Dorman Products, Inc.
Form 10-Q
November 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 2007

or

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

For the transition period from ________________to ________________________

Commission File Number: 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)

Not Applicable

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

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

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

Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

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

As of November 1, 2007 the Registrant had 17,689,386 shares of common stock, $.01 par value, outstanding.

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 29, 2007

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(in thousands, except for share data)	For the Thirteen September 29, 2007
Net Sales	$ 83,174
Cost of goods sold	53,670
Gross profit	29,504
Selling, general and administrative expenses	19,853
Income from operations	9,651
Interest expense, net	512
Income before taxes	9,139
Provision for taxes	3,460
Net Income	$ 5,679
Earnings Per Share:	
Basic	$0.32
Diluted	$0.31
Average Shares Outstanding:	
Basic	17,695
Diluted	18,145

See accompanying notes to consolidated financial statements.

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(in thousands, except for share data)	For the Thirty-nine September 29, 2007
Net Sales	$ 243,263
Cost of goods sold	158,913
Gross profit	84,350
Selling, general and administrative expenses	57,863
Goodwill impairment	-
Income from operations	26,487
Interest expense, net	1,551
Income before taxes	24,936
Provision for taxes	9,427
Net Income	$ 15,509
Earnings Per Share:	
Basic	$0.88
Diluted	$0.86
Average Shares Outstanding:	
Basic	17,691
Diluted	18,130

See accompanying notes to consolidated financial statements.

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except for share data)	September 29, 2007	Dece
Assets	(unaudited)	
Current Assets:		
Cash and cash equivalents	$ 6,148	$
Accounts receivable, less allowance for doubtful accounts and customer credits of $28,677and $27,601	85,133	
Inventories	77,905	
Deferred income taxes	10,626	
Prepaids and other current assets	1,675	
Total current assets	181,487	1
Property, Plant and Equipment, net	26,353	
Goodwill	27,901	
Other Assets	1,015	
Total	$236,756	$2
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	$ 25,253	$
Accounts payable	19,509	
Accrued compensation	7,106	
Other accrued liabilities	4,315	
Total current liabilities	56,183	
Other Long-Term Liabilities	1,954	
Long-Term Debt	463	
Deferred Income Taxes	7,830	
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, par value $.01; authorized 25,000,000 shares; issued 17,699,164 and 17,705,499	177	
Additional paid-in capital	32,678	
Cumulative translation adjustments	4,206	
Retained earnings	133,265	1
Total shareholders' equity	170,326	1

Total	$236,756	$2

See accompanying notes to consolidated financial statements.

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

(in thousands)	For the Thi September 29, 2007
Cash Flows from Operating Activities:	
Net income	$15,509
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	5,752
Goodwill impairment	-
Provision for doubtful accounts	205
(Benefit) Provision for deferred income tax	(80)
Provision for non-cash stock compensation	365
Changes in assets and liabilities:	
Accounts receivable	(7,907)
Inventories	(7,104)
Prepaids and other current assets	(189)
Other assets	412
Accounts payable	6,580
Accrued compensation and other liabilities	(848)
Cash provided by operating activities	12,695
Cash Flows from Investing Activities:	
Property, plant and equipment additions	(4,061)
Business acquisition	(3,392)
Cash used in investing activities	(7,453)
Cash Flows from Financing Activities:	
Repayment of long-term debt obligations	(8,631)
Proceeds from promissory note	-
Net proceeds from revolving credit facility	5,100
Proceeds from exercise of stock options	121
Other stock related activity	123
Purchase and cancellation of common stock	(887)
Cash used in financing activities	(4,174)
Net Increase in Cash and Cash Equivalents	1,068
Cash and Cash Equivalents, Beginning of Period	5,080
Cash and Cash Equivalents, End of Period	$ 6,148

Supplemental Cash Flow Information	
Cash paid for interest expense	$ 1,591
Cash paid for income taxes	$ 10,053

See accompanying notes to consolidated financial statements.

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2007 AND
SEPTEMBER 30, 2006 (UNAUDITED)

1. Basis of Presentation

As used herein, unless the context otherwise requires, "Dorman", the "Company", "we", "us", or "our" refers to Dorman Products, Inc. and its subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. However, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the thirty-nine week period ended September 29, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 29, 2007. We may experience significant fluctuations from quarter to quarter in our results of operations due to the timing of orders placed by our customers. Generally, the second and third quarters have the highest level of customer orders, but the introduction of new products and product lines to customers may cause significant fluctuations from quarter to quarter. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 30, 2006.

