

SURMODICS INC
Form 10-Q
May 07, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

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: 0-23837

SurModics, Inc.

(Exact name of registrant as specified in its charter)

MINNESOTA

(State of incorporation)

41-1356149

(I.R.S. Employer Identification No.)

9924 West 74th Street

Eden Prairie, Minnesota 55344

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (952) 829-2700

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 No

The number of shares of the registrant's Common Stock, \$.05 par value per share, outstanding as of May 3, 2010 was 17,409,835.

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Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

EX-10.1

EX-10.2

EX-31.1

EX-31.2

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EX-32.2

Table of Contents**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

SurModics, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	March 31, 2010	September 30, 2009
<i>(In thousands, except share data)</i>		<i>(Unaudited)</i>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,174	\$ 11,636
Short-term investments	8,170	8,932
Accounts receivable, net of allowance for doubtful accounts of \$195 and \$82 as of March 31, 2010 and September 30, 2009, respectively	12,805	11,320
Inventories	3,312	3,330
Deferred tax asset	721	353
Prepays and other	2,514	1,443
Total current assets	38,696	37,014
Property and equipment, net	64,249	66,915
Long-term investments	32,467	27,300
Deferred tax asset	1,752	2,548
Intangible assets, net	16,644	17,458
Goodwill	21,820	21,070
Other assets, net	14,886	13,257
Total assets	\$ 190,514	\$ 185,562
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 2,004	\$ 3,468
Accrued liabilities	2,219	2,563
Accrued income taxes payable		186
Deferred revenue	1,054	905
Other current liabilities	1,797	862
Total current liabilities	7,074	7,984
Deferred revenue, less current portion	4,047	623
Other long-term liabilities	4,811	4,583
Total liabilities	15,932	13,190
Commitments and contingencies		

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Stockholders' Equity

Series A Preferred stock- \$.05 par value, 450,000 shares authorized; no shares issued and outstanding

Common stock- \$.05 par value, 45,000,000 shares authorized; 17,416,335 and 17,471,472 shares issued and outstanding

Additional paid-in capital

Accumulated other comprehensive income

Retained earnings

Total stockholders' equity

871	874
67,341	66,005
890	1,504
105,480	103,989

174,582	172,372
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Total liabilities and stockholders' equity

\$ 190,514	\$ 185,562
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SurModics, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
<i>(In thousands, except per share data)</i>	<i>(unaudited)</i>		<i>(unaudited)</i>	
Revenue				
Royalties and license fees	\$ 7,779	\$ 10,052	\$ 16,977	\$ 57,799
Product sales	5,269	4,776	9,817	8,632
Research and development	5,312	6,097	8,947	17,710
 Total revenue	 18,360	 20,925	 35,741	 84,141
 Operating costs and expenses				
Product costs	2,475	1,838	4,432	3,353
Customer research and development	4,783	3,368	8,106	7,073
Other research and development	4,565	5,116	9,284	10,764
Selling, general and administrative	4,109	4,403	8,723	9,086
Purchased in-process research and development				3,200
Restructuring charges	1,306		1,306	1,798
Asset impairment charge	2,074		2,074	
 Total operating costs and expenses	 19,312	 14,725	 33,925	 35,274
 (Loss) income from operations	 (952)	 6,200	 1,816	 48,867
 Other income				
Investment income	281	397	578	1,131
Other income (loss), net	3	20	3	(129)
 Other income	 284	 417	 581	 1,002
 (Loss) income before income taxes	 (668)	 6,617	 2,397	 49,869
Income tax benefit (provision)	241	(2,401)	(907)	(18,568)
 Net (loss) income	 \$ (427)	 \$ 4,216	 \$ 1,490	 \$ 31,301
 Basic net (loss) income per share	 \$ (0.02)	 \$ 0.24	 \$ 0.09	 \$ 1.79
 Diluted net (loss) income per share	 \$ (0.02)	 \$ 0.24	 \$ 0.09	 \$ 1.78
Weighted average shares outstanding				
Basic	17,369	17,320	17,378	17,509
Dilutive effect of outstanding stock options and nonvested stock		29	23	45
 Diluted	 17,369	 17,349	 17,401	 17,554

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SurModics, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows

	Six Months Ended	
	March 31,	
	2010	2009
	<i>(unaudited)</i>	
<i>(In thousands)</i>		
Operating Activities:		
Net income	\$ 1,490	\$ 31,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,852	2,999
Loss (gain) on equity method investment and sales of investments	(3)	221
Amortization of premium on investments	68	69
Stock-based compensation	2,760	3,632
Purchased in-process research and development		3,200
Restructuring charges	1,306	1,798
Asset impairment charge	2,074	
Deferred taxes	856	9,203
Tax benefits from exercise of stock options	(90)	273
Change in operating assets and liabilities:		
Accounts receivable	(1,485)	1,721
Inventories	18	(454)
Accounts payable and accrued liabilities	(956)	(2,529)
Income taxes	(1,129)	1,427
Deferred revenue	3,573	(36,118)
Prepays and other	19	119
 Net cash provided by operating activities	 12,353	 16,862
 Investing Activities:		
Purchases of property and equipment	(5,614)	(11,269)
Purchases of available-for-sale investments	(10,696)	(12,280)
Sales/maturities of investments	6,172	16,373
Business acquisition	(750)	(4,040)
Other investing activities	(501)	(202)
 Net cash used in investing activities	 (11,389)	 (11,418)
 Financing Activities:		
Tax benefit from exercise of stock options	90	(273)
Issuance of common stock	892	655
Repurchase of common stock	(2,032)	(14,998)
Purchase of common stock to pay employee taxes	(376)	(436)
Repayment of notes payable		(236)
 Net cash used in financing activities	 (1,426)	 (15,288)

