COAST DISTRIBUTION SYSTEM INC
Form 10-Q
August 14, 2008
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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 June 30, 2008

OR

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

For the transition period from ______________ to ______________

Commission File Number 1-9511

THE COAST DISTRIBUTION SYSTEM, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	**94-2490990**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

350 Woodview Avenue, Morgan Hill, California	**95037**
(Address of principal executive offices)	**(Zip Code)**

(408) 782-6686

(Registrant s telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 ¨ Non-accelerated filer x Smaller reporting company ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

4,445,431 shares of Common Stock as of July 30, 2008

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THE COAST DISTRIBUTION SYSTEM, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2008

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2008	December 31, 2007
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash	$ 1,342	$ 790
Accounts receivable net of allowances of $1,489 and $1,504 as of June 30, 2008 and December 31, 2007, respectively	22,185	14,889
Inventories	41,587	45,027
Other current assets	3,208	3,890
Total current assets	68,322	64,596
PROPERTY, PLANT, AND EQUIPMENT, NET	3,176	3,444
OTHER ASSETS	1,277	1,267
	$ 72,775	$ 69,307
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term obligations	$ 131	$ 125
Accounts payable	5,727	8,472
Accrued liabilities	3,546	3,424
Total current liabilities	9,404	12,021
LONG-TERM OBLIGATIONS	30,700	24,795
STOCKHOLDERS EQUITY		
Preferred stock, $.001 par value: 2,000,000 shares authorized: none issued or outstanding:		
Common stock, $.001 par value: 10,000,000 shares authorized; 4,445,431 and 4,439,225 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	16,024	15,865
Accumulated other comprehensive income	1,912	2,157
Retained earnings	14,735	14,469
	32,671	32,491
	$ 72,775	$ 69,307

The accompanying notes are an integral part of these statements.

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

Three and Six Months Ended June 30,

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	$ 41,217	$ 50,827	$ 80,685	$ 94,465
Cost of sales, including distribution costs	32,391	41,077	63,947	76,548
Gross profit	8,826	9,750	16,738	17,917
Selling, general and administrative expenses	6,299	6,884	14,497	15,227
Operating income	2,527	2,866	2,241	2,690
Other income (expense)				
Interest	(457)	(699)	(859)	(1,238)
Other	(139)	11	(288)	(97)
	(596)	(688)	(1,147)	(1,335)
Earnings before income taxes	1,931	2,178	1,094	1,355
Income tax provision	370	663	383	482
Net earnings	$ 1,561	$ 1,515	$ 711	$ 873
Basic earnings per share	$ 0.35	$ 0.34	$ 0.16	$ 0.20
Diluted earnings per share	$ 0.35	$ 0.33	$ 0.16	$ 0.19

The accompanying notes are an integral part of these statements.

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Dollars in thousands)

Six months ended June 30,

(Unaudited)

	2008	2007
Cash flows from operating activities:		
Net earnings	$ 711	$ 873
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	478	413
Equity in net earnings of affiliated companies, net of distributions	22	22
Stock Based Compensation expense	130	98
(Gain) Loss on sale of property and equipment	81	(3)
Changes in assets and liabilities:		
Accounts receivable	(7,296)	(12,952)
Inventories	3,440	(10)
Other current assets	682	1,869
Accounts payable	(2,745)	224
Accrued liabilities	122	(188)
Total adjustments	(5,797)	(11,057)
Net cash used in operating activities	(4,375)	(9,654)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1	7
Capital expenditures	(239)	(859)
Increase in other assets	(44)	(131)
Net cash used in operating activities	(282)	(983)
Cash flows from financing activities:		
Borrowings under line of credit agreement	92,781	116,866
Repayments under line of credit agreement	(86,742)	(106,220)
Repayments of long-term debt	(61)	(77)
Issuance of common stock pursuant to employee stock option and purchase plans	30	148
Dividends paid	(445)	(621)
Retirement of common stock	(1)	(108)
Net cash provided by financing activities	5,562	9,988
Effect of exchange rate changes on cash	(353)	984
NET INCREASE IN CASH	552	335
Cash beginning of period	790	721
Cash end of period	$ 1,342	$ 1,056

The accompanying notes are an integral part of these statements.

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. The accompanying condensed consolidated interim financial statements have been prepared in accordance with accounting principles and SEC rules applicable to interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the Company s financial position as of June 30, 2008 and the results of its operations and cash flows for the three and six months ended June 30, 2008 and 2007. The accounting policies followed by us are set forth in Note A to, and these condensed consolidated financial statements should be read in conjunction with, our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

2. The Company s business is seasonal and its results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected in any other interim period during, or for the full year ending, December 31, 2008. See Management s Discussion and Analysis of Financial Condition and Results of Operations Seasonality and Inflation in Item 2 of Part I of this Report.

3. Basic earnings per share for each period are computed using the weighted average number of common shares outstanding during such period. Diluted earnings per share are computed using the weighted average number of common and potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of the incremental common shares issuable upon the exercise of stock options (using the treasury stock method). Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. For the three and six months ended June 30, 2008, a total of 488,000 and 482,000 shares of common stock, respectively, which were issuable on exercise of stock options, were excluded from the computation of diluted earnings per share because their exercise prices were greater than the average market price of the Company s common stock during these periods; whereas for the three and six months ended June 30, 2007, a total of 340,000 and 280,000 shares of common stock, respectively, which were issuable on exercise of stock options, were excluded from the computation of diluted earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Numerator:				
Net earnings	$ 1,561	$ 1,515	$ 711	$ 873
Denominator:				
Weighted average shares outstanding	4,445	4,426	4,443	4,422
Dilutive effect of stock options	45	111	49	124
Denominator for diluted net income per share	4,490	4,537	4,492	4,546

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

Year Ending December 31,	(In thousands)
2008 (remaining six months)	2,212
2009	3,970

2010	3,387
2011	2,929
2012	2,298
Thereafter	9,024
	$ 23,820

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
USA	$ 29,607	$ 37,890	$ 57,237	$ 70,706
Canada	11,601	2,937	23,448	23,759
Other				
	$ 41,217	$ 50,827	$ 80,685	$ 94,465

