated in currencies other than the U.S. Dollar must be converted into U.S. Dollars using exchange rates for the current period. As a result, fluctuations in foreign currency exchange rates may impact our financial results.

In fiscal 2018, approximately 77% of our products were purchased from suppliers in a variety of foreign countries. The products generally are purchased through purchase orders with the purchase price specified in U.S. Dollars. Accordingly, we 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. However, the cost of the products we procure is also affected by other factors including raw material availability, labor cost, transportation costs, and other factors.

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, capacity constraints, and other factors. 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.

Impact of Tariffs

Effective September 24th, the Office of the United States Trade Representative (USTR) imposed an additional tariff on approximately $200 billion worth of Chinese imports. The tariff was approximately 10% as of December 29, 2018. The tariffs enacted to date will increase the cost of many products that are manufactured for Dorman in China. We are taking several actions to fully mitigate the impact of the tariffs including, but not limited to, price increases to our customers and cost concessions from our suppliers. Although we expect to mitigate the impact of tariffs in fiscal 2019, we expect selling price increases associated with the tariffs to be fully offset by the higher tariffs incurred. Tariffs are not expected to have a material impact on our net income, but will lower our gross and operating profit percentages as these additional costs are passed through to customers.

Results of Operations

The following table sets forth, for the periods indicated, the dollar value and percentage of net sales represented by certain items in our Consolidated Statements of Operations:

	For the Fiscal Year Ended					
(in millions, except percentage data)	December 29, 2018*		December 30, 2017*		December 31, 2016*	
Net sales	$973.7	100.0%	$903.2	100.0%	$859.6	100.0%
Cost of goods sold	$600.4	61.7 %	$544.6	60.3 %	$521.5	60.7 %
Gross profit	$373.3	38.3 %	$358.6	39.7 %	$338.1	39.3 %
Selling, general and administrative expenses	$202.1	20.8 %	$182.4	20.2 %	$169.5	19.7 %
Income from operations	$171.1	17.6 %	$176.2	19.5 %	$168.6	19.6 %
Other (expense) income, net	$(0.0)	0.0 %	$0.3	0.0 %	$(0.2)	0.0 %
Income before income taxes	$171.1	17.6 %	$176.6	19.6 %	$168.4	19.6 %
Provision for income taxes	$37.5	3.9 %	$70.0	7.7 %	$62.3	7.2 %
Net income	$133.6	13.7 %	$106.6	11.8 %	$106.0	12.3 %

* Percentage of sales information does not add due to rounding

Fiscal Year Ended December 29, 2018 Compared to Fiscal Year Ended December 30, 2017

Net sales increased 8% to $973.7 million in fiscal 2018 from $903.2 in fiscal 2017. Our revenue growth was driven by overall strong demand for our products and the inclusion of revenue from acquired businesses. In fiscal 2018 approximately $48.3 million of net sales were attributed to acquisitions. Our growth was partially offset by the negative effects of a brand protection policy implemented in the fourth quarter of 2017.

Gross profit margin was 38.3% in fiscal 2018 compared to 39.7% in fiscal 2017. The decreased gross profit margin was primarily the result of the impact of acquisitions which carry lower gross margins compared to our historical levels. Additionally, 2018 gross profit margin was negatively impacted by a $2.0 million inventory fair value adjustment resulting from business acquisitions, lower overall selling prices and an unfavorable shift in mix towards lower margin products.

Selling, general and administrative expenses were $202.1 million, or 20.8% of net sales, in fiscal 2018 compared to $182.4 million, or 20.2% of net sales, in fiscal 2017. The increase in expense was primarily due to the inclusion of the expenses of acquired operations, amortization expense of acquired intangible assets, reinvestment of tax savings in product development and sales organizations, an increase in wage and benefit costs and increased costs associated with our accounts receivable sales program.

Our effective tax rate decreased to 21.9% in fiscal 2018 from 39.6% in fiscal 2017. The decrease was attributable to the Tax Cuts and Jobs Act enacted in the United States in December 2017, which lowered the U.S. Corporate federal income tax rate to 21% beginning in 2018.