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Net change in cash and cash equivalents	(462)	(9,844)
Cash and Cash equivalents		
Beginning of period	11,636	15,376
End of period	\$ 11,174	\$ 5,532

Supplemental Information

Cash paid for income taxes	\$ 1,180	\$ 7,869
Noncash transaction accrued contingent consideration or accrued earnout payments in connection with business acquisitions	\$	\$ 4,530
Noncash transaction acquisition of property, plant, and equipment on account	\$ 195	\$ 3,977
Noncash transaction acquisition of intangible assets on account	\$ 210	\$ 631

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SurModics, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Period Ended March 31, 2010
(Unaudited)

(1) Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect all adjustments, consisting solely of normal recurring adjustments, needed to fairly present the financial results for the periods presented. These financial statements include some amounts that are based on management 's best estimates and judgments. These estimates may be adjusted as more information becomes available, and any adjustment could be significant. The impact of any change in estimates is included in the determination of earnings in the period in which the change is identified. The results of operations for the three-month and six-month periods ended March 31, 2010 are not necessarily indicative of the results that may be expected for the entire 2010 fiscal year.

In accordance with the rules and regulations of the United States Securities and Exchange Commission, the Company has omitted footnote disclosures that would substantially duplicate the disclosures contained in the audited financial statements of the Company. These unaudited condensed consolidated financial statements should be read together with the audited consolidated financial statements for the year ended September 30, 2009, and footnotes thereto included in the Company 's Form 10-K/A as filed with the United States Securities and Exchange Commission on December 14, 2009.

In September 2008, following a strategic review of Merck & Co., Inc. 's (Merck) business and product development portfolio, Merck gave notice to SurModics of Merck 's intent to terminate a collaborative research and license agreement (Merck Agreement) and separate supply agreement entered into in June 2007. The termination was effective December 16, 2008. The Company recognized revenue of approximately \$45 million in the first six months of fiscal 2009 principally from amounts that previously had been deferred and amortized under the then existing accounting treatment required for revenue arrangements with multiple deliverables and a \$9 million milestone payment associated with the termination of the triamcinolone acetonide development program under the Merck Agreement. The fiscal 2009 six month revenue associated with the Merck Agreement is reflected in royalties and license fees (\$37.6 million) and in research and development fees (\$7.5 million).

Subsequent events have been evaluated through the date the financial statements were issued.

(2) Key Accounting Policies and Recent Accounting Pronouncements**Revenue recognition**

This revenue recognition section includes the Company 's historical policies as well as adoption of any applicable accounting guidance that has been issued during fiscal 2010.

The Company recognizes revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) shipment has occurred or delivery has occurred if the terms specify destination; (3) the sales price is fixed or determinable; and (4) collectability is reasonably assured. When there are additional performance requirements, revenue is recognized when all such requirements have been satisfied.

The Company 's revenue is derived from three primary sources: (1) royalties and license fees from licensing its proprietary drug delivery and surface modification technologies to customers; (2) the sale of polymers and reagent chemicals, stabilization products, antigens, substrates and microarray slides to the diagnostics and biomedical research industries; and (3) research and development fees generated on customer projects.

Royalties and licenses fees. The Company licenses technology to third parties and collects royalties. Royalty revenue is generated when a customer sells products incorporating the Company 's licensed technologies. Royalty revenue is recognized as licensees report it to the Company, and payment is typically submitted concurrently with the report. This revenue recognition model is similar to usage fee accounting. Minimum royalty fees are recognized in the period earned, provided that collectability is reasonably assured. For stand-alone license agreements, up-front license fees are recognized over the term of the related licensing agreement.

Milestone payments. Revenue related to a performance milestone is recognized based upon the achievement of the milestone, as defined in the respective agreements and provided the following conditions have been met:

The milestone payment is non-refundable;

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The milestone involved a significant degree of risk, and was not reasonably assured at the inception of the arrangement;

Accomplishment of the milestone involved substantial past effort/performance;

The amount of the milestone payment is commensurate with the related effort and risk;

The milestone payment is reasonable in comparison to all of the deliverables and payment terms in the arrangement; and

A reasonable amount of time passed between the initial license payment and the first and subsequent milestone payments.

If these conditions have not been met, the milestone payment is deferred and recognized over the term of the agreement.

Product sales. Product sales to third parties are recognized at the time of shipment, provided that an order has been received, the price is fixed or determinable, collectability of the resulting receivable is reasonably assured and returns can be reasonably estimated. The Company's sales terms provide no right of return outside of the standard warranty policy. Payment terms are generally set at 30-45 days.

Research and development. The Company performs third party research and development activities, which are typically provided on a time and materials basis. Generally, revenue for research and development is recorded as performance progresses under the applicable contract.

Arrangements with multiple deliverables. Prior to October 1, 2009, arrangements such as license and development agreements were analyzed to determine whether the deliverables, which often include a license and performance obligations such as research and development, could be separated, or whether they must be accounted for as a single unit of accounting in accordance with accounting guidance. If the fair value of the undelivered performance obligations could be determined, such obligations would then be accounted for separately. If the license was considered to either (i) not have stand-alone value or (ii) have stand-alone value but the fair value of any of the undelivered performance obligations could not be determined, the arrangement would then be accounted for as a single unit of accounting, and the license payments and payments for performance obligations would be recognized as revenue over the estimated period of when the performance obligations are performed, or the economic life of the technology licensed to the customer. When the Company determined that an arrangement should be accounted for as a single unit of accounting, it recognized the related revenue on a time-based accounting model.

The Company had one significant multiple element arrangement prior to October 1, 2009 that was accounted for as a single unit of accounting resulting in deferral and recognition of all related payments received for license and research and development activities using a time-based model. This arrangement was terminated during the first quarter of fiscal 2009 as described in Note 1 above.