2. Sales of Accounts Receivable

We have entered into several customer sponsored programs administered by unrelated financial institutions that permit us to sell, without recourse, certain accounts receivable at discounted rates to the financial institutions. We do not retain any servicing requirements for these accounts receivable. Transactions under these agreements are accounted for as sales of accounts receivable following the provisions of Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities - A Replacement of FASB Statement 125." At September 29, 2007 and December 30, 2006, $27.1 million and $18.5 million, respectively, of accounts receivable were sold and removed from the consolidated balance sheets. Selling, general and administrative expenses for the thirty-nine weeks ended September 29, 2007 and September 30, 2006 include $1.1million and $1.4 million, respectively, in financing costs associated with these accounts receivable sales programs.

3. Inventories

Inventories include the cost of material, freight, direct labor and overhead utilized in the processing of our products. Inventories were as follows:

(in thousands)	September 29, 2007	December 30, 2006
Bulk product	$29,214	$27,555
Finished product	45,793	37,407
Packaging materials	2,898	2,806
Total	$77,905	$67,768

Included in finished product is $0.5 million and $1.0 million in inventory held on consignment as of September 29, 2007 and December 30, 2006, respectively.

4. Goodwill

Goodwill activity during the thirty-nine week period ended September 29, 2007 is as follows (in thousands):

Balance, December 30, 2006	$26,958
Acquisition	802
Currency translation	141
Balance, September 29,2007	$27,901

In September 2007, we acquired certain assets including inventory and various intangible assets of the Consumer Products Division of Rockford Productions Corporation (Consumer Division) for $3.4 million. The consolidated results for the thirteen and thirty-nine week periods ended September 29, 2007 include the results of the Consumer Division effective September 10, 2007. We have not presented pro forma results of operations for the thirty-nine weeks ended September 29, 2007 and September 30, 2006, assuming the acquisition had occurred at the beginning of the respective periods as these results would not have been materially different than actual results for the periods. The goodwill recorded as a result of the acquisition will be revised upon the final determination of the purchase price allocation.

During the second quarter of fiscal year 2006, we assessed the value of the goodwill recorded at our Swedish subsidiary (Scan-Tech) as a result of a review of the Scan-Tech business in response to bad debt charge offs at two large customers and the resulting loss of those customers in the first half of the year. After completing the required analyses, we concluded that the goodwill balance existing at the subsidiary was impaired. Accordingly, an impairment charge of approximately $2.9 million, which represented the entire goodwill balance at the subsidiary, was recorded in the consolidated statements of operations. In addition, we recorded a $0.3 million charge to our provision for income taxes to write off deferred tax assets of the subsidiary which were deemed unrealizable.

5. Change in Vacation Policy

Effective December 31, 2006, we changed our vacation policy so that vacation is earned ratably throughout the year rather than at the end of the preceding year. This change will result in a reduction in our vacation accrual of approximately $1.8 million in 2007. As a result, vacation expense in cost of goods sold and selling, general and administrative expenses will be reduced during each of the fiscal quarters in 2007. Results for the three months and nine months ended September 29, 2007 include vacation expense reductions of $0.1 million and $0.3 million in cost of goods sold and $0.4 million and $1.0 million in selling, general and administrative expenses, respectively.

6. Stock-Based Compensation

Effective May 18, 2000 we amended and restated our Incentive Stock Option Plan (the "Plan"). Under the terms of the Plan, our Board of Directors may grant incentive stock options or non-qualified stock options or combinations thereof to purchase up to 2,345,000 shares of common stock to officers, directors and employees. Grants under the Plan must be made within 10 years of the plan amendment date and are exercisable at the discretion of the Board of Directors, but in no event more than 10 years from the date of grant. At September 29, 2007, options to acquire 342,001 shares were available for grant under the Plan.

Effective January 1, 2006, we adopted SFAS No. 123R "Share-Based Payment," and related interpretations and began expensing the grant-date fair value of employee stock options. We adopted SFAS No. 123R using the modified prospective transition method. Under this transition method, compensation cost associated with employee stock options recognized includes amortization related to the remaining unvested portion of stock option awards granted prior to January 1, 2006, and amortization related to new awards granted after January 1, 2006. In accordance with SFAS No. 123R, cash flows resulting from tax deductions in excess of compensation cost recognized in the financial statements is classified as financing cash flows.