6. Comprehensive Earnings

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Net earnings	$ 1,561	$ 1,515	$ 711	$ 873
Change in accumulated foreign currency translation adjustment:	63	675	(245)	742
Comprehensive earnings	$ 1,624	$ 2,190	$ 466	$ 1,615

7. Stock Based Compensation. On January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 123R, *Share-Based Payment* (SFAS 123R). This Statement establishes standards to be followed when accounting for transactions in which an entity exchanges its equity instruments for goods or services, such as the options granted under the Company s Stock Incentive Plans. The Statement provides for, and the Company has elected to adopt the standard using the modified prospective application method under which compensation cost is recognized for the fair value of stock-based award grants made on or after the adoption date of SFAS 123R and the portion of awards that were outstanding at that adoption date for which the requisite service has not been rendered, based on the grant-date fair values of those awards calculated under SFAS 123 for pro forma disclosures. The Company s stock-based compensation expense was $65,000 and $51,000 for the quarters ended June 30, 2008 and 2007, respectively, and $130,000 and $98,000 for the six months ended June 30, 2008 and 2007 respectively.

The Company has in effect a 2005 Stock Incentive Plan (the 2005 Plan), which authorizes the granting of options to directors, officers and other key employees, that entitle them to purchase shares of our common stock. A total of 350,000 were authorized for issuance under the 2005 Plan. Options to purchase a total of 325,000 shares of our common tock granted under the 2005 Plan were outstanding at June 30, 2008. We also have in effect a 1999 Stock Incentive Plan (the 1999 Plan), which authorizes the issuance of options to purchase up to 300,000 shares of our common stock. Options to purchase a total of 200,667 shares of our common stock granted under the 1999 Plan were outstanding at June 30, 2008. The Company had in effect a 1993 Stock Option Plan which authorized the issuance of options to purchase up to 500,000 shares of common stock (the 1993 Plan). The 1993 Plan has expired and options may no longer be granted under that Plan. However, options to purchase a total of 67,666 shares of our common stock remained outstanding under the 1993 Plan as of June 30, 2008.

In 1997 the Company adopted an Employee Stock Purchase Plan to encourage employees to purchase shares of our common stock and, thereby, become stockholders of the Company. A total of 400,000 shares of the Company s common stock were reserved for issuance under this Plan. The

Plan was available to all full-time employees (other than employees that own 5% or more of our outstanding shares of common stock) and participation was voluntary. Employees who desired to participate in that Plan could elect to do so at the beginning of an annual purchase

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

period, at which time they were required to authorize payment for the shares they desired to purchase under the Plan by payroll deductions to be made ratably over the annual purchase period. The price of the shares was determined at the end of the purchase period, at which time the participating employees had the option of having their withholdings applied to purchase shares under the Plan or withdraw from the Plan, in which case their accumulated payroll deductions are refunded. The price at which shares were sold under the Plan was 85% of the market price of the Company s shares, either at the beginning of the purchase period, or at the end of the purchase period, whichever was lower. The Plan expired in 2007 and no additional shares may be sold under the Plan.

All of the Company s stock option plans and the Stock Purchase Plan were approved by the Company s stockholders.

For purposes of SFAS 123R, the fair value of each option was estimated as of the date of grant using a binomial model. These models incorporate certain assumptions including a risk-free market interest rate, expected dividend yield of the underlying common stock, expected option life and expected volatility in the market value of the underlying common stock.

Set forth below are the weighted average assumptions that we used in estimating the fair value of the options that were granted in the six month periods ended June 30, 2008 and 2007. No options were granted in either of the three month periods ended June 30, 2008 and 2007, respectively.

	Six Months Ended June 30,	
	2008	2007
Stock Option Plans:		
Expected volatility	42.0%	46.0%
Risk-free interest rate	2.50%	4.45%
Expected dividend yields	5.50%	3.60%
Expected lives	5 years	4 years
Stock Purchase Plan:[1]		
Expected volatility	N/A	40.0%
Risk-free interest rate	N/A	4.9%
Expected dividend yields	N/A	3.60%
Expected lives	N/A	1 year

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(1) As noted above, the Stock Purchase Plan expired in 2007 and, therefore, no stock based compensation awards were granted under that Plan in 2008.

Expected volatilities are based on the historical volatility of the Company s common stock. The risk-free interest rate is based upon market yields for United States Treasury debt securities. The expected dividend yields were based upon the Company s current dividend policy and the fair market value of the Company s shares at the end of each period. Expected lives are based on several factors including the average holding period of outstanding options, their remaining terms and the cycle of our long range business plan.

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

The following tables summarize stock option activity during the six month periods ended June 30, 2008 and 2007:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2007	488,333	$ 6.51		
Granted	105,000	5.20		
Exercised				
Forfeited				
Outstanding at June 30, 2008	593,333	$ 6.28	4.3 years	$ 66,390
Exercisable at June 30, 2008	208,833	$ 5.52	4.0 years	$ 66,390

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2006	437,333	$ 5.16		
Granted	150,000	8.30		
Exercised	(20,000)	3.19		
Forfeited				
Outstanding at June 30, 2007	567,333	$ 6.06	5.9 years	$ 868,157
Exercisable at June 30, 2007	208,333	$ 3.97	3.3 years	$ 688,157

The aggregate intrinsic values set forth in the above tables represent the total pre-tax intrinsic values (the aggregate differences between the closing stock prices of the Company s common stock on June 30, 2008 and 2007, respectively, and the exercise prices for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on June 30, 2008 and 2007, respectively. There were no options exercised during the six months ended June 30, 2008. The total pre-tax intrinsic value of options exercised during the six months ended June 30, 2007 was $85,770.

The weighted-average grant-date fair values of options granted during the six month periods ended June 30, 2008 and 2007 were $1.34 and $2.58, respectively.

A summary of the status of the Company s nonvested options as of June 30, 2008 and 2007, respectively, and changes during the six month periods ended June 30, 2008 and 2007, is presented below:

	Shares	Weighted Average Grant-Date Fair Value

Nonvested at December 31, 2007	354,500	$	2.44
Granted	105,000		1.34
Vested	(75,000)		2.54
Forfeited			
Nonvested at June 30, 2008	384,500	$	2.12

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2006	248,000	$ 2.42
Granted	150,000	2.60
Vested	(39,000)	2.92
Forfeited		
Nonvested at June 30, 2007	359,000	$ 2.44

As of June 30, 2008 and 2007, there was $513,200 and $609,383, respectively, of total unrecognized compensation cost related to nonvested options granted under the Company s option plans. That cost is expected to be recognized over a weighted average period of 2.3 years measured from June 30, 2008 and 2.7 years measured from June 30, 2007.