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for multiple deliverable revenue arrangements to:

- (i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- (ii) require an entity to allocate revenue in an arrangement using estimated selling prices (ESP) of deliverables if a vendor does not have vendor-specific objective evidence of selling price (VSOE) or third-party evidence of selling price (TPE); and
- (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The Company elected to early adopt this accounting guidance at the beginning of its first quarter of fiscal 2010, on a prospective basis, for applicable transactions originating or materially modified after October 1, 2009. In connection with the adoption of the amended accounting standard the Company also changed its policy prospectively for multiple

element arrangements, whereby the Company accounts for revenue using a multiple attribution model in which consideration allocated to research and development activities is recognized as performed, and milestone payments are recognized when the milestone events are achieved, when such activities and milestones are deemed substantive. Accordingly, in situations where a unit of accounting includes both a license and research and development activities, and when a license does not have stand alone value, the Company applies a multiple attribution model in which consideration allocated to the license is recognized ratably, consideration allocated to research and development activities is recognized as performed and milestone payments are recognized when the milestone events are achieved, when such activities and milestones are deemed substantive.

The Company enters into license and development arrangements that may consist of multiple deliverables which could include a license(s) to SurModics technology, research and development activities, manufacturing services, and product sales based on the needs of its customers. For example, a customer may enter into an arrangement to obtain a license to SurModics intellectual property which may also include research and development activities, and supply of products manufactured by SurModics. For these services

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provided, SurModics could receive upfront license fees upon signing of an agreement and granting the license, fees for research and development activities as such activities are performed, milestone payments contingent upon advancement of the product through development and clinical stages to successful commercialization, fees for manufacturing services and supply of product, and royalty payments based on customer sales of product incorporating SurModics technology. The Company's license and development arrangements generally do not have refund provisions if the customer cancels or terminates the agreement. Typically all payments made are non-refundable.

The Company evaluates each deliverable in a multiple element arrangement for separability. The Company is then required to allocate revenue to each separate deliverable using a hierarchy of VSOE, TPE, or ESP. In certain instances, the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements which may be a result of the Company infrequently selling each element separately. When VSOE cannot be established, the Company establishes a selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately.

When the Company is unable to establish a selling price using VSOE or TPE, the Company uses ESP in its allocation of arrangement consideration. The objective of ESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. ESP is generally used for highly customized offerings.

The Company determines ESP for undelivered elements by considering multiple factors including, but not limited to, market conditions, competitive landscape and past pricing arrangements with similar characteristics.

Net sales as reported and pro forma net sales that would have been reported for the three-month and six-month periods ended March 31, 2010, if the transactions entered into or materially modified after September 30, 2009 were subject to the Company's accounting policies under the previous accounting guidance, are shown in the following table (*in thousands*):

	Three months ended March 31, 2010		Six months ended March 31, 2010	
	As Reported	Pro Forma Basis as if the Previous Accounting Guidance Were in Effect	As Reported	Pro Forma Basis as if the Previous Accounting Guidance Were in Effect
Total multiple element arrangement revenue	\$ 2,355	\$ 114	\$ 3,377	\$ 170

The impact to revenue for the three-month and six-month periods ended March 31, 2010 associated with adoption of the new accounting guidance was primarily related to research and development activities. The Company's accounting policies under the previous accounting guidance would have resulted in partial recognition of the research and development revenue in the current periods with the remainder deferred and recognized over the economic life of the technology. Under the new accounting guidance, the Company is recognizing research and development revenue as the activities are performed. The Company notes that this new accounting guidance will result in current revenue recognition of research and development activities in the period the activities are performed with the revenue generated changing from period to period based on the stage of project development. The amount of revenue that is recognized could be material in any reporting period.

In April 2010, the FASB issued updated authoritative accounting guidance which provides a consistent framework for applying the milestone method of revenue recognition in arrangements that include research or development deliverables. The amendments are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010 with early adoption permitted. The Company is evaluating the guidance and does not expect the adoption to have a material impact on the Company's consolidated

financial statements.

Other accounting areas

In April 2008, the FASB issued authoritative accounting guidance which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under goodwill and other intangible asset accounting. The authoritative guidance is intended to improve the consistency between the useful life of a recognized intangible asset under goodwill and intangible asset accounting and the period of the expected cash flows used to measure the fair value of the asset under business combination accounting and other GAAP. The adoption of the authoritative guidance did not have a material impact on the Company's consolidated financial statements.

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In September 2006, the FASB issued authoritative accounting guidance associated with fair value measurements. This guidance defines fair value, establishes a consistent framework for measuring fair value, gives guidance regarding methods used for measuring fair value and expands disclosures about fair value measurements. These provisions were implemented in fiscal 2009. See Note 3 for additional information regarding fair value measurements. However, in February 2008, the FASB issued guidance that delayed the effective date from fiscal 2009 to fiscal 2010 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the authoritative guidance did not have a material impact on the Company's consolidated financial statements.

No other new accounting pronouncement issued or effective has had, or is expected to have, a material impact on the Company's consolidated financial statements.

(3) Fair Value Measurements

Effective October 1, 2008, the Company adopted the new accounting guidance on fair value measurements. The new guidance defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. The guidance is applicable for all financial assets and financial liabilities and for all nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received from selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

Fair Value Hierarchy

Accounting guidance on fair value measurements requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 Quoted (unadjusted) prices in active markets for identical assets or liabilities.

The Company's Level 1 asset consists of its investment in OctoPlus, N.V. (see Note 7 for further information). The fair market value of this investment is based on the quoted price of OctoPlus shares traded on the Amsterdam Stock Exchange.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

The Company's Level 2 assets consist of money market funds, U.S. Treasury securities, corporate bonds, municipal bonds, U.S. agency securities, agency and municipal securities, certain asset-backed securities and mortgage-backed securities. Fair market values for these assets are based on quoted vendor prices and broker pricing where all significant inputs are observable.