Compensation cost is recognized on a straight-line basis over the vesting period during which employees perform related services. The compensation cost charged against income for our stock-based compensation program for each of the nine months ended September 29, 2007 and September 30, 2006 was $365,000 before taxes. The compensation cost charged against income in the third quarter of 2007 and 2006 was $115,000 and $122,000 before taxes, respectively. The compensation cost recognized is classified as selling, general and administrative expense in the consolidated statement of operations. No cost was capitalized during fiscal 2007 and 2006. We included a forfeiture assumption of 3.5% in 2007 and 2.5% in 2006 in the calculation of expense.

The fair value of options granted in 2006 was estimated using the Black-Scholes option valuation model that used the assumptions noted in the table below. There were no stock options granted during 2007. Expected volatility and expected dividend yield are based on the actual historical experience of our stock. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using the simplified method prescribed by the Securities and Exchange Commission Staff Accounting Bulletin No. 107. The risk-free rate is based on the U.S. Treasury security with terms equal to the expected time of exercise as of the grant date.

	2006
Expected dividend yield	0%
Expected stock price volatility	45%
Risk-free interest rate	4.5 %
Expected life of options	6.5 years

The weighted-average grant-date fair value of options granted during the first nine months of 2006 was $4.85 per option.

Transactions under the Plan were as follows:

	Shares	Weighted Average Price	Weight Aver Remaining T (In yea
Balance at December 30, 2006	981,950	$ 4.96	
Granted	-	-	
Exercised	(83,800)	1.42	
Canceled	(24,000)	10.60	
Balance at September 29, 2007	874,150	$ 5.14	5.2
Options exercisable at September 29, 2007	628,784	$ 3.44	4.4

The total intrinsic value of stock options exercised during 2007 was $919,000.

As of September 29, 2007, there was approximately $0.7 million of unrecognized compensation cost related to non- vested stock options, which is expected to be recognized over a weighted-average period of approximately 2.3 years.

Cash received from option exercises during 2007 was $121,000. The total tax benefit generated from options granted prior to January 1, 2006, which were exercised during 2007, was $282,000 and was credited to additional paid in capital.

7. Earnings Per Share

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

	Thirteen Weeks Ended		Thirty-nine W
(in thousands, except per share data)	Sept. 29, 2007	Sept. 30, 2006	Sep 2
Numerator:			
Net income	$.5,679	$ 4,549	$ 1
Denominator:			
Weighted average shares outstanding used in basic earnings per share calculation	17,695	17,708	1
Effect of dilutive stock options..................	450	439	

(in thousands, except per share data)	Thirteen Weeks Ended Sept. 29, 2007	Sept. 30, 2006	Thirty-nine W Sep 2
Adjusted weighted average shares outstanding diluted earnings per share.................	18,145	18,147	1
Basic earnings per share............................	$ 0.32	$ 0.26	$
Diluted earnings per share..........................	$ 0.31	$ 0.25	$

Options to purchase 158,500 and 193,500 shares were outstanding at September 29, 2007 and September 30, 2006, respectively, but were not included in the computation of diluted earnings per common share, as their effect would have been antidilutive.

8. Related-Party Transactions

We have entered into a noncancelable operating lease for our primary operating facility from a partnership in which Richard N. Berman, our Chief Executive Officer, and Steven L. Berman, our Executive Vice President, are partners. Based upon the terms of the lease, payments in 2007 will be $1.3 million. Total rental payments to the partnership under the lease arrangement were $1.3 million in 2006.

9. Income Taxes

We adopted the provisions of Financial Accounting Standards Board Interpretation No.48, "Accounting for Un- certainty in Income Taxes an interpretation of FASB Statement No. 109"("FIN 48") effective December 31, 2006. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of December 31, 2006, we had $1.2 million of net unrecognized tax benefits, which would affect our effective tax rate if recognized. At September 29, 2007, we have $1.2 million of net unrecognized tax benefits.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of September 29, 2007, we have approximately $194,000 of accrued interest related to uncertain tax positions.

The last year examined by the IRS was 2004, and all years up through and including that year are closed by examination. The tax years 2003-2006 remain open to examination by the remaining major taxing jurisdictions in the United States to which we are subject. The tax years 2002-2006 remain open to examination in Sweden for our Swedish subsidiary.