8. Recent Accounting Pronouncements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides a new single authoritative definition of fair value and provides enhanced guidance for measuring the fair value of assets and liabilities and requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 was to have become effective for us as of January 1, 2008. However, at its February 6, 2008 meeting, the FASB decided to defer, for one year, the effective date of SFAS No 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually).

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option of Financial Assets and Liabilities* (SFAS 159). SFAS 159 provides entities with the option to report selected financial assets and liabilities at fair value. Business entities adopting SFAS 159 will report unrealized gains and losses in earnings at each subsequent reporting date on items for which the fair value option has been elected. SFAS 159 established presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 requires additional information that will help investors and other financial statements users to understand the effects on an entity s earnings of its choice to use fair value measure of its financial assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The adoption of SFAS 159 on January 1, 2008 did not have any material effect on our consolidated financial position, results of operation and cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (*Revised 2007*) (SFAS No. 141R), *Business Combinations*. SFAS No. 141(R) will change accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a business acquisition transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) also will change the accounting treatment and disclosures for certain specific items in a business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 31, 2008. SFAS No. 141(R) will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions that are effectuated after its effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (SFAS No. 160) *Noncontrolling Interests in Consolidated Financial Statements* An Amendment of ARB No. 51. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning or on after December 15, 2008. The Company is currently assessing the impact that adoption of SFAS No. 160 may have on our consolidated financial statements.

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). This statement will require enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management is currently assessing any impact that adoption of SFAS 161 may have on our financial results.

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

We believe that we are one of the largest wholesale distributors of replacement parts, accessories and supplies for recreational vehicles (RVs), and boats in North America. We supply more than 14,000 products and serve more than 12,000 customers throughout the United States and Canada, from 13 regional distribution centers in the United States and 4 regional distribution centers in Canada. Our sales are made primarily to retail parts and supplies stores, service and repair establishments and new and used RV and boat dealers (After-Market Customers). Ours sales are affected primarily by (i) the usage of RVs and boats by the consumers to whom After-Market Customers sell our products, because such usage affects the consumers needs for and purchases of replacement parts, repair services and supplies, and (ii) sales of new RVs and boats, because consumers often accessorize their RVs and boats at the time of purchase.

Factors Generally Affecting Sales of RV and Boating Products

The usage and the purchase, by consumers, of RVs and boats depend, in large measure, upon the extent of discretionary income and credit available to consumers and their confidence about economic conditions, including the availability and prices of gasoline and prevailing interest rates. As a result, recessionary conditions and increases in gasoline prices or in interest rates often lead to declines in the purchase and, to a somewhat lesser extent, in the usage, of RVs and boats, because these conditions increase the consumers costs of purchasing, and the costs and difficulties of using, their RVs and boats. Weather conditions also can affect our operating results, because unusually severe or extended winter weather conditions can reduce the usage of RVs and boats for periods extending beyond the ordinary winter months or to regions that ordinarily encounter milder winter weather conditions and can cause period-to-period fluctuations in our sales and financial performance. As a result, our sales and operating results can be, and in the past have been, affected by recessionary economic conditions, shortages in the supply or increases in the prices of gasoline, increases in interest rates, tightening in the availability of credit to consumers, and unusually adverse weather conditions.

Overview of Operating Results for the Three and Six Months Ended June 30, 2008 and 2007

Set forth below is financial data that provides a comparison of our results of operations for the three and six months ended June 30, 2008 to the results of operations for the same respective periods of 2007. The data is presented in thousands of dollars (except for per share data).

	Three Months Ended June 30,			Six Months Ended June 30,		
	Amounts		% Change	Amounts		% Change
	2008	2007	2008 vs. 2007	2008	2007	2008 vs. 2007
Net Sales	$ 41,217	$ 50,827	(18.9)%	$ 80,685	$ 94,465	(14.6)%
Gross Profit	8,826	9,750	(9.5)%	16,738	17,917	(6.6)%
Selling, general & administrative exp.	6,299	6,884	(8.5)%	14,497	15,227	(4.8)%
Operating income	2,527	2,866	(11.8)%	2,241	2,690	(16.7)%
Other expense	596	688	(13.4)%	1,147	1,335	(14.1)%
Earnings before income taxes	1,931	2,178	(11.3)%	1,094	1,355	(19.3)%
Net earnings	1,561	1,515	3.0%	711	873	(18.5)%
Earnings per common share diluted	$ 0.35	$ 0.33	6.1%	$ 0.16	$ 0.19	(15.8)%

As indicated in the table above, operating income decreased by 11.8% to $2.5 million in the three months ended June 30, 2008 from $2.9 million in the same three months of 2007. In the six months ended June 30, 2008, operating income declined by 16.7%, to $2.2 million from $2.7 million in the same six months of 2007. Those decrease were primarily attributable a substantial decline in purchases and in the usage by consumers of RVs and boats which, in turn, led to declines in their demand for the products we sell. We believe that these declines were primarily due to increases in the price of gasoline to record levels and the downturn in the economy, which has led to declines in consumer confidence and discretionary income and a tightening in the availability of consumer credit for purchases of RVs and boats.

Despite these conditions, we were able to improve our gross profit margins to 21.4% and 20.8%, respectively, in the three and six months ended June 30, 2008, as compared to 19.2% and 19.0%, respectively in the same three and six month periods of 2007. Those gross margin improvements were primarily the result of (i) price increases implemented on selected products in the second half of 2007, (ii) a strengthening of the Canadian dollar in relation to the U.S. dollar, which had the effect of reducing the costs of sales incurred by our Canadian subsidiary, and (iii) a change in the mix of products sold to a greater proportion of higher-margin products that we source from Asia.