Level 3 Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

The Company's Level 3 assets include other U.S. government agency securities and mortgage-backed securities. The fair market values of these investments were determined by broker pricing where not all significant inputs were observable.

In valuing assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company did not significantly change its valuation techniques from prior periods.

Transfers of assets from Level 2 to Level 3 classifications are made when there is a lack of observable market data resulting from a decrease in market activity for the affected securities.

The Company's policy is to recognize transfers in and out of Level 3 using the value at the beginning of the reporting period.

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In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2010 (*in thousands*):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of March 31, 2010
Assets:				
Cash equivalents	\$	\$ 8,092	\$	\$ 8,092
Available for sale debt securities				
US government obligations		19,233	924	20,157
Mortgage backed securities		6,356	145	6,501
Municipal bonds		5,153		5,153
Asset back securities		1,862		1,862
Corporate bonds		1,780		1,780
Other assets	2,714			2,714
Total assets measured at fair value	\$ 2,714	\$ 42,476	\$ 1,069	\$ 46,259

Short-term and long-term investments disclosed in the condensed consolidated balance sheets include held-to-maturity investments totaling \$5.2 million as of March 31, 2010. Held-to-maturity investments are carried at an amortized cost.

Changes in Level 3 Instruments Measured at Fair Value on a Recurring Basis

The following tables provide a reconciliation of fiscal 2010 financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) based on accounting guidance that is applicable for periods ended March 31, 2010 (*in thousands*):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For the three months ended March 31, 2010		
	Available -for-Sale Debt Securities		
	U.S. government obligations	Mortgage Backed	Total
Balance, December 31, 2009	\$ 1,002	\$ 75	\$ 1,077
Transfers into Level 3		70	70
Total realized and unrealized gains (losses):			
Included in other comprehensive (loss) income	(6)	3	(3)
Purchases, issuances, sales and settlements, net	(72)	(3)	(75)

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56.42 46.49 34.97 28.90

- (1) On June 15, 2012, we paid a stock dividend to all shareholders of our common stock of record on June 1, 2012 of one share of common stock for each share of common stock outstanding. All share price information has been adjusted to reflect the stock dividend paid on June 15, 2012.

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

Stock Performance Graph. Below is a line graph comparing the cumulative total shareholder return for our common stock with the cumulative total shareholder return for the Automotive Parts & Accessories Peer Group of the Morningstar Group Index (formerly Hemscott Group Index) and the NASDAQ Composite Market Index for the period from December 27, 2008 to December 28, 2013. The Automotive Parts & Accessories Peer Group is comprised of 130 public companies and the information was furnished by Morningstar, Inc. through Zacks Investment Research, Inc. The graph assumes \$100 invested on December 27, 2008 in our common stock and each of the indices, and that the dividends were reinvested when and as paid. In calculating the cumulative total shareholder returns, the companies included are weighted according to the stock market capitalization of such companies.

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Stock Repurchases

During the last three months of the fiscal year ended December 28, 2013, we purchased shares of our Common Stock as follows:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2)
September 29, 2013 through October 26, 2013	4,030	\$ 48.29		
October 27, 2013 through November 23, 2013	3,140	\$ 47.30		
November 24, 2013 through December 28, 2013	11,196	\$ 51.69		\$ 10,000,000
Total	18,366	\$ 50.19		\$ 10,000,000

- (1) Includes 1,956 shares of our common stock withheld from participants for income tax withholding purposes in connection with the vesting of restricted stock grants during the period. The restricted stock was issued to participants pursuant to our 2008 Stock Option and Incentive Plan. Also includes 16,410 shares purchased from the Dorman Products, Inc. 401(k) Plan and Trust (as described in Note 12 to the Notes to Consolidated Financial statements in this annual report on Form 10-K).
- (2) On December 12, 2013 we announced that our Board of Directors authorized the purchase of up to \$10 million of our outstanding common stock. This stock repurchase authorization expires at the end of 2014. Under this program, share repurchases may be made from time to time depending on market conditions, share price and availability and other factors at our discretion. We did not purchase any shares under this program during the quarter ended December 28, 2013.

Item 6. Selected Financial Data.

(in thousands, except per share data)	December 28, 2013	December 29, 2012 (c)	Fiscal year ended (1) December 31, 2011 (d)	December 25, 2010	December 26, 2009
Statement of Operations Data:					
Net sales	\$ 664,466	\$ 570,420	\$ 513,432	\$ 438,205	\$ 358,519
Income from operations	127,939	\$ 104,231	87,637	76,807	44,098
Income from continuing operations	81,920	66,405	56,202	48,101	26,968
Income (loss) from discontinued operations (a)		4,557	(2,925)	(1,963)	(473)
Net income	\$ 81,920	\$ 70,962	\$ 53,277	\$ 46,138	\$ 26,495
Earnings per share					
Basic					
Income from continuing operations	\$ 2.25	\$ 1.84	\$ 1.57	\$ 1.35	\$ 0.76
Income (loss) from discontinued operations		0.12	(0.08)	(0.06)	(0.01)
Net income	\$ 2.25	\$ 1.96	\$ 1.49	\$ 1.29	\$ 0.75
Diluted					
Income from continuing operations	\$ 2.24	\$ 1.82	\$ 1.55	\$ 1.33	\$ 0.75

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Income (loss) from discontinued operations		0.12	(0.08)	(0.06)	(0.01)
Net income	\$ 2.24	\$ 1.94	\$ 1.47	\$ 1.27	\$ 0.74
Balance Sheet Data:					
Total assets	\$ 529,169	\$ 412,683	\$ 382,116	\$ 326,960	\$ 260,203
Working capital	\$ 340,702	\$ 272,364	\$ 265,600	\$ 218,935	\$ 173,153
Long-term debt	\$	\$	\$	\$	\$ 266
Dividends paid (b)	\$	\$ 54,716	\$	\$	\$
Shareholders' equity	\$ 413,641	\$ 332,872	\$ 317,103	\$ 263,153	\$ 215,335

- (1) We operate on a fifty-two, fifty-three week period ending on the last Saturday of the calendar year.
- (a) On September 21, 2011, we announced our plan to exit the international portion of our ScanTech business due to continued operating losses and to focus on growing our North American business. The results of ScanTech have been presented as a discontinued operation in the Statement of Operations data presented above.
- (b) On December 5, 2012, we announced a special cash dividend of \$1.50 per share of common stock payable on December 28, 2012 to shareholders of record at the close of business on December 17, 2012.