Fiscal Year Ended December 30, 2017 Compared to Fiscal Year Ended December 31, 2016

Net sales increased 5% to $903.2 million in fiscal 2017 from $859.6 in fiscal 2016. Our revenue growth was driven by overall strong demand for our products which was partially offset by an additional week of sales in fiscal 2016. Additionally, the MAS acquisition accounted for approximately $7.0 million of sales in fiscal 2017.

Gross profit margin was 39.7% in fiscal 2017 compared to 39.3% in fiscal 2016. The increased gross profit margin was primarily due to a favorable sales mix towards higher margin products, leverage of costs across higher sales volume, and material price decreases which were partially offset by lower overall selling prices during fiscal 2017 compared to fiscal 2016. Additionally, 2017 gross profit margin was negatively impacted by inventory fair value adjustment related to MAS of $0.6 million.

Selling, general and administrative expenses were $182.4 million, or 20.2% of net sales, in fiscal 2017 compared to $169.5 million, or 19.7% of net sales, in fiscal 2016. The increase in expense was primarily due to higher variable costs associated with our 5% sales growth, $5.9 million of general wage and fringe inflation, $2.5 million of increased expenses related to the accounts receivable sales program, and $1.0 million of acquisition related costs. Provisions for doubtful accounts were $0.9 million less in fiscal 2017 compared to fiscal 2016, partially offsetting the increases noted above.

Our effective tax rate increased to 39.6% in fiscal 2017 from 37.0% in fiscal 2016. The increase was primarily attributable to increased provisions for state income taxes in fiscal 2017 compared to fiscal 2016 and approximately $4.4 million of expense resulting from the revaluation of net deferred tax assets due to the adoption of the Tax Cuts and Jobs Act.

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 certain customers. Cash and cash equivalents at December 29, 2018 decreased to $43.5 million from $71.7 million at December 30, 2017. Working capital was $488.1 million at December 29, 2018 compared to $422.1 million at December 30, 2017. Shareholders' equity was $727.6 million at December 29, 2018 and $634.8 million at December 30, 2017. 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.

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 have significantly impacted 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. However, these accounts receivable sales programs bear interest rates tied to LIBOR, therefore, as LIBOR rates increase our cost to sell our receivables also increases. During fiscal 2018 and fiscal 2017, we sold approximately $604.7 million and $582.9 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 sale of accounts receivable.

In December 2017, we entered into a credit agreement which will expire in December 2022. This agreement provides for an initial revolving credit facility of $100.0 million and gives us the ability to request increases of up to an incremental $100.0 million. This agreement replaces our previous $30.0 million credit agreement. Borrowings under the facility are on an unsecured basis with interest rates ranging from LIBOR plus 65 basis points to LIBOR plus 125 basis points based upon the ratio of consolidated funded debt to consolidated EBITDA, as defined by the credit agreement. The interest rate at December 29, 2018 was LIBOR plus 65 basis points (3.17%). The credit agreement also contains other covenants, including those related to the ratio of certain consolidated fixed charges to consolidated EBITDA, capital expenditures, and share repurchases, each as defined by the credit agreement. The new agreement also requires us to pay an unused fee of 0.10% on the average daily unused portion of the facility. As of December 29, 2018, we were in compliance with all financial covenants contained in the credit agreement. As of December 29, 2018, there were no borrowings under the facility and 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 $99.2 million available under the facility at December 29, 2018

Cash Flows

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

(in thousands)	December 29, 2018	December 30, 2017	December 31, 2016
Cash provided by operating activities	$ 78,112	$ 94,241	$ 121,539
Cash used in investing activities	(59,146)	(94,437)	(26,254)
Cash used in financing activities	(46,938)	(77,271)	(24,823)
Effect of exchange rate changes on cash and cash equivalents	(261)	37	-
Net (decrease) increase in cash and cash equivalents	$ (28,233)	$ (77,430)	$ 70,462

During fiscal 2018, cash provided by operating activities was $78.1 million primarily as a result of $133.6 million in net income, non-cash adjustments to net income of $31.2 million and a net increase in operating assets and liabilities of $86.7 million. Accounts receivable increased $66.4 million due to increased net sales which were partially offset by increased accounts receivable sales. Inventory increased $46.8 million due to higher inventory purchases to avoid potentially higher tariffs, to support new product launches and maintain customer fill rates as we consolidate facilities. Accounts payable increased by $27.0 million due to increased inventory and the timing of payments to our vendors. Other assets and liabilities, net, increased $0.4 million.