Notwithstanding the decline in operating income, net earnings for the three months ended June 30, 2008 increased by $46,000, or 3%, as compared to net earnings in the three months ended June 30, 2007, primarily as a result of a decline in interest expense and a decrease in our effective tax rate in this year s second quarter. The decline in interest expense was the result of decreases in our borrowings, due primarily to reductions in inventories, and in the average interest rate paid on those borrowings. On the other hand, our net earnings in the six months ended June 30, 2008 declined to $711,000, or $0.16 per diluted share, from $873,000, or $0.20 per diluted share, in the same six months of 2007, primarily due to the decline in net sales, the effects of which more than offset the improvement in our gross profit margin and a decline in other expense in the first six months of the current year.

Accounting Policies and Estimates

General

In accordance with accounting principles generally accepted in the United States of America (GAAP), we record most of our assets at the lower of cost or fair value. In the case of some of our assets, principally accounts receivable, inventories and deferred income taxes, we make adjustments to their cost or fair values to arrive at what we expect to be able to collect on outstanding accounts receivables, the amounts for which we expect to be able to sell our inventories and the amounts of available tax loss and tax credit carryforwards and deductions that we will be able to use to reduce our future income tax liability. Those adjustments are made on the basis of a number of different factors, including judgments or assumptions we make regarding economic and market conditions and trends and their impact on our financial performance, and those judgments and assumptions are, in turn, based on current information available to us. If those conditions or trends were to change in ways that we did not expect, then based on our assessment of how those changes will affect the prospects for realizing the values at which we have recorded these assets, we may be required, pursuant to GAAP, to further adjust the carrying values at which we record these assets for financial reporting purposes. Any resulting downward adjustments are commonly referred to as write-downs of the assets affected by the changed conditions.

It is our practice to establish reserves or allowances against which we are able to charge any downward adjustments or write-downs to these assets. Examples include an allowance established for uncollectible accounts receivable (sometimes referred to as bad debt reserves) and an allowance for inventory obsolescence. The amounts at which those allowances are established and maintained are based on our historical experience and also on our assumptions and judgments about economic or market conditions or trends or any other factors that could affect the values at which we had recorded such assets. Those allowances are periodically increased to replenish the allowances following write-downs of uncollectible accounts or to take account of increased risks due to changes in economic or market conditions or trends. Increases in the allowances are effectuated by charges to income or increases in expense in our statements of operations in the periods when those allowances are increased. As a result, our judgments and assumptions about market or economic conditions or trends and about their effects on our financial performance can and will affect not only the amounts at which we record these assets on our balance sheet, but also our results of operations.

The decisions as to the timing of (i) adjustments or write-downs of this nature and (ii) the increases we make to our reserves, also require subjective evaluations or assessments about the effects and duration of changes in economic or market conditions or trends. For example, it is difficult to predict whether events or changes in economic or market conditions, such as increasing gasoline prices or interest rates or economic slowdowns, will be of short or long-term duration, and it is not uncommon for it to take some time after the onset of such changes for their full effects on our business to be recognized. Therefore, management makes such estimates based upon the information available at that time and reevaluates and adjusts its reserves and allowances for potential write-downs on a quarterly basis.

Under GAAP, most businesses also must make estimates or judgments regarding the periods during which sales are recorded and also the amounts at which they are recorded. Those estimates and judgments will depend on such

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factors as the steps or actions that a business must take to complete a sale of products or to perform services for a customer and the circumstances under which a customer would be entitled to return the products or reject or adjust the payment for services rendered to it. Additionally, in the case of a business that grants its customers contractual rights to return products sold to them, GAAP requires that a reserve or allowance be established for product returns by means of a reduction in the amount at which its sales are recorded, based primarily on the nature, extensiveness and duration of those rights and its historical return experience.

In making our estimates and assumptions we follow GAAP and accounting practices applicable to our business that we believe will enable us to make fair and consistent estimates of the carrying value of those assets and to establish adequate reserves or allowances for downward adjustments in those values that we may have to make in future periods.

Our Critical Accounting Policies

Set forth below is a summary of the accounting policies that we believe are material to an understanding of our financial condition and the results of operations that are discussed below.

Revenue Recognition and the Allowance for Product Returns. We recognize revenue from the sale of a product upon its shipment to the customer. We provide our customers with limited rights to return products that we sell to them. We establish an allowance for potential returns which reduces the amounts of our reported sales. We estimate the allowance based on historical experience with returns of like products and current economic and market conditions and trends, which can affect the level at which customers submit products for return.

Accounts Receivable and the Allowance for Doubtful Accounts. In the normal course of business we extend 30 day payment terms to our customers and, due to the seasonality of our business, during late fall and winter we grant payment terms of longer duration to those of our customers that have good credit records. We regularly review our customers accounts and estimate the amount of, and establish an allowance for, uncollectible accounts receivables in each reporting period. The amount of the allowance is based on several factors, including the age of unpaid accounts receivable, a review of significant past due accounts and current economic and market trends that can affect the ability of our customers to keep their accounts current. Estimates of uncollectible amounts are reviewed periodically to determine if the allowance should be increased, and any increases are recorded in the accounting period in which the events or circumstances that require such increases become known. For example, if the financial condition of customers or economic or market conditions were to deteriorate, adversely affecting their ability to make payments to us on a timely basis, increases in the allowance may be required. Since the allowance is increased or replenished by recording a charge which is included in, and has the effect of increasing, selling, general and administrative expenses, an increase in the allowance will reduce income in the period when the increase is recorded.

Reserve for Excess, Slow-Moving and Obsolete Inventory. Inventories are valued at the lower of cost (first-in, first-out) or net realizable value and that value is reduced by an allowance for excess and slowing-moving or obsolete inventories. The amount of the allowance is determined on the basis of historical experience with different product lines, estimates or assumptions concerning future economic and market conditions and estimates of future sales. If there is an economic downturn or a decline in sales, causing inventories of some product lines to accumulate, it may become necessary to increase the allowance. Other factors that can require increases in the allowance or inventory write downs are reductions in pricing or introduction of new or competitive products by manufacturers; however, due to the relative maturity of the markets in which we operate, usually these are not significant factors. Increases in this allowance also will cause a decline in operating results as such increases are effectuated by charges against income.