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- (c) Net income from discontinued operations includes a reclassification of approximately \$3.0 million of a previously recognized currency translation adjustments from accumulated other comprehensive income to net income (\$0.08 per share) and \$1.4 million of benefits related to foreign tax credits we expect to utilize in the future (\$0.04 per share).
- (d) Net income from discontinued operations includes charges of \$2.2 million to write down inventory and tooling (\$0.06 per share) and \$0.4 million to write down other assets and to accrue employee-related costs (\$0.01 per share).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward Looking Statements

Certain statements in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. While forward-looking statements sometimes are presented with numerical specificity, they are based on various assumptions made by management regarding future circumstances over many of which the Company has little or no control. Forward-looking statements may be identified by words including anticipate, believe, estimate, expect, and similar expressions. The Company cautions readers that forward-looking statements, including, without limitation, those relating to future business prospects, revenues, working capital, liquidity, and income, are subject to certain risks and uncertainties that would cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ from forward-looking statements include but are not limited to competition in the automotive aftermarket industry, unfavorable economic conditions, loss of suppliers, loss of third-party transportation providers, an increase in patent filings by original equipment manufacturers, quality problems, delay in the development and design of new products, space limitations on our customers' shelves, concentration of the Company's sales and accounts receivable among a small number of customers, the impact of consolidation in the automotive aftermarket industry, foreign currency fluctuations, timing and amount of customers' orders of Company's products, dependence on senior management, disruption from events beyond the Company's control, and other risks and factors identified from time to time in the reports the Company files with the SEC. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. For additional information concerning factors that could cause actual results to differ materially from the information contained in this report, reference is made to the information in Part I, Item 1A Risk Factors.

Overview

We are a leading supplier of replacement parts and fasteners for passenger cars, light trucks, and heavy duty trucks in the automotive aftermarket. We distribute and market approximately 150,000 different SKU's of automotive replacement parts, many of which we design and engineer. These SKU's are sold under our various brand names, under our customers' private label brands or in bulk. We believe we are the dominant aftermarket supplier of original equipment dealer exclusive items. Original equipment dealer exclusive parts are those parts which were traditionally available to consumers only from original equipment manufacturers or salvage yards. These parts include, among other parts, intake manifolds, exhaust manifolds, window regulators, radiator fan assemblies, tire pressure monitor sensors, complex electronics devices, and exhaust gas recirculation (EGR) coolers.

We generate virtually all of our revenues from customers in the North American automotive aftermarket, primarily in the United States and Canada. Our products are sold through automotive aftermarket retailers; national, regional and local warehouse distributors and specialty markets; and salvage yards. We distribute automotive replacement parts outside the United States, with sales into Europe, Mexico, the Middle East, Asia and Canada.

Executive Overview

We achieved record net sales and net income in 2013. Net sales from continuing operations increased 16% over fiscal 2012 levels to \$664.5 million, while net income from continuing operations increased 23% to \$81.9 million. We believe our strong financial results have been driven by favorable industry dynamics, sales growth resulting from new product sales, continued investments in new product development and a commitment to process improvements.

The automotive aftermarket has benefited from some of the factors affecting the general economy, including the impact of the recent recession, continued high unemployment, and high gas prices. We believe vehicle owners have become more likely to keep their current vehicles longer and perform necessary repairs and maintenance in order to keep those vehicles well maintained as a result of these factors. According to data published by Polk, a division of IHS Automotive, the average age of vehicles increased to 11.4 years as of August 2013. The number of miles driven is another important statistic that impacts our business. Generally, as vehicles are driven more miles, the more likely it is that parts will fail. The combination of the vehicle age increase and number of miles driven has accounted for a portion of our sales growth.

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The overall automotive aftermarket in which we compete has benefited from the conditions mentioned above. However, our customer base has consolidated in recent years. As a result, our customers regularly seek more favorable pricing, product returns and extended payment terms when negotiating with us. We attempt to avoid or minimize these concessions as much as possible, but we have granted pricing concessions, increased customer payment terms and allowed higher level of product returns in certain cases. These concessions impact our profit levels and may require additional capital to finance the business. We expect our customers to continue to exert pressure on our margins as the customer base continues to consolidate.

New product development is a critical success factor for us and is our primary vehicle for growth. We have made incremental investments to increase our new product development efforts each year since 2003 in an effort to grow our business and strengthen our relationships with our customers. The investments are primarily in the form of increased product development resources, increased customer and end-user awareness programs and customer service improvements. These investments have enabled us to provide an expanding array of new product offerings and grow revenues at levels that exceed market growth rates.

In 2012, we introduced a new line of products to be marketed for the medium and heavy duty truck aftermarket. We believe that this market provides many of the same opportunities for growth that the automotive aftermarket has provided us over the past several years. Our focus here is on Formerly Dealer Only parts as it is on the automotive side of the business. We launched the initial program with a limited offering, but have made additional investments in new product development efforts to expand our product offering. We currently have approximately 300 SKU s in our medium and heavy duty product line. Revenues from this product line were approximately 1% of our net sales in 2013.