10. Comprehensive Income

Pursuant to the provisions of SFAS No. 130, "Reporting Comprehensive Income," comprehensive income includes all changes to shareholders' equity during a period, except those resulting from investment by and distributions to shareholders. Components of comprehensive income include net income and changes in foreign currency translation adjustments. Total comprehensive income was $6.6

million and $16.8 million for the thirteen and thirty-nine weeks ended September 29, 2007, respectively, and $4.4 million and $9.9 million for the thirteen and thirty-nine weeks ended September 30, 2006.

11. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurements. The provisions of SFAS No. 157 are to be applied prospectively and are effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating what effect, if any, adoption of SFAS No. 157 will have on our consolidated results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Companies are not allowed to adopt SFAS No. 159 on a retrospective basis unless they choose early adoption. We are currently evaluating what effect, if any, the adoption of SFAS No. 159 will have on our results of operations and financial position.

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward Looking Statements

Certain statements in this document constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. While forward-looking statements sometimes are presented with numerical specificity, they are based on various assumptions made by management regarding future circumstances over many of which the Company has little or no control. Forward-looking statements may be identified by words including "anticipate," "believe," "estimate," "expect," and similar expressions. The Company cautions readers that forward-looking statements, including, without limitation, those relating to future business prospects, revenues, working capital, liquidity, and income, are subject to certain risks and uncertainties that would cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ from forward-looking statements include but are not limited to competition in the automotive aftermarket industry, 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, dependence on senior management and other risks and factors identified from time to time in the reports the Company files with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. For additional information concerning factors that could cause actual results to differ materially from the information contained in this report, reference is made to the information in Part I, "Item 1A, Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

Overview

We are a leading supplier of Original Equipment (OE) Dealer "Exclusive" automotive replacement parts, automotive hardware, brake products, and household hardware to the automotive aftermarket and mass merchandise markets. Dorman automotive parts and hardware are marketed under the OE Solutions(TM), HELP!(R), Auto Grade(TM), First Stop(TM), Conduct-Tite(R), Pik-A-Nut(R), and Scan-Tech(TM) brand names. We design, package and market over 77,000 different automotive replacement parts (including brake parts), fasteners and service line products manufactured to our specifications. Our products are sold under one of the seven Dorman brand names listed above. Our products are sold primarily in the United States through automotive aftermarket retailers (such as AutoZone, Advance and O'Reilly), national, regional and local warehouse distributors (such as Carquest and NAPA) and specialty markets including parts manufacturers for resale under their own private labels and salvage yards. Through our Scan-Tech and Hermoff subsidiaries, we are increasing our international distribution of automotive replacement parts, with sales into Canada, Europe, the Middle East and the Far East.

The automotive aftermarket in which we compete has been growing in size; however, the market continues to consolidate. As a result, our customers regularly seek more favorable pricing, product returns and extended payment terms when negotiating with us. While we do our best to avoid such concessions, in some cases pricing concessions have been made, customer payment terms have been extended and returns of product have exceeded historical levels. The product returns and more favorable pricing primarily affect our profit levels while terms extensions generally reduce operating cash flow and require additional capital to finance the business. We expect both of these trends to continue for the foreseeable future. Gross profit margins have declined over the past two years as a result of this pricing pressure. Another contributing factor in our gross profit margin decline is a shift in mix to higher-priced, but lower gross margin products. Both of these trends are expected to continue for the foreseeable future. We have increased our focus on efficiency improvements and product cost reduction initiatives to offset the impact of price pressures.

In addition, we are relying on new product development as a way to offset some of these customer demands and as our primary vehicle for growth. As such, new product development is a critical success factor for us. We have invested heavily in resources necessary for us to increase our new product development efforts and to strengthen our relationships with our customers. These investments are primarily in the form of increased product development resources and awareness programs, customer service improvements and increased customer credits and allowances. This has enabled us to provide an expanding array of new product offerings and grow our revenues.

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

We operate on a fifty-two, fifty-three week period ending on the last Saturday of the calendar year.

Acquisition of Certain Assets of the Consumer Products Division of Rockford Products Corporation

In September 2007, we acquired certain assets of the Consumer Products Division of Rockford Products Corporation (Consumer Division) for $3.4 million. The consolidated results for the thirteen and thirty-nine week periods ended September 29, 2007 include the results of the Consumer Division effective September 10, 2007. We have not presented pro forma results of operations for the thirty-nine weeks ended September 29, 2007 and September 30, 2006, assuming the acquisition had occurred at the beginning of the respective periods as these results would not have been materially different than actual results for the periods.