Allowance for Deferred Income Taxes. We record as a deferred tax asset on our balance sheet tax loss carryforwards and tax deductions that can be applied in future periods to offset or reduce our future income tax liability. At June 30, 2008, the aggregate amount of that deferred tax asset was approximately $2.1 million. Under applicable federal and state income tax laws and regulations, tax loss carryforwards and tax deductions will expire if not used within specified periods of time. Accordingly, the ability to use this deferred tax asset depends on the taxable income that we generate during those time periods. We have made a judgment, based on historical experience and current and anticipated market and economic conditions and trends, that it is more likely than not that we will be able to generate taxable income in future years sufficient to fully use the deferred tax asset that is recorded in our financial statements However, if due to future events or circumstances, we subsequently come to a different conclusion regarding our ability to fully utilize this asset, it may become necessary for us to create a valuation allowance in order to reduce the amount at which we record the deferred tax asset to the amount we believe we will be able to fully utilize. The creation of such

an allowance would be effectuated by an increase in the provision (or a reduction in the credit) for income taxes in our statements of income, which would have the effect of reducing our income in the fiscal period or periods in which such provisions are recorded.

Long-Lived Assets and Intangible Assets. Long-lived assets, such as property and equipment and certain types of identifiable intangibles, are reviewed for possible impairment at least annually or if and when events or changes in circumstances indicate that the carrying value of those assets may not be recoverable in full, based on standards established by SFAS No. 142, by comparing the fair value of the long-lived asset to its carrying value. In the event that we were to determine that the fair value of the asset has declined below its carrying value, we would be required to reduce the value at which we record the asset on our balance sheet to its fair value through a charge to earnings.

Foreign Currency Translation. The financial position and results of operations of our foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of each foreign subsidiary are translated into U.S. dollars at the rate of exchange in effect at the end of each reporting period. Revenues and expenses are translated into U.S. dollars at the average exchange rate for the reporting period. Foreign currency translation gains and losses not impacting cash flows are credited to or charged against other comprehensive earnings. Foreign currency translation gains and losses arising from cash transactions are credited to or charged against current earnings.

Stock Based Compensation. We adopted the provisions of Financial Accounting Standards Board Statement (SFAS) No. 123R, *Share-Based Payment* (SFAS 123R) effective on January 1, 2006. SFAS 123R established standards in accounting for transactions in which an entity exchanges its equity instruments for goods or services, such as the options issued under the Company s Stock Incentive Plans. SFAS 123R provides for, and we elected to adopt, the modified prospective method for applying SFAS 123R. Under that method, we began recognizing compensation cost on January 1, 2006 for the fair value of (i) all share based award grants made on or after such date and (ii) the portion of pre-existing awards for which the requisite service had not been rendered as of January 1, 2006, in each case based on the grant-date fair value of those awards calculated under SFAS 123 for pro forma disclosures.

Warranty Costs. We generally do not independently warrant the products that we distribute. Instead, in almost all cases, the manufacturers of the products that we distribute warrant the products and allow us to return defective products, including those that have been returned to us by our customers. However, in the last quarter of 2005, we began selling a line of portable and standby generators under a product supply arrangement which obligates us to provide warranty services for these products and to share the costs of providing those services with the manufacturer. The duration of the warranty for these products is a period of 24 months following the sale of the product to a retail customer. We established a reserve for possible warranty claims on these products and the amount of that reserve was approximately $506,000 at June 30, 2008. In the event that the assumptions and estimates on which the amount of the reserve was determined later prove to be incorrect due to increases in the number or the dollar amounts of the warranty claims we receive, it could become necessary for us to increase the reserve by means of a charge to our income. Increases in sales of these products in the future also may require us to increase our warranty reserve.

Results of Operations

Net Sales

The following table sets forth and compares our net sales (in thousands of dollars) for the three and six month periods ended June 30, 2008 and 2007:

Three Months Ended June 30, Amounts		Three Months Ended June 30, % Change	Six Months Ended June 30, Amounts		Six Months Ended June 30, % Change
2008	2007	2008 vs. 2007	2008	2007	2008 vs. 2007
		(Unaudited)			
$ 41,217	$50,827	(18.9)%	$80,685	$94,465	(14.6)%

The declines in net sales during the three and six months ended June 30, 2008 were due primarily to a continued slowdown in purchases and in the usage by consumers of RVs and boats. That slowdown, we believe, was primarily due to (i) a further downturn in the economy, which led to declines in consumer confidence and discretionary income and a tightening in the availability of consumer credit, and (ii) increases in the price of gasoline to record levels

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due primarily to increases in the worldwide cost of crude oil. These conditions led consumers to reduce their purchases and usage of RVs and boats which, in turn, resulted in declines in demand for and purchases of the products that we sell in both the three and six months ended June 30, 2008.

Gross Margin

Gross profit is calculated by subtracting the cost of products sold from net sales. Cost of products sold consists primarily of the amounts paid to manufacturers and suppliers for the products that we purchase for resale, and warehouse and distribution costs, including freight charges. Gross margin is gross profits stated as a percentage of net sales.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Gross Profit	$ 8,826	$ 9,750	$ 16,738	$ 17,917
Gross Margin	21.4%	19.2%	20.8%	19.0%

The increases in our gross margin in the three and six months ended June 30, 2008, as compared to the same respective periods of 2007, were due primarily to (i) price increases implemented on selected products, (ii) the strengthening of the Canadian Dollar, which enabled our Canadian subsidiary, which purchases products from suppliers in the United States, to improve its margins, and (iii) a change in the mix of products sold to a greater proportion of higher-margin products sourced from Asia. These factors more than offset the effect on our gross margin of increases in freight and shipping costs.

Selling, General and Administrative Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Selling, general and administrative expenses	$ 6,299	$ 6,884	$ 14,497	$ 15,227
As a percentage of net sales	15.3%	13.5%	18.0%	16.1%

Our selling, general and administrative (SG&A) expenses decreased, in absolute dollars, by $585,000, or 8.5%, in the quarter ended June 30, 2008 and by $730,000, or 4.8%, in the six months ended June 30, 2008, as compared to the same respective periods of 2007. Despite these declines, as a percentage of net sales those expenses increased to 15.3% in the three months ended June 30, 2008, from 13.5% in the same three months of 2007, and to 18.0% in the six months ended June 30, 2008 from 16.1% in the same six months of 2007 due to the decreases in net sales.