In September 2013, we launched our Hybrid Drive Battery program which provides broad coverage for the most popular hybrid vehicles in service. Our hybrid drive battery packs are completely remanufactured and are extensively tested to ensure performance. Our hybrid drive batteries are plug and play direct replacements, ready to install and requiring no programming time or expense thus saving the service technicians time and the hybrid vehicle owner s money.

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

We operate on a fifty-two, fifty-three week period ended on the last Saturday of the calendar year. The fiscal years ended December 28, 2013 and December 29, 2012 were fifty-two week periods. The fiscal year ended December 31, 2011 was a fifty-three week period.

Discontinued Operations

On September 21, 2011, we announced our plan to exit the international portion of our ScanTech business due to continued operating losses and to focus on growing our North American business. ScanTech was headquartered outside Stockholm, Sweden and distributed a line of Volvo and Saab replacement parts throughout the world. ScanTech s results of operations have been presented as a discontinued operation in the Consolidated Statement of Operations.

Results of Operations

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

	Percentage of Net Sales For the Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	60.7	62.3	63.1
Gross profit	39.3	37.7	36.9
Selling, general and administrative expenses	20.0	19.4	19.8
Income from operations	19.3	18.3	17.1

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Interest expense, net	0.1	0.0	0.1
Income from continuing operations before income taxes	19.2	18.3	17.0
Provision for income taxes	6.9	6.7	6.1
Net income from continuing operations	12.3%	11.6%	10.9%

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Fiscal Year Ended December 28, 2013 Compared to Fiscal Year Ended December 29, 2012

Net sales increased 16% to \$664.5 million from \$570.4 million last year. Our revenue growth was primarily driven by strong overall demand for our new products, especially those new products introduced in the preceding 24 months.

Cost of goods sold, as a percentage of net sales, decreased to 60.7% in fiscal 2013 from 62.3% in fiscal 2012. A favorable change in sales mix towards higher margin new products and the positive effects of price increases in select customer groups contributed to the improved gross margin during fiscal 2013. In addition, lower transportation costs were partially offset by \$0.8 million of higher excess and obsolete inventory charges in the 2013 period compared to the same period in 2012.

Selling, general and administrative expenses in fiscal 2013 increased approximately 20% to \$133.0 million compared to \$111.0 million in fiscal 2012. The spending increase was primarily due to higher variable costs associated with our 16% sales growth, \$3.7 million in additional investments in product management and other resources to support our new product growth efforts and \$3.2 million of depreciation and other related support costs associated with our enterprise resource planning system implementation. In addition, in January 2013 one large customer changed the way it distributes our product through its network. As a result, our selling, general and administrative costs increased by approximately \$4.6 million in fiscal 2013. Also, financing costs associated with the accounts receivable sales program increased \$0.8 million in fiscal 2013 compared to fiscal 2012.

Interest expense, net, was \$0.2 million in fiscal 2013 compared to \$0.1 million in fiscal 2012.

Our effective tax rate was 35.9% in fiscal 2013 compared to 36.2% in fiscal 2012. The effective tax rate in fiscal 2013 benefited from increased research and development tax credits and from lower state income taxes.

Fiscal Year Ended December 29, 2012 Compared to Fiscal Year Ended December 31, 2011

Net sales increased 11% over the prior year to \$570.4 million from \$513.4 million last year. Excluding the impact of an additional \$4.8 million in sales due to a fifty-third week in fiscal 2011, revenues increased 12% over fiscal 2011 levels. Our revenue growth was driven by overall strong demand for our products and higher new product sales.

Cost of goods sold, as a percentage of net sales decreased to 62.3% in fiscal 2012 from 63.1% in the same period last year. Lower transportation costs contributed approximately one-half of the difference. The remaining variance was primarily the result of a favorable sales mix towards higher margin products, and provisions for excess and obsolete inventory were \$1.0 million lower in fiscal 2012 than in fiscal 2011.

Selling, general and administrative expenses in fiscal 2012 increased 9% to \$111.0 million from \$101.6 million in fiscal 2011. The spending increase in fiscal 2012 was primarily the result of approximately \$3.2 million of increased payroll expenses due to investments in additional product management and other resources to support our product development and growth efforts, \$1.7 million of higher incentive compensation expenses and \$0.9 million of increased financing costs associated with our accounts receivable sales programs. However, selling, general and administrative expenses decreased to 19.4% of net sales from 19.8% of net sales as we were able to leverage our expenses over growing net sales.

Interest expense, net, was \$0.1 million in fiscal 2012 and fiscal 2011.

Our effective tax rate increased to 36.2% in fiscal 2012 from 35.8% in the prior year. The effective tax rate in fiscal 2011 was favorably impacted by the 2011 receipt of tax exempt life insurance proceeds to fund an officer's death benefit.

Liquidity and Capital Resources

Historically, we have financed our growth through a combination of cash flow from operations, accounts receivable sales programs provided by certain customers and through the issuance of senior indebtedness through our bank credit facility and senior note agreements. Cash and cash equivalents as of December 28, 2013 increased to \$60.6 million from \$27.7 million as of December 29, 2012 primarily due to increased operating cash flow which was not fully offset by capital expenditures. Working capital was \$340.7 million at December 28, 2013 compared to \$272.4 million at December 29, 2012. We had no long-term debt or borrowings under our Revolving Credit Facility at December 28, 2013 or December 29, 2012. Shareholders' equity was \$413.6 million at December 28, 2013 and \$332.9 million at December 29, 2012.