Change in Vacation Policy

Effective December 31, 2006, we changed our vacation policy so that vacation is earned ratably throughout the year rather than at the end of the preceding year. This change will result in a reduction in our vacation accrual of
approximately $1.8 million in 2007. As a result, vacation expense in cost of goods sold and selling, general and administrative expenses will be reduced during each of the fiscal quarters in 2007. Results for the three months and nine months ended September 29, 2007 include vacation expense reductions of $0.1 million and $0.3 million in cost of goods sold and $0.4 million and $1.0 million in selling, general and administrative expenses, respectively.

Write Off of Goodwill and Deferred Tax Asset Related to Swedish Subsidiary

During the thirteen weeks ended July 1, 2006, we assessed the value of the goodwill recorded at our Swedish subsidiary (Scan-Tech) as a result of a review of the Scan-Tech business in response to bad debt charge offs at two large customers and the resulting loss of those customers in the first half of the year. After completing the required analyses, we concluded that the goodwill balance existing at the subsidiary was impaired. Accordingly, an impairment charge of approximately $2.9 million, which represented the entire goodwill balance at the subsidiary, was recorded in the consolidated statements of operations. In addition, we recorded a $0.3 million charge to our provision for income taxes to write off deferred tax assets of the subsidiary which were deemed unrealizable.

Results of Operations

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

	Percentage of Net Sales	
	For the Thirteen Weeks Ended	For the Thirty Thirty-nine Weeks Ended

	September 29, 2007	September 30, 2006	September 29, 2007
Net Sales	100.0%	100.0%	100.0%
Cost of goods sold	64.5	65.0	65.3
Gross profit	35.5	35.0	34.7
Selling, general and administrative expenses	23.9	24.6	23.8
Goodwill impairment	-	-	-
Income from operations	11.6	10.4	10.9
Interest expense, net	0.6	0.7	0.6
Income before taxes	11.0	9.7	10.3
Provision for taxes	4.2	3.6	3.9
Net Income	6.8%	6.1%	6.4%

Thirteen Weeks Ended September 29, 2007 Compared to Thirteen Weeks Ended September 30, 2006

Sales increased 11% to $83.2 million for the third quarter ended September 29, 2007 from $74.9 million in the same period last year. Revenues increased primarily as a result of higher new product sales and further penetration of existing automotive lines. The favorable effect of foreign currency exchange and the acquisition of the Consumer Division accounted for approximately 1% of the 2007 net sales increase.

Cost of goods sold, as a percentage of sales, decreased to 64.5% for the thirteen weeks ended September 29, 2007 from 65.0% in the same period last year. The decrease is primarily the result of a more favorable product mix and lower required provisions for excess and obsolete inventory.

Selling, general and administrative expenses for the thirteen weeks ended September 29, 2007 increased 8% to $19.9 million from $18.4 million in the same period last year. The increase is the result of higher variable costs related to our 11% sales growth as well as higher incentive compensation expense due to our higher earnings level. Results for the thirteen weeks ended September 29, 2007 also include a $0.4 million reduction in vacation expense due to the vacation policy change mentioned above.

Interest expense, net, decreased to $0.5 million in the thirteen weeks ended September 29, 2007 from $0.6 million in the same period last year due to lower overall borrowing levels.

Our effective tax rate increased to 37.9% in the thirteen weeks ended September 29, 2007 from 37.1% in the same period last year. The increase is the result of the loss of certain state tax benefits as well as higher incremental state tax rates due to higher earnings level in 2007.

Thirty-nine Weeks Ended September 29, 2007 Compared to Thirty-nine Weeks Ended September 30, 2006

Sales increased 12% to $243.3 million for the third quarter ended September 29, 2007 from $217.9 million in the same period last year. Revenues increased primarily as a result of higher new product sales. The favorable effect of foreign currency exchange and the acquisition of the Consumer Division accounted for approximately 1% of the 2007 net sales increase.

Cost of goods sold, as a percentage of sales, increased to 65.3% for the thirty-nine weeks ended September 29, 2007 from 64.4% in the same period last year. The increase is the result of higher customer allowances and initiatives designed to maintain and increase market share for us and our customers. We partially offset the impact of these initiatives through material cost savings from suppliers and lower required provisions for excess and obsolete inventory.