Other Expense

Other expense consists primarily of interest expense that we incur on borrowings and, to a lesser extent, foreign currency gains or losses and gains or losses on disposal of assets.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Other Expense				
Interest Expense	$ 457	$ 699	$ 859	$ 1,238
Other	139	(11)	288	97
Total	$ 596	$ 688	$ 1,147	$ 1,335

As a percentage of net sales	1.5%	1.4%	1.4%	1.4%

The decreases in other expense in the three months and six months ended June 30, 2008, as compared to the same respective periods of 2007, were primarily the result of reductions in our average outstanding borrowings and

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a decrease in the average rate of interest charged on borrowings under on our bank line of credit during the first six months of this year, as compared to the same period last year. The interest rate on our bank borrowings is tied to market rates of interest and that interest rate decrease was due to a decline in market rates of interest caused by interest rate reductions implemented by the Board of Governors of the Federal Reserve System in an effort to head off a possible economic recession. The decreases in interest expense more than offset other expenses consisting of a foreign currency exchange loss and a loss on the disposition of software that we had used in the past in managing product shipments.

Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Income tax provision	$ 370	$ 663	$ 383	$ 482
Effective tax rate	19.2%	30.4%	35.0%	35.6%

Our effective tax rate is affected by the amount of our expenses that are not deductible for income tax purposes and by varying tax rates on income generated by our foreign subsidiaries. The provision that we make for income taxes in interim periods is based upon our estimate of taxable income for the entire year. If our estimate of our taxable income changes during the year due to changes in our financial performance or in the mix between deductible and non-deductible expenses, we make corresponding adjustments in the provision for income taxes that will cause our effective tax rate to change.

Financial Condition, Liquidity and Capital Resources

We finance our working capital requirements for our operations primarily with borrowings under a long-term revolving bank credit facility and internally generated funds. Under the terms of that revolving credit facility, which expires in May 2010, we may borrow up to the lesser of (i) $50,000,000 during the period from March through July, and from $40,000,000 during the period from August through February, of each year, or (ii) an amount equal to 80% of eligible accounts receivable and between 50% to 55% of eligible inventory. Interest on the revolving credit facility is payable at the bank s prime rate plus 0.25 percent or, at the Company s option but subject to certain limitations, at the bank s LIBOR rate, plus 2.00 percent. Our revolving credit line agreement requires us to maintain certain financial covenants. At June 30, 2008 we were in compliance with all such covenants.

Generally, due to the seasonality of our business, we build inventories during the months leading up to, and as sales increase during, the summer selling season. As a result, we rely more heavily on borrowings during the first six months of the year than we do during the remainder of the year, primarily to fund increases in inventories and accounts receivables. Consequently, net borrowings under our credit facility were $6.0 million in the six months ended June 30, 2008 and $10.6 million in the six months ended June 30, 2007. The decrease in net borrowings during the first six months of 2008, as compared to the same six months of 2007, reflects the decline in purchases and usage of RVs and boats by consumers, which led our customers, which consist of principally of retail dealers and service centers, to reduce their purchases of the products we sell.

At June 30, 2008, our bank borrowings totaled $30.4 million. During July 2008 we were able to reduce our bank borrowings and, as a result, at July 31, 2008, our outstanding bank borrowings totaled $22.8 million. Our bank borrowings are secured by substantially all of our assets, and rank senior in priority to other indebtedness of the Company.

We generally use cash for, rather than generate cash from, operations in the first half of the year, because we build inventories, and accounts receivables increase, as our customers begin increasing their product purchases for the spring and summer months when product sales increase due to seasonal increases in the usage and purchases of RVs and boats. See Seasonality and Inflation below.

During the six months ended June 30, 2008, our accounts receivable increased by $7.3 million as compared to an increase of $13.0 million in the same period of 2007. This decline was due primarily to the decrease in net sales during the first six months of this year as compared to the same six months of 2007.

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Our inventories decreased by $3.4 million in the first six months of 2008 as compared to an increase of $10,000 for the comparable period in 2007. At June 30, 2008, our inventories were $41.6 million as compared to $46.7 million at June 30, 2007. This reduction in inventories was made in response to the decline in demand by consumers for products that we sell. As a result of that reduction, our accounts payable decreased by $2.7 million in the six months ended June 30, 2008 as compared to an increase in accounts payable of $224,000 in the same period in 2007.

We made capital expenditures of $239,000 in the six months ended June 30, 2008 and $859,000 in the same period of 2007. These expenditures were primarily for purchases of warehouse, testing and design and computer equipment.

We lease the majority of our facilities and certain of our equipment under non-cancelable operating leases. Our future lease commitments are described in Note 4 of Notes to the Company s Interim Condensed Consolidated Financial Statements included elsewhere in this report. The following table sets forth, by maturity dates, the total of our contractual obligations, in thousands of dollars, at December 31, 2007:

Contractual Obligations at December 31, 2007:	Total	Less than One Year	One to Three Years	Four to Five Years	More than Five Years
Long-Term debt Obligations	$ 24,418	$	$ 24,418	$	$
Capital Lease Obligations	371	125	246		
Operating Lease Obligations	24,062	4,227	9,137	1,889	8,809
Purchase Obligations under letters of credit	75	75			
Total	$ 48,926	$ 4,427	$ 33,801	$ 1,889	$ 8,809

Share Repurchases. In 2005, the Board of Directors approved a stock buyback program which authorized us to repurchase up to $2,940,000 of our shares of common stock in open market or private purchases. We repurchased $1,000 of our shares during the first six months of 2008 and approximately $108,000 of our shares in the first six months of 2007, respectively, pursuant to this program.

Cash Dividends. The Board of Directors has adopted a dividend policy which provides for the payment of quarterly cash dividends to our stockholders. In May 2008, the Board of Directors reduced the quarterly dividend from $0.07 per share to $0.03 per share. The Board of Directors concluded that the reduction was prudent in order to enable the Company to preserve its cash resources for and reduce its reliance on borrowings to fund operations, in response to the economic difficulties that are adversely affecting the Company s markets. Because of that reduction, we paid $445,000 in dividends in the first six months of 2008 as compared to $621,000 in the same period of 2007. The declaration of cash dividends in the future, pursuant to this dividend policy, is subject to determination each quarter by the Board of Directors based on a number of factors, including the Company s financial performance and its available cash resources.

Expected Uses and Sources of Funds. We expect our principal uses for cash in the year ending December 31, 2008 will be to fund operations, capital expenditures and the payment of cash dividends, and we anticipate that we will be able to fund those cash requirements in 2008 with borrowings under our revolving credit facility and internally generated funds.