During fiscal 2017, cash provided by operating activities was $94.2 million primarily as a result of $106.6 million in net income, non-cash adjustments to net income of $30.4 million and a net increase in operating assets and liabilities of $42.7 million. Accounts receivable increased $5.7 million due to increased net sales and the timing of cash receipts at year end. Inventory increased $25.1 million due to higher inventory purchases to support new product launches and to improve customer fill rates. Accounts payable increased by $3.7 million due to increased inventory and the timing of payments to our vendors. Other assets and liabilities, net, increased $15.6 million primarily due to an increase in long-term core inventory and a decrease in customer rebates which we expect to settle in cash.

During fiscal 2016, cash provided by operating activities was $121.5 million primarily as a result of $106.0 million in net income, non-cash adjustments to net income of $17.6 million and a net increase in operating assets and liabilities of $2.1 million. Accounts receivable increased $27.8 million due to increased net sales and the timing of cash receipts at year end. Inventory decreased $24.9 million due to lower inventory purchases and the effects of several inventory management initiatives. Accounts payable increased by $8.7 million due to the timing of payments to our vendors. Other assets and liabilities, net, increased $7.8 million primarily due to an increase in long-term core inventory and a decrease in customer rebates which we expect to settle in cash.

Investing activities used $59.1 million of cash in fiscal 2018, $94.4 million of cash in fiscal 2017, and $26.3 million of cash in fiscal 2016.

- Capital spending in fiscal 2018 was primarily related to $8.5 million in tooling associated with new products, $6.8 million in enhancements and upgrades to our information systems and infrastructure, scheduled equipment replacements, certain facility improvements and other capital projects.
- Capital spending in fiscal 2017 was primarily related to $11.2 million in tooling associated with new products, $7.7 million in enhancements and upgrades to our information systems and infrastructure, scheduled equipment replacements, certain facility improvements and other capital projects.

- Capital spending in fiscal 2016 was primarily related to $10.6 million in tooling associated with new products, $5.2 million in enhancements and upgrades to our information systems, scheduled equipment replacements, certain facility improvements and other capital projects.
- During fiscal 2018, we used $27.5 million to acquire all of the outstanding equity of Flight Systems and $5.0 million to acquire a minority interest in a vehicle diagnostic tool developer. During fiscal 2017, we used $56.9 million to acquire the outstanding shares of MAS, $10.0 million to acquire a

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minority equity interest in a supplier, and $3.1 million to acquire certain assets of Ingalls Engineering Co., Inc. During fiscal 2016, we used $6.2 million to acquire a minority equity interest in a supplier.

Cash used in financing activities was $46.9 million in fiscal 2018, $77.3 million in fiscal 2017, and $24.8 million in fiscal 2016.

- On December 12, 2013 we announced that our Board of Directors authorized a share repurchase program. In fiscal 2018, we paid $43.4 million to repurchase 622,223 common shares. In fiscal 2017, we paid $74.7 million to repurchase 1,006,365 common shares. In fiscal 2016, we paid $22.5 million to repurchase 430,866 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.