Selling, general and administrative expenses for the thirty-nine weeks ended September 29, 2007, increased 3% to $57.9 million from $56.4 million in the same period last year. Spending increased due to inflationary cost increases, variable spending increases related to sales growth and higher incentive compensation expense. However, we were able to offset a portion of these increases with cost reductions and a $1.0 million reduction in vacation expense due to the vacation policy change mentioned above. Also, results for the nine months ended September 30, 2006 include a $0.8 million charge for the write-off of accounts receivable after the loss of two large customers of our Swedish subsidiary.

As noted above, we recorded a $2.9 million charge in the second quarter of 2006 to write off the goodwill of our Swedish subsidiary.

Interest expense, net, decreased to $1.6 million in the thirty-nine weeks ended September 29, 2007 from $1.8 million in the same period last year due to lower overall borrowing levels.

Our effective tax rate decreased to 37.8% in the thirty-nine weeks ended September 29, 2007 from 46.1% in the same period last year. The decrease is primarily the result of the $2.9 million goodwill impairment charge in 2006 which was not tax deductible and therefore had no income tax benefit associated with it. In addition, the Company's provision for income taxes for the thirty-nine weeks ended July 1, 2006, included a $0.3 million charge to write off certain deferred tax assets. We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" effective December 31, 2006. As a result of the implementation, we recognized no material adjustment in the liability for unrecognized income tax benefits.

Liquidity and Capital Resources

Historically, we have financed our growth through a combination of cash flow from operations, accounts receivable sales programs provided by certain customers and through the issuance of senior indebtedness through our bank credit facility and senior note agreements. At September 29, 2007, working capital was $125.3 million, total long-term debt (including the current portion and revolving credit borrowings) was $25.7 million and shareholders' equity was $170.3 million. Cash and cash equivalents as of September 29, 2007 totaled $6.1 million.

Over the past several years we have extended payment terms to certain customers as a result of customer requests and market demands. These extended terms have resulted in increased accounts receivable levels and significant uses of cash flow. We participate in accounts receivable sales programs with several customers which allow us to sell our accounts receivable on a non-recourse basis to financial institutions to offset the negative cash flow impact of these payment terms extensions. As of September 29, 2007 and December 30, 2006, we had sold $27.1 million and $18.5 million in accounts receivable under these programs and had removed them from our balance sheets. 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.

We have a $30.0 million revolving credit facility ("Revolving Credit Facility") that expires in June 2008. Borrowings under the facility are on an unsecured basis with interest at rates ranging from LIBOR plus 65 basis points to LIBOR plus 150 basis points based upon the achievement of certain benchmarks related to the ratio of funded debt to EBITDA. The interest rate at September 29, 2007 was LIBOR plus 65 basis points (5.78%). Borrowings under the facility were $16.6 million as of September 29, 2007. We have approximately $11.6 million available under the facility at September 29, 2007. The loan agreement also contains covenants, the most restrictive of which pertain to net worth and the ratio of debt to EBITDA.

At September 29, 2007, current portion of long-term debt includes $8.6 million in Senior Notes that were originally issued in August 1998, in a private placement on an unsecured basis ("Notes"). The Notes bear a 6.81% fixed interest rate, payable quarterly. The notes are due in August 2008. The Notes require, among other things, that we maintain certain financial covenants relating to debt to capital ratios and minimum net worth. We were in compliance with all financial covenants contained in the Notes and Revolving Credit Facility at September 29, 2007.

We have also borrowed $0.6 million under a commercial loan granted in connection with the opening of a new distribution facility. The principal balance is paid monthly in equal installments through September 2013. The outstanding balance bears interest at an annual rate of 4% payable monthly. The loan is secured by a letter of credit issued under our Revolving Credit Facility.

Our business activities do not include the use of unconsolidated special purpose entities, and there are no significant business transactions that have not been reflected in the accompanying financial statements.

We reported a net source of cash flow from our operating activities of $12.7 million in the thirty-nine weeks ended September 29, 2007. Net income, depreciation and a $6.6 million increase in accounts payable were the primary sources of operating cash flow. Accounts payable increased due to an increase in purchase obligations outstanding to support increased inventory levels due to sales growth. The primary uses of cash flow were inventory and accounts receivable, which increased $7.1 million and $7.9 million, respectively. Both increased to support our 12% sales growth in 2007. Accounts receivable also increased as a result of the extension of payment terms to certain customers.