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Over the past several years we have continued to extend payment terms to certain customers as a result of customer requests and market demands. These extended terms have resulted in increased accounts receivable levels and significant uses of cash flow. We participate in accounts receivable sales programs with several customers which allow us to sell our accounts receivable to financial institutions to offset the negative cash flow impact of these payment terms extensions. During fiscal 2013 and fiscal 2012,

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we sold approximately \$406.4 million and \$312.7 million, respectively, under these programs. We had the ability to sell significantly more accounts receivable under these programs if the needs of the business warranted. We expect continued pressure to extend our payment terms for the foreseeable future. Further extensions of customer payment terms will result in additional uses of cash flow or increased costs associated with the sale of accounts receivable.

We have a \$30.0 million Revolving Credit Facility which expires in June 2015. Borrowings under the facility are on an unsecured basis with interest rates ranging from LIBOR plus 75 basis points to LIBOR plus 250 basis points based upon the achievement of certain benchmarks related to the ratio of funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA). The interest rate at December 28, 2013 was LIBOR plus 75 basis points (0.92%). There were no borrowings under the Revolving Credit Facility as of December 28, 2013. As of December 28, 2013, we had three letters of credit outstanding for approximately \$0.9 million in the aggregate which were issued to secure ordinary course of business transactions. We had approximately \$29.1 million available under the facility at December 28, 2013, net of these letters of credit. The loan agreement also contains covenants, the most restrictive of which pertain to net worth and the ratio of debt to EBITDA. As of December 28, 2013, we were in compliance with all financial covenants contained in the Revolving Credit Facility.

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commercial Commitments

We have obligations for future minimum rental and similar commitments under non-cancellable operating leases as well as contingent obligations related to outstanding letters of credit. These obligations as of December 28, 2013 are summarized in the tables below (in thousands):

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 years	3-5 years	Thereafter
Operating leases	\$ 12,548	\$ 3,115	\$ 5,686	\$ 3,747	\$
	\$ 12,548	\$ 3,115	\$ 5,686	\$ 3,747	\$

Other Commercial Commitments	Total Amount Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1-3 years	3-5 years	Thereafter
Letters of Credit	\$ 850	\$	\$ 850	\$	\$
	\$ 850	\$	\$ 850	\$	\$

We have excluded from the table above unrecognized tax benefits due to the uncertainty of the amount and period of payment. As of December 28, 2013, the Company has gross unrecognized tax benefits of \$1.2 million (see Note 10, Income Taxes, to the Consolidated Financial Statements).

Cash Flows

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

(in thousands)	December 28, 2013	December 29, 2012	December 31, 2011
Cash provided by operating activities	\$ 61,559	\$ 48,911	\$ 38,063

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Cash used in investing activities	(26,563)	(18,078)	(18,102)
Cash used in financing activities	(2,111)	(53,390)	(4)
Effect of exchange rate changes on cash and cash equivalents		69	(224)
Net increase (decrease) in cash and cash equivalents	\$ 32,885	\$ (22,488)	\$ 19,733

Cash provided by operating activities in fiscal 2013 increased by \$12.6 million compared to fiscal 2012 primarily due to a \$11.0 million increase in net income in fiscal 2013 compared to fiscal 2012. The sales growth in fiscal 2013 and fiscal 2012 resulted in additional accounts receivable, inventory and accounts payable. In addition, the timing of Chinese New Year and purchases to support anticipated future growth resulted in increased inventory and accounts payable in fiscal 2013 compared to fiscal 2012.

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Cash provided by operating activities in fiscal 2012 increased by \$10.8 million compared to fiscal 2011 primarily due to a \$17.7 million increase in net income which was partially offset by a \$3.0 million non-cash foreign exchange gain resulting from the substantial liquidation of our ScanTech subsidiary in fiscal 2012 and \$1.7 million increase in working capital needs in fiscal 2012. Due to our growth during the periods of fiscal 2012 and fiscal 2011, accounts receivable, inventory and accounts payable increased.

Investing activities used \$26.6 million of cash in fiscal 2013 and \$18.1 million of cash in each of fiscal 2012 and fiscal 2011 as a result of additions to property, plant and equipment. Capital spending in each period was related to the following significant projects:

In the third quarter of fiscal 2010, we began a project to replace our enterprise resource planning (ERP) system. This project is expected to cost between \$36 million and \$39 million for capitalized software, installation services and internal costs through 2014. Through December 28, 2013, we have paid \$22.7 million for the project, of which \$7.4 million was spent in fiscal 2013, \$8.7 million was spent in fiscal 2012 and \$4.8 was spent in fiscal 2011. The installation of the new ERP system was completed at one of our subsidiaries in January 2013 without any disruption to our operations.

During fiscal 2013, we completed a second expansion of our distribution facility in Warsaw, Kentucky. We spent \$5.7 million on this project in fiscal 2013. During fiscal 2011, we completed our first expansion. We spent \$6.3 million on this project in fiscal 2011.

The remaining capital spending in each period was related to tooling associated with new products, scheduled equipment replacements and other capital projects.

Additionally, we used approximately \$1.9 million of cash on hand in fiscal 2013 to acquire certain assets and assume certain liabilities of a remanufacturer of hybrid battery systems.

Cash used by financing activities was \$2.1 million in fiscal 2013 compared to \$53.4 million in fiscal 2012. On December 5, 2012 we announced a special cash dividend of \$1.50 per share payable on December 28, 2012 to shareholders of record at the close of business on December 17, 2012. Total cash payments resulting from this dividend were \$54.7 million in fiscal 2012. The remaining sources and uses of cash from financing activities in each period result from stock option activity and the repurchase of common stock from our 401(k) Plan.

Based on our current operating plan, we believe that our sources of available capital are adequate to meet our ongoing cash needs for at least the next twelve months.