We will continue to explore opportunities to increase our sales and our market share and to improve our profit margins. We plan to establish new product supply relationships, including relationships that will enable us to increase the products that we source from lower cost, but high quality, overseas suppliers, including product suppliers in China and other countries in the Far East, and in Canada, Europe and the United States, and to invest in tooling needed for such products. We also may seek to take advantage of other growth opportunities if and when they may arise. As a result, we may have occasion in the future to use internally generated funds or bank borrowings for these purposes.

Seasonality and Inflation

Seasonality. Sales of recreational vehicle and boating parts, supplies and accessories are seasonal. We have significantly higher sales during the six-month period from March through August than we do during the remainder of the year when winter weather conditions result in reductions in the purchase and in the usage of RVs and boats and, therefore, also in the demand for our products, by consumers. Because a substantial portion of our expenses are fixed,

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operating income declines and the Company sometimes incurs losses and must rely more heavily on borrowings to fund operating requirements during the period from September through February when our sales are lower.

Inflation. Generally, we have been able to pass inflationary price increases on to our customers. However, inflation also may cause or may be accompanied by increases in interest rates and gasoline prices. Such increases, or even the prospect of increases in the price or shortages in the supply of gasoline, can adversely affect the purchase and usage of RVs and boats, which can result in a decline in the demand for our products.

Forward Looking Information and Risk Factors that Could Affect Our Future Financial Performance

Statements contained in this Report that are not historical facts or that discuss our expectations regarding our future operations or future financial performance or trends in our business constitute forward-looking statements. Forward-looking statements contain estimates or predictions of future financial performance or financial condition, or are statements about financial or market trends that may affect our future results of operations, which are based upon current information and which are subject to a number of risks and uncertainties that could cause our actual operating results or our financial performance or condition in future periods to differ significantly from those expected at the current time. Those risks and uncertainties include, although they are not limited to, the following:

Our business is seasonal and is subject to various economic and climatic influences which create uncertainties and risks for our business. Our sales are affected directly by the purchase and usage levels of RVs and boats. The purchase and usage of RVs and boats are affected by consumers level of discretionary income and their confidence about economic conditions; weather conditions; prevailing interest rates and the availability of consumer credit; and the availability and prices of gasoline. As a result, our future sales and earnings can be, and in the past have been, adversely affected by the following:

- Loss of confidence among consumers regarding economic conditions and the onset of economic downturns or recessions, which cause consumers to reduce their purchases and usage of RVs and boats.
- Increases in interest rates and tightening in credit underwriting standards by banks and other lenders which affect the affordability and availability of financing that consumers need to purchase RVs and boats and accessories for their RVs and boats.
- Increases in the prices and shortages in the supply of gasoline, which increase the costs of using, and the willingness of consumers to purchase and use, RVs and boats.
- Unusually severe or extended winter weather conditions, which can reduce the usage of RVs and boats for periods extending beyond the ordinary winter months or to regions that ordinarily encounter milder winter weather conditions and which can cause period-to-period fluctuations in our sales and financial performance.

These conditions also often lead to increased price competition in our markets which could force us to reduce our prices, thereby reducing our sales revenue and our gross profit margins and earnings.

We rely heavily on bank borrowings in the operation of our business. We rely heavily on bank borrowings to fund our working capital requirements and capital expenditures. Our outstanding borrowings create additional risks for our business. Among other things, we may find it more difficult to obtain additional financing to fund expansion or take advantage of other business opportunities, and the interest we pay on such borrowings impacts our operating results. Our existing bank debt also makes us more vulnerable to general economic downtowns and competitive pressures, which could cause us to fail to meet financial covenants in our bank loan agreement and could adversely affect our financial condition and performance.

Risks of relying on sole sources of supply for certain of our products. We sometimes choose to carry only a single manufacturer s products for certain of the brand-name product lines that we sell. In addition, we obtain each of our proprietary products from a single source manufacturer, although in many instances we own the tooling required for their manufacture. Dependence on a single manufacturer for any product or line of related products, however, presents some risks, including the risk that we will be unable to readily obtain alternative product supply sources in the event that s single source supplier (i) encounters quality or other production problems, or (ii) decides to enter into an exclusive supply arrangement or alliance with a competing distributor, or to vertically integrate its operations to include not only manufacturing, but also

distribution, of its products. If any of our single source suppliers were to encounter any

manufacturing problems or disruptions or terminate our supply relationship or reduce, for any other reason, the volume of products they sell to us, our sales and earnings could decline, possibly to a significant extent.

The effects of possible changes in supply relationships in our markets. As is the customary practice in our markets, in most instances we do not have long term supply contracts with our product suppliers. As a result, product suppliers are free to change the terms on which they will sell us product or to discontinue supplying us with products altogether, because they may choose to distribute their products directly to after-market dealers or because they might choose to establish exclusive supply relationships with other distributors or to begin selling their products to our competitors. Additionally, manufacturers of new RVs and boats may choose to incorporate optional equipment on the RVs and boats at the time of manufacture that, historically, were sold to their dealers by distributors such as the Company. Any of these occurrences could result in increased competition in our markets or reduce the number of products we are able to offer our customers, which could cause our sales to decline and could result in lower margins and reduced earnings.

Risks related to new proprietary products strategy. We have begun sourcing and buying from overseas manufacturers and marketing and selling new products into new markets. We do not have experience in marketing and selling products in some of those markets and there is no assurance that these products will gain acceptance among customers in those markets. We also expect to encounter stiff competition from companies that manufacture or market competing products. We expect that many of those companies will be larger and will have greater financial and marketing resources than we have. Also, we will have greater responsibilities in marketing and providing warranty protection and service for these products. There is no assurance that we will be successful in marketing and selling these products, and the costs we incur in doing so may reduce our earnings or possibly even cause us to incur losses and we could encounter liabilities for possible warranty claims relating to these products.

Product liability risks. Although we do not manufacture any of the products we sell, it is not uncommon for us to be named as an additional defendant in product liability lawsuits brought against the product manufacturers. To protect ourselves form liability, we have been able in many instances to obtain indemnification agreements from these manufacturers or to be named as additional insureds under their product liability insurance policies. Nevertheless, we also maintain our own product liability insurance. Although we have never incurred any material product liabilities in excess of the insurance coverages that we have obtained under policies of insurance maintained by product manufacturers or by us, there is no assurance that we will not incur, in the future, product liabilities in amounts that materially exceed the insurance coverage and indemnification protections that we have and which, as a result, could reduce our earnings.

