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 March 26, 2016

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)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of April 25, 2016, the registrant had 34,742,221 shares of common stock, par value $0.01 per share, outstanding.

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

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March 26, 2016

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share data)	For the Thirteen Weeks Ended March 26, 2016	March 28, 2015
Net sales	$ 208,148	$ 188,474
Cost of goods sold	127,554	115,581
Gross profit	80,594	72,893
Selling, general and administrative expenses	41,663	39,241
Income from operations	38,931	33,652
Interest expense, net	57	52
Income before income taxes	38,874	33,600
Provision for income taxes	14,203	12,261
Net income	$ 24,671	$ 21,339
Earnings Per Share:		
Basic	$ 0.71	$ 0.60
Diluted	$ 0.71	$ 0.60
Weighted Average Shares Outstanding:		
Basic	34,678	35,542
Diluted	34,734	35,643

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except for share data)	March 26, 2016	December 26, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 86,978	$ 78,659
Accounts receivable, less allowance for doubtful accounts and customer credits of $93,223 and $86,986	207,395	203,923
Inventories	187,586	193,725
Prepaids and other current assets	2,732	2,326
Total current assets	484,691	478,633
Property, plant and equipment, net	88,429	87,046
Goodwill and intangible assets, net	29,864	29,889
Deferred tax asset, net	7,999	7,557
Other assets	20,226	18,740
Total	$ 631,209	$ 621,865
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$ 52,262	$ 63,967
Accrued compensation	3,629	10,970
Other accrued liabilities	36,596	23,633
Total current liabilities	92,487	98,570
Other long-term liabilities	5,572	5,259
Commitments and contingencies		
Shareholders Equity:		
Common stock, par value $0.01; authorized 50,000,000 shares; issued and outstanding 34,745,761 and 34,863,396 in 2016 and 2015, respectively	347	349
Additional paid-in capital	42,841	42,799
Retained earnings	489,962	474,888
Total shareholders equity	533,150	518,036
Total	$ 631,209	$ 621,865

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	For the Thirteen Weeks Ended March 26, 2016	For the Thirteen Weeks Ended March 28, 2015
Cash Flows from Operating Activities:		
Net income	$ 24,671	$ 21,339
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization and accretion	4,499	3,618
Provision for doubtful accounts	996	10
Benefit for deferred income taxes	(442)	(927)
Provision for non-cash stock compensation	440	340
Changes in assets and liabilities:		
Accounts receivable	(4,468)	4,883
Inventories	6,139	(9,515)
Prepaids and other current assets	(405)	633
Other assets	(1,487)	(1,422)
Accounts payable	(11,930)	939
Accrued compensation and other liabilities	5,901	3,906
Cash provided by operating activities	23,914	23,804
Cash Flows from Investing Activities:		
Property, plant and equipment additions	(5,598)	(5,749)
Cash used in investing activities	(5,598)	(5,749)
Cash Flows from Financing Activities:		
Other stock related activity	(11)	118
Purchase and cancellation of common stock	(9,986)	(1,230)
Cash used in financing activities	(9,997)	(1,112)
Net Increase in Cash and Cash Equivalents	8,319	16,943
Cash and Cash Equivalents, Beginning of Period	78,659	47,656
Cash and Cash Equivalents, End of Period	$ 86,978	$ 64,599
Supplemental Cash Flow Information		
Cash paid for interest expense	$ 70	$ 73
Cash paid for income taxes	$ 2,568	$ 2,746

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRTEEN WEEKS ENDED MARCH 26, 2016 AND MARCH 28, 2015

(UNAUDITED)

1. Basis of Presentation

As used herein, unless the context otherwise requires, Dorman , the Company , we , us , or our refers to Dorman Products, Inc. and its subsidiaries. Our ticker symbol on the NASDAQ Global Select Market is DORM .

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). However, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the thirteen weeks ended March 26, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016. 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 may cause significant fluctuations from quarter to quarter. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 26, 2015.