Contractual Obligations and Commercial Commitments

We have obligations for future minimum rental and similar commitments under non-cancellable operating leases as well as contingent obligations related to outstanding letters of credit. These obligations as of December 29, 2018 are summarized in the tables below (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Operating leases	$47,786	$5,489	$10,388	$7,612	$ 24,297
	$47,786	$5,489	$10,388	$7,612	$ 24,297

	Amount of Commitment Expiration Per Period				
Other Commercial Commitments	Total Amount Committed	Less than 1 year	1-3 years	3-5 years	Thereafter
Letters of Credit	$825	$825	$ —	$ —	$ —
	$825	$825	$ —	$ —	$ —

We have excluded from the table above contingent consideration related to the acquisition of MAS due to the uncertainty of the amount of payment. As of December 29, 2018, the Company has accrued approximately $8.0 million which represents the fair value of the estimated payments which will become due if certain sales thresholds are achieved through December 2020, and will be paid out in 2021(see Note 3, Business Acquisitions and Investments, to the Consolidated Financial Statements included in this Annual Report on Form 10-K).

Additionally, we have excluded from the table above unrecognized tax benefits due to the uncertainty of the amount and period of payment. As of December 29, 2018, the Company has gross unrecognized tax benefits of $2.4 million (see Note 10, Income Taxes, to the Consolidated Financial Statements included in this Annual Report on Form 10-K).

Off-Balance Sheet Arrangements

Off-balance sheet arrangements are transactions, agreements, or other contractual arrangements with an unconsolidated entity for which we have an obligation to the entity that is not recorded in our consolidated financial statements. We historically have not utilized off-balance sheet financial instruments, and do not plan to utilize off-balance sheet arrangements in the future to fund our working capital requirements, operations or growth plans.

We may issue stand-by letters of credit under the revolving credit facility. Letters of credit totaling $0.8 million were outstanding at each of December 29, 2018 and December 30, 2017. Those letters of credit are issued primarily to satisfy the requirements of workers compensation, general liability and other insurance policies. Each of the outstanding letters of credit has a one-year term from the date of issuance.

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a material, current or future effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources. See "Contractual Obligations and Commercial Commitments" and Note 8, Operating Lease Commitments and Rent Expense, to the Consolidated Financial Statements included in this Annual Report on Form 10-K for information on our operating leases.

Related-Party Transactions

We have a non-cancelable operating lease for our primary operating facility from a partnership in which Steven L. Berman, our Executive Chairman, and his family members are partners. Total annual rental payments each year to the partnership under the lease arrangement was $1.6 million in each of fiscal 2018, fiscal 2017, and fiscal 2016. 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 November 2016.

Additionally, we have a non-cancelable operating lease for our Canadian operating facility with a corporation of which an employee and his family members are owners. Total rental payments to the corporation under the lease agreement were $0.7 million in fiscal 2018 and $0.1 million in fiscal 2017. We did not make any payments to the corporation in fiscal 2016. This lease will expire on February 28, 2019.

We are a partner in a joint venture with one of our suppliers and we own a minority interest in two other companies. Purchases from these companies, since we acquired our investment interests were $20.3 million in fiscal 2018 and $16.5 million in fiscal 2017 and $13.6 million in fiscal 2016.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon the Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. We regularly evaluate our estimates and judgments, including those related to allowance for doubtful accounts, revenue recognition, customer credits, inventories, long-lived assets, purchase accounting, and income taxes. Estimates and judgments are based upon historical experience and on various other assumptions believed to be accurate and reasonable under the circumstances. Actual results may differ materially from these estimates due to different assumptions or conditions. We believe the following critical accounting policies affect our more significant estimates and judgments used in the preparation of our Consolidated Financial Statements.

Allowance for Doubtful Accounts. The preparation of our financial statements requires us to make estimates of the collectability of our accounts receivable. We specifically analyze accounts receivable and historical bad debts, customer creditworthiness, current economic trends, available insurance coverage and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. A significant percentage of our accounts receivable has been, and is expected to continue to be, concentrated among a relatively small number of automotive retailers and warehouse distributors in the United States. Our five largest customers accounted for 79% of net accounts receivable as of December 29, 2018 and 85% of net accounts receivable as of December 30, 2017. A bankruptcy or financial loss associated with a major customer could have a material adverse effect on our sales and operating results.