Investing activities used $7.5 million of cash in the thirty-nine weeks ended September 29, 2007 as a result of the acquisition of the Consumer Division and additions to property, plant and equipment. The Consumer Division purchase resulted in a $3.4 million use of cash. Capital spending in 2007 was $4.1 million and consisted of tooling associated with new products, upgrades to information systems, purchases of equipment designed to improve operational efficiencies and scheduled equipment replacements.

Financing activities used $4.2 million of cash in the thirty-nine weeks ended September 29, 2007. The primary use of cash flow was a scheduled $8.6 million repayment of our Senior Notes in August 2007. This repayment was partially funded with $5.1 million in borrowings under our revolving credit facility with the rest coming from operating cash flow.

We intend to extend our Revolving Credit Facility during the fourth quarter. Based on our current operating plan, we believe that our available sources of capital under our extended Revolving Credit Facility, accounts receivable sales programs and cash generated from operations will be sufficient to meet our ongoing cash needs for the next twelve months.

Foreign Currency Fluctuations

In 2006, approximately 67% of our products were purchased from a variety of foreign countries. The products generally are purchased through purchase orders with the purchase price specified in U.S. dollars. Accordingly, we do not have exposure to fluctuations in the relationship between the dollar and various foreign currencies between the time of execution of the purchase order and payment for the product. However, weakness in the dollar has resulted in materials price increases and pressure from several foreign suppliers to increase prices further. To the extent that the dollar decreases in value to foreign currencies in the future or the present weakness in the dollar continues for a sustained period of time, the price of the product in dollars for new purchase orders may increase further.

The largest portion of our overseas purchases come from China. The value of the Chinese Yuan has increased relative to the U.S. Dollar since July 2005 when it was allowed to fluctuate against a basket of currencies. Most experts believe that the value of the Yuan will increase further relative to the U.S. Dollar over the next few years. Such a move would most likely result in an increase in the cost of products that are purchased from China.

We occasionally use derivative financial instruments, consisting of foreign currency forward purchase sales contracts with terms of less than one year, to hedge our exposure to changes in foreign currency exchange. Our primary exposure to changes in foreign currency rates results from changes in exchange rates on certain third-party trade receivables and payables of our Swedish and Canadian subsidiaries. As of September 29, 2007, there was one forward purchase contract outstanding.

Impact of Inflation

We have experienced increases in the cost of materials and transportation costs as a result of raw materials shortages and commodity price increases. These increases did not have a material impact on us. We believe that further cost increases could potentially be mitigated by passing along price increases to customers or through the use of alternative suppliers or resourcing purchases to other countries, however there can be no assurance that we will be successful in such efforts.

Related-Party Transactions

We have a noncancelable operating lease for our primary operating facility from a partnership in which Richard N. Berman, our Chief Executive Officer, and Steven L. Berman, our Executive Vice President, are partners. Based upon the terms of the lease, payments in 2007 will be $1.3 million. Total rental payments to the partnership under the lease arrangement were $1.3 million in 2006.

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 revenue recognition, bad debts, customer credits, inventories, goodwill 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 under 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 and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. A significant percentage of our accounts receivable have been, and will 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 73% and 77% of net accounts receivable as of December 30, 2006 and December 31, 2005, respectively. 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 have been transferred to the customer and collection is reasonably assured. We record estimates for cash discounts, product returns and warranties, discounts and promotional rebates 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. 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. Actual Customer Credits have not differed materially from estimated amounts for each period presented.

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.

Goodwill. We follow the provisions of SFAS No. 142, 'Goodwill and Other Intangible Assets". We employ a discounted cash flow analysis and a market comparable approach in conducting our impairment tests. Cash flows were discounted at 12% and an earnings multiple of 5.6 to 5.85 times EBITDA was used when conducting these tests in 2006. As a result of the 2006 impairment test, we wrote-off all of the goodwill of our Swedish subsidiary (Scan-Tech) in our fiscal third quarter of 2006.