2. Sales of Accounts Receivable

We have entered into several customer sponsored programs administered by unrelated financial institutions that permit us to sell certain accounts receivable at discounted rates to the financial institutions. Transactions under these agreements were accounted for as sales of accounts receivable and were removed from our Consolidated Balance Sheet at the time of the sales transactions. Pursuant to these agreements, we sold $135.2 million and $132.9 million of accounts receivable during the thirteen weeks ended March 26, 2016 and March 28, 2015, respectively. If receivables had not been sold, $355.2 million and $335.9 million of additional accounts receivable would have been outstanding at March 26, 2016 and December 26, 2015, respectively, based on standard payment terms. Selling, general and administrative expenses for the thirteen weeks ended March 26, 2016 and March 28, 2015 included $2.5 million and $1.7 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, and are stated at the lower of cost or market. Inventories were as follows:

(in thousands)	March 26, 2016	December 26, 2015
Bulk product	$ 66,396	$ 78,533
Finished product	117,601	112,012
Packaging materials	3,589	3,180
Total	$ 187,586	$ 193,725

4. Stock-Based Compensation

Our 2008 Stock Option and Stock Incentive Plan (the Plan) was approved by our shareholders on May 20, 2009. Under the terms of the Plan, our Board of Directors may grant up to 2,000,000 shares of common stock in the form of shares of restricted stock, incentive stock options and non-qualified stock options or combinations thereof to officers, directors, employees, consultants and advisors. Grants under the Plan must be made within ten years of the date the Plan was approved and stock options are exercisable upon the terms set forth in the grant agreement approved by the Board of Directors, but in no event more than ten years from the date of grant. Restricted stock vests in accordance with the terms set forth in each restricted stock agreement. At March 26, 2016, 1,566,502 shares were available for grant under the Plan.

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We grant restricted stock to certain employees and members of our Board of Directors. The value of restricted stock issued is based on the fair value of our common stock on the grant date. Vesting of restricted stock is conditional based on continued employment or service for a specified period and, in certain circumstances, the attainment of financial goals. We retain the restricted stock, and any dividends paid thereon, until the vesting conditions have been met. For awards with a service condition only, compensation cost related to the stock is recognized on a straight-line basis over the vesting period. For awards that have a service condition and require the attainment of financial goals, compensation cost related to the stock is recognized over the vesting period if it is probable that the financial goals will be attained. Compensation cost related to restricted stock was $0.4 million and $0.3 million for the thirteen weeks ended March 26, 2016 and March 28, 2015, respectively.

The following table summarizes our restricted stock activity for the thirteen weeks ended March 26, 2016:

	Shares	Weighted Average Price
Balance at December 26, 2015	43,242	$ 34.49
Granted	97,898	$ 43.72
Vested	(5,822)	$ 37.58
Cancelled	(240)	$ 18.94
Balance at March 26, 2016	135,078	$ 41.08

As of March 26, 2016, there was approximately $4.8 million of unrecognized compensation cost related to nonvested restricted stock, which is expected to be recognized over a weighted-average period of approximately 3.0 years.

Cash flows resulting from tax deductions in excess of the tax effect of compensation cost recognized in the financial statements are classified as financing cash flows. The excess tax benefit generated from restricted shares which vested in each of the thirteen weeks ended March 26, 2016 and March 28, 2015 was $0.1 million and was credited to additional paid-in capital.

We grant stock options to certain employees and members of the Board of Directors. We expense the grant-date fair value of stock options. Compensation cost is recognized on a straight-line basis over the vesting period for which related services are performed. The compensation cost charged against income for the thirteen weeks ended March 26, 2016 and March 28, 2015 was less than $0.1 million in each period. The compensation costs were classified as selling, general and administrative expense in the Consolidated Statements of Income. No cost was capitalized during the thirteen weeks ended March 26, 2016 and the thirteen weeks ended March 28, 2015. We included a forfeiture assumption of 5.4% in the calculation of expense in each of the thirteen weeks ended March 26, 2016 and March 28, 2015.

We use the Black-Scholes option valuation model to estimate the fair value of stock options granted. Expected volatility and expected dividend yield are based on the actual historical experience of our common stock. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using historical option exercise data. The risk-free rate was based on a U.S. Treasury security with terms equal to the expected time of exercise as of the grant date. During the thirteen weeks ended March 26, 2016, we granted 46,684 stock options. There were no stock options granted in the thirteen weeks ended March 28, 2015.