Revenue Recognition and Allowance for Customer Credits. Revenue is recognized from product sales when goods are shipped, title and risk of loss and control have been transferred to the customer and collection is reasonably assured. We record estimates for cash discounts, product returns, promotional rebates, core return deposits and other discounts in the period of the sale ("Customer Credits"). The provision for Customer Credits is recorded as a reduction from gross sales and reserves for Customer Credits are shown as a reduction of accounts receivable. Accrued customer rebates which we expect to settle in cash are classified as other accrued liabilities. Actual Customer Credits have not differed materially from estimated amounts for each period presented. Amounts billed to customers for shipping and handling are included in net sales. Costs associated with shipping and handling are included in cost of goods sold.

Excess and Obsolete Inventory Reserves. We must make estimates of potential future excess and obsolete inventory costs. We provide reserves for discontinued and excess inventory based upon historical demand, forecasted usage, estimated customer requirements and product line updates. We maintain contact with our customer base in order to understand buying patterns, customer preferences and the life cycle of our products. Changes in customer requirements are factored into the reserves as needed.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets. Long-lived assets, including property, plant, and equipment and amortizable identifiable intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The impairment review is a two-step process. First, recoverability is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount exceeds the estimated undiscounted future cash flows, the second step of the impairment test is performed and an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill is reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of the goodwill may be impaired. In regards to the annual test, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. During fiscal 2018 and fiscal 2017, we assessed the qualitative factors which could affect the fair values of our reporting units and determined that it was not more likely than not that the fair values of each reporting unit was less than its carrying amount.

Purchase Accounting. The purchase price of an acquired business is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective fair market values, with any excess recorded as goodwill. Such fair market value assessments require judgements and estimates which may change over time and may cause the final amounts to differ materially from their original estimates. Any adjustments to fair value assessments are recorded to goodwill over the purchase price allocation period which cannot exceed twelve months.

Income Taxes. We follow the asset and liability method of accounting for deferred income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year and for the change in the deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We must make assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income taxes takes into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. Changes in tax laws or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our Consolidated Financial Statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset takes into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates.

New and Recently Adopted Accounting Pronouncements

Refer to Note 2, New and Recently Adopted Accounting Pronouncements, to the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K, which is incorporated herein.

Item 7A. 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 accounts receivable sale programs bear interest 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 the accounts receivable sale programs would affect the rate at which we could borrow funds thereunder. A one percentage point increase in LIBOR or the discount rates on the accounts receivable sale programs would have increased our interest expense on our variable rate debt, if any, and accounts receivable financing costs by approximately $3.8 million in each of fiscal 2018 and fiscal 2017. 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.

Historically we have not used, and currently 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 risks, or interest rate risks from the use of derivative instruments. We did not hold any foreign exchange forward contracts at December 29, 2018.

Item 8. Financial Statements and Supplementary Data.

Our financial statement schedule that is filed with this Annual Report on Form 10-K is listed in Part IV - Item 15, “Exhibits, Financial Statement Schedules.”

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Dorman Products, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Dorman Products, Inc. and subsidiaries (the Company) as of December 29, 2018 and December 30, 2017, the related consolidated statements of operations, shareholders' equity, and cash flows for each of the fiscal years in the three year period ended December 29, 2018, and the related notes and the consolidated financial statement schedule listed under Item 15(a)(2) (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the fiscal years in the three year period ended December 29, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditors since 2002.

Philadelphia, Pennsylvania

February 26, 2019

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended		
	December 29,	December 30,	December 31,
(in thousands, except per share data)	2018	2017	2016
Net sales	$973,705	$ 903,221	$ 859,604
Cost of goods sold	600,424	544,572	521,530
Gross profit	373,281	358,649	338,074
Selling, general and administrative expenses	202,138	182,409	169,473
Income from operations	171,143	176,240	168,601
Other (expense) income, net	(8)	348	(241)
Income before income taxes	171,135	176,588	168,360
Provision for income taxes	37,533	69,989	62,311
Net income	$133,602		