Income Taxes. We follow the 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.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurements. The provisions of SFAS No. 157 are to be applied prospectively and are effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating what effect, if any, adoption of SFAS No. 157 will have on the Company's consolidated results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Companies are not allowed to adopt SFAS No. 159 on a retrospective basis unless they choose early adoption. We are currently evaluating what effect, if any, the adoption of SFAS No. 159 will have on our results of operations and financial position.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Our market risk is the potential loss arising from adverse changes in interest rates. With the exception of our revolving credit facility, long-term debt obligations are at fixed interest rates and denominated in U.S. dollars. We manage our interest rate risk by monitoring trends in interest rates as a basis for determining whether to enter into fixed rate or variable rate agreements. 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 or LIBOR would affect the rate at which we could borrow funds thereunder. We believe that the effect of any such change would be minimal.

Item 4. Controls and Procedures

Quarterly Evaluation of Our Disclosure Controls and Internal Controls

We evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended ("the Act"), as of the end of the period covered by this Form 10-Q ("Disclosure Controls"). This evaluation ("Disclosure Controls Evaluation") was done under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

Our management, with the participation of the CEO and CFO, also conducted an evaluation of our internal control over financial reporting, as defined in Rule 13a-15(f) of the Act, to determine whether any changes occurred during the period ended September 29, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting ("Internal Controls Evaluation").

Limitations on the Effectiveness of Controls

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

Conclusions

Based upon the Disclosure Controls Evaluation, the CEO and CFO have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that (i) information that we are required to disclose in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information that we are required to disclose in the reports that we file or submit under the Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in internal controls over financial reporting as defined in Rule 13a-15(f) of the Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item A, Risk Factors" in our Annual Report on Form 10-K for the year ended December 30, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of

Proceeds - Not Applicable

Item 3. Defaults Upon Senior Securities - Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders: Not Applicable

Item 5. Other Information: Not Applicable

Item 6. Exhibits

Item 601 Exhibit Number	Title
3.1 (1)	Amended and Restated Articles of Incorporation of the Company dated May 23, 2007.
3.2 (2)	Bylaws of the Company.
10.1 (2)	Lease, dated December 1, 1990, between the Company and the Berman Real Estate Partnership, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania.
10.1.1 (4)	Amendment to Lease, dated September 10, 1993, between the Company and the Berman Real Estate Partnership, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania, amending 10.1.
10.1.2 (5)	Assignment of Lease, dated February 24, 1997, between the Company, the Berman Real Estate Partnership and BREP 1, for the premises located at 3400 East Walnut Street, Colmar, Pennsylvania, assigning 10.1.
10.1.3 (8)	Amendment to Lease, dated April 1, 2002, between the Company and the BREP I, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania, amending 10.1.
10.1.4 (9)	Third Amended and Restated Credit Agreement dated as of July 24, 2006, between the Company and Wachovia Bank, N.A.
10.1.5 (10)	Commercial Loan Agreement, dated September 27, 2006, between the Company and the Tennessee Valley Authority.
10.3 (6)+	Dorman Products, Inc. Amended and Restated Incentive Stock Plan.
10.4 (3)+	Dorman Products, Inc. 401(k) Retirement Plan and Trust.
10.4.1 (7)+	Amendment No. 1 to the Dorman Products, Inc. 401(k) Retirement Plan and Trust.
10.5 (3)+	Dorman Products, Inc. Employee Stock Purchase Plan.

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31.1	Certification of Chief Executive Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002 (filed with this report).
31.2	Certification of Chief Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002 (filed with this report).

32. Certification of Chief Executive and Chief Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management Contracts and Compensatory Plans, Contracts or Arrangements.

(1) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 24, 2007.

(2) Incorporated by reference to the Exhibits filed with the Company's Registration Statement on Form S-1 and Amendments No. 1, No. 2, and No. 3 thereto (Registration 33-37264).

(3) Incorporated by reference to the Exhibits files with the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 1992.

(4) Incorporated by reference to the Exhibits filed with the Company's Registration Statement on Form S-1 and Amendment No. 1 thereto (Registration No. 33-68740).

(5) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 1996.

(6) Incorporated by reference to the Exhibits filed with the Company's Proxy Statement for the fiscal year ended December 27, 1997.

(7) Incorporated by reference to the Exhibits filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 25, 1994.

(8) Incorporate by reference to the Exhibits filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2002.

(9) Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated May 24, 2005

(10) Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated September 28, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dorman Products, Inc.

November 2, 2007 \s\ Richard Berman

Richard Berman
Chairman and Chief Executive Officer
(Principal executive officer)

November 2, 2007 \s\ Mathias Barton

Chief Financial Officer and
Principal Accounting Officer
(Principal financial officer)

EXHIBIT INDEX

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