The following table summarizes our stock option activity for the thirteen weeks ended March 26, 2016:

	Shares	Weighted Average Price	Weighted Average Remaining Term (In years)	Aggregate Intrinsic Value
Balance at December 26, 2015	40,000	$ 6.86		
Granted	46,684	$ 41.59		
Balance at March 26, 2016	86,684	$ 25.56	3.6	$ 2,420,860
Options exercisable at March 26, 2016	40,000	$ 6.86	2.0	$ 1,865,320

No stock options were exercised during the thirteen weeks ended March 26, 2016. As of March 26, 2016, there was $0.4 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 3.9 years.

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There was no cash received or excess tax benefit generated in the thirteen weeks ended March 26, 2016 or March 28, 2015.

5. Earnings Per Share

Basic earnings per share is calculated by dividing our net income by the weighted average number of common shares outstanding during the period, excluding nonvested restricted stock which is considered to be contingently issuable. To calculate diluted earnings per share, common share equivalents are added to the weighted average number of common shares outstanding. Common share equivalents are calculated using the treasury stock method and are computed based on outstanding stock-based awards. Stock-based awards of 73,000 shares and 19,000 shares were excluded from the calculation of diluted earnings per share as of March 26, 2016 and March 28, 2015, respectively, as their effect would have been anti-dilutive.

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

	Thirteen Weeks Ended	
(in thousands, except per share data)	March 26, 2016	March 28, 2015
Numerator		
Net income	$ 24,671	$ 21,339
Denominator:		
Weighted average basic shares outstanding	34,678	35,542
Effect of stock-based compensation awards	56	101
Weighted average diluted shares outstanding	34,734	35,643
Earnings Per Share:		
Basic	$ 0.71	$ 0.60
Diluted	$ 0.71	$ 0.60

6. Common Stock Repurchases

We periodically repurchase, at the then current market price, and cancel common stock issued to the Dorman Products, Inc. 401(k) Retirement Plan and Trust (the 401(k) Plan). Shares are generally purchased from the 401(k) Plan when participants sell units as permitted by the 401(k) Plan or elect to leave the 401(k) Plan upon retirement, termination or other reasons. For the thirteen weeks ended March 26, 2016, we repurchased and cancelled 7,460 shares of common stock for $0.4 million at an average price of $48.23 per share. During the fifty-two weeks ended December 26, 2015, we repurchased and cancelled 33,430 shares of common stock for $1.6 million at an average price of $48.14 per share.

Our Board of Directors has authorized a share repurchase program up to $150 million through December 31, 2016. Under this program, share repurchases may be made from time to time depending on market conditions, share price, share availability and other factors at our discretion. The share repurchase program does not obligate us to acquire any specific number of shares. For the thirteen weeks ended March 26, 2016, we repurchased and cancelled 207,166 shares of common stock for $9.6 million at an average price of $46.46 per share under this program. For the fifty-two weeks ended December 26, 2015, we repurchased and cancelled 747,700 shares of common stock for $35.7 million at an average price of $47.77 per share under this program.

7. Related-Party Transactions

We have a non-cancelable operating lease for our primary operating facility with a partnership in which Steven L. Berman, our Executive Chairman, and his family members, are partners. Based upon the terms of the lease, payments will be $1.6 million in fiscal 2016 and were $1.6 million in fiscal 2015. The lease with the partnership expires December 31, 2017. In the opinion of our Audit Committee, the terms and rates of this lease are no less favorable than those which could have been obtained from an unaffiliated party when the lease was renewed in fiscal 2012.

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8. Income Taxes

At March 26, 2016, we had $1.9 million of net unrecognized tax benefits, $1.4 million of which would affect our effective tax rate if recognized. We recognize interest and penalties related to uncertain tax positions in income tax expense. As of March 26, 2016, we had approximately $0.2 million of accrued interest related to uncertain tax positions.

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

9. Fair Value Disclosures

The carrying value of financial instruments such as cash, accounts receivable, accounts payable, and other current assets and liabilities approximate their fair value based on the short-term nature of these instruments.

10. New and Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. As originally issued, the new standard would have been effective for annual periods beginning after December 15, 2016. The FASB has amended the standard to be effective for annual periods beginning after December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our consolidated financial statements and related disclosures.

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

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

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Improvement to Employee Share-Based Payment Accounting*, which amends the current guidance related to stock compensation. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows.

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The update to the standard is effective for annual periods beginning after December 15, 2016, with early application permitted. We are evaluating the effect that the new guidance will have on our consolidated financial statements and related disclosures.

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

Cautionary Statement Regarding Forward Looking Statements