No assurance that we will continue to pay cash dividends in the future. Although the Board of Directors has adopted a cash dividend policy that provides for regular quarterly cash dividends, currently in the amount of $0.03 per share, the payment of cash dividends in the future will depend on a number of factors, including, but not limited to, our future financial performance and economic conditions in our markets that can affect our sales and operating results, our available cash resources and the cash requirements of our business, and possibly also, the consents of third parties, such as the lender under our revolving credit facility. As a result, there can be no assurance that future quarterly dividends will be equal to the $0.03 per share called for by our current dividend policy or that we will not find it necessary to suspend or even terminate the payment of cash dividends in the future.

Increased reliance on foreign suppliers. As we increase our reliance on foreign suppliers, we may become increasingly vulnerable to the effects of political instability and adverse economic conditions in the countries in which those suppliers are located. Additionally, while we pay for the products we purchase in foreign countries in U.S. Dollars, and therefore, those purchases do not expose us to currency exchange risks, a weakening U.S. Dollar may lead foreign suppliers to increase the prices they charge us for their products in order to mitigate their currency exchange risk. Such price increases could reduce the margin advantage that we have realized on our resale of those products.

Risks of patent infringement claims. We design, or have independent product design firms or manufacturers, design and engineer many of the proprietary products and foreign sourced products that we introduce into the marketplace. From time to time manufacturers of competing products have threatened and on occasion have brought suits against us claiming that some of our proprietary or foreign sourced products infringe their patents. We retain a patent law firm to review new products that we plan to introduce into the market for potential patent infringements and that firm works in concert with our product design engineers and independent design firms or manufacturers to ensure that our products do not infringe on patents or other proprietary right held by competitors. To date we have not incurred

any material liability as a result of any patent infringement claims that have been threatened or asserted against us. However, there can be no assurance that we will not incur liability for patent infringement in the future. Additionally, the filing of a patent infringement suit may require us to halt sales or to redesign newly introduced products to avoid patent infringement liability, which could reduce our sales and increase our costs and, thereby, adversely affect our results of operations.

Additional information regarding these risks and information regarding other risks and uncertainties to which our business is subject is contained in our Annual Report on Form 10-K for our fiscal year ended December 31, 2007 as filed with the Securities and Exchange Commission. Due to the risks and uncertainties described above and in our 2007 Annual Report on Form 10-K, readers are cautioned not to place undue reliance on the forward-looking statements contained in this Report, which speak only as of its date, or to make predictions about our future performance based solely on historical financial performance. We also disclaim any obligation to update forward-looking statements contained in this Report or in our 2007 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk with respect to financial instruments is primarily related to changes in interest rates with respect to borrowing activities, which may adversely affect our financial position, results of operations and cash flows. To a lesser degree, we are exposed to market risk from foreign currency fluctuations associated with our Canadian operations and our Canadian currency denominated debt. We do not use financial instruments for trading or other speculative purposes and are not party to any derivative financial instruments.

In seeking to minimize the risks from interest rate fluctuations, we manage exposures through our regular operating and financing activities. The fair value of borrowings under our revolving credit facility approximates the carrying value of such obligations. As of June 30, 2008, we had outstanding approximately $30.4 million under our revolving credit facility.

We sometimes enter into forward exchange agreements to reduce the effect of foreign currency fluctuations on a portion of our inventory purchases in Canada for our Canadian operations. The gains and losses on these contracts are reflected in earnings in the period during which the transactions being hedged are recognized. We believe that these types of agreements do not subject us to significant market risk from exchange rate movements because the agreements offset gains and losses on the balances and transactions being hedged. As of June 30, 2008, there were no such agreements outstanding.

At June 30, 2008 approximately 10% of our bank debt was denominated in Canadian currency, which also exposes us to market risk associated with currency exchange rate movements. Historically, we have not used derivative financial instruments to manage our exposure to foreign currency rate fluctuations since the market risk associated with our foreign currency denominated debt has not been considered significant.

ITEM 4. CONTROLS AND PROCEDURES

Our disclosure controls and procedures, as defined in Rules 13a 15(e) and 15d 15(e) under Securities Exchange Act of 1934, as amended (the Exchange Act), are designed to provide reasonable assurance that information required to be disclosed in our reports filed under that Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. Our disclosures controls and procedures also are designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures in effect as of June 30, 2008. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2008, our disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to management, including Chief Executive Officer and Chief Financial Officer, on a timely basis.

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There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A RISK FACTORS

Except for any updates set forth in Item 2 of Part I of this Report, under the caption Forward Looking Information and Risk Factors that Could Affect Our Future Financial Performance, there were no material changes in the risk factors that were disclosed in Item 1A, under the caption Risk Factors in Part I of our Annual Report on Form 10-K for our fiscal year ended December 31, 2007.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases.

The following table sets forth information regarding our share repurchases in each of the months during the quarter ended June 30, 2008.

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
April 1 to April 30, 2008		$		$ 161,500
May 1 to May 31, 2008	165	$ 5.44	165	$ 160,600
June 1 to June 30, 2008		$		$ 160,600
Total	165	$ 5.44	165	

The above shares were purchased pursuant to a stock repurchase program that was publicly announced on June 3, 2005 and at that time authorized up to $1.5 million of share repurchases. On December 9, 2005, the Company publicly announced that its Board of Directors had authorized the Company to make up to an additional $1.2 million of share repurchases under this program. This program does not have an expiration date. However, the Company may elect (i) to suspend share repurchases at any time or from time to time, or (ii) to terminate the program prior to the repurchase of all of the shares authorized for repurchase under this program. Accordingly, there is no assurance that any additional shares will be repurchased under this program.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K AND EXHIBITS

(a) Exhibits.

Exhibit No.	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

THE COAST DISTRIBUTION SYSTEM, INC.

Dated: August 14, 2008

By: /s/ SANDRA A. KNELL

Sandra A. Knell

Executive Vice President and

Chief Financial Officer

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INDEX TO EXHIBITS

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