Foreign Currency

In fiscal 2013, approximately 75% of our products were purchased from vendors in a variety of foreign countries. The products generally are purchased through purchase orders with the purchase price specified in U.S. dollars. Accordingly, we generally do not have exposure to fluctuations in the relationship between the dollar and various foreign currencies between the time of execution of the purchase order and payment for the product. To the extent that the dollar decreases in value relative to foreign currencies in the future, the price of the product in dollars for new purchase orders may increase.

The largest portion of our overseas purchases comes from China. Since January 2011, the value of the Chinese Yuan has increased approximately 7.9% relative to the U.S. Dollar. A continued increase in the value of the Yuan relative to the U.S. Dollar will likely result in an increase in the cost of products that we purchase from China.

Impact of Inflation

The overall impact of inflation has not resulted in a significant change in labor costs or the cost of general services utilized. The cost of many commodities that are used in our products has fluctuated over time resulting in increases and decreases in the prices of our products. In addition, we have periodically experienced increased transportation costs as a result of higher fuel prices. We will attempt to offset cost increases by passing along selling price increases to customers, using alternative suppliers and by sourcing purchases from other countries. However there

can be no assurance that we will be successful in these efforts.

Related-Party Transactions

We have a noncancelable operating lease for our primary operating facility from a partnership in which Steven L. Berman, our Chairman and Chief Executive Officer, and his family members are partners. Total annual rental payments each year to the partnership under the lease arrangement was \$1.5 million in each of fiscal 2013 and fiscal 2012 and was \$1.4 million in fiscal 2011. 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.

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We are a partner in a joint venture with one of our suppliers. Purchases from this joint venture were \$5.6 million, \$5.4 million and \$1.7 million in fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

Critical Accounting Policies

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

Allowance for Doubtful Accounts. The preparation of our financial statements requires us to make estimates of the collectability of our accounts receivable. We specifically analyze accounts receivable and historical bad debts, customer creditworthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. A significant percentage of our accounts receivable have been, and will continue to be, concentrated among a relatively small number of automotive retailers and warehouse distributors in the United States. Our five largest customers accounted for 81% and 86% of net accounts receivable as of December 28, 2013 and December 29, 2012, respectively. A bankruptcy or financial loss associated with a major customer could have a material adverse effect on our sales and operating results.

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

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

Goodwill. Goodwill is reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of the goodwill may be impaired. In regards to the annual test, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. During fiscal 2013 and fiscal 2012, we assessed the qualitative factors which could affect the fair values of our reporting units and determined that it was not more likely than not that the fair values of each reporting unit was less than its carrying amount.

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

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New and Recently Adopted Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Our market risk is the potential loss arising from adverse changes in interest rates. Substantially all of our available credit and accounts receivable sale programs bear interest rates tied to LIBOR. Under the terms of our Revolving Credit Facility and customer-sponsored programs to sell accounts receivable, a change in either the lender's base rate, LIBOR or discount rates under the accounts receivable sale programs would affect the rate at which we could borrow funds thereunder. A one percentage point increase in LIBOR or the discount rates on the accounts receivable sale programs would increase our interest expense on our variable rate debt, if any, and accounts receivable financing costs by approximately \$2.7 million in fiscal 2013 and \$1.8 million in fiscal 2012. This estimate assumes that our variable rate debt balance and the level of sales of accounts receivable remains constant for an annual period and the interest rate change occurs at the beginning of the period. The hypothetical changes and assumptions may be different from what actually occurs in the future.

Historically we have not and currently do not intend to use derivative financial instruments for trading or to speculate on changes in interest rates or commodity prices. We are not exposed to any significant market risks, foreign currency exchange risks, or interest rate risks from the use of derivative instruments. We did not hold any foreign exchange forward contracts at December 28, 2013.

Item 8. Financial Statements and Supplementary Data.

Our financial statement schedule that is filed with this annual report on Form 10-K is listed in Part IV Item 15 Exhibits, Financial Statements, Schedules.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Dorman Products, Inc.:

We have audited the accompanying consolidated balance sheets of Dorman Products, Inc. and subsidiaries as of December 28, 2013 and December 29, 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 28, 2013. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed under Item 15(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dorman Products, Inc. and subsidiaries as of December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 28, 2013, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dorman Products, Inc.'s internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Philadelphia, PA

February 25, 2014

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	For the Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Net sales	\$ 664,466	\$ 570,420	\$ 513,432
Cost of goods sold	403,498	355,211	324,165
Gross profit	260,968	215,209	189,267
Selling, general and administrative expenses	133,029	110,978	101,630
Income from operations	127,939	104,231	87,637
Interest expense, net	189	123	103
Income from continuing operations before income taxes	127,750	104,108	87,534
Provision for income taxes	45,830	37,703	31,332
Income from continuing operations	81,920	66,405	56,202
Income (loss) from discontinued operations		4,557	(2,925)
Net income	\$ 81,920	\$ 70,962	\$ 53,277
Earnings Per Share:			
Basic:			
Income from continuing operations	\$ 2.25	\$ 1.84	\$ 1.57
Income (loss) from discontinued operations		0.12	(0.08)
Net income	\$ 2.25	\$ 1.96	\$ 1.49
Diluted:			
Income from continuing operations	\$ 2.24	\$ 1.82	\$ 1.55
Income (loss) from discontinued operations		0.12	(0.08)
Net income	\$ 2.24	\$ 1.94	\$ 1.47
Weighted Average Shares Outstanding:			
Basic	36,347	36,124	35,866
Diluted	36,624	36,494	36,370

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	December 28, 2013	For the Year Ended December 29, 2012	December 31, 2011
Net income	\$ 81,920	\$ 70,962	\$ 53,277
Other comprehensive (loss) income:			
Currency translation adjustments		(2,810)	58
Comprehensive income	\$ 81,920	\$ 68,152	\$ 53,335

See accompanying Notes to Consolidated Financial Statements

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 28, 2013	December 29, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 60,593	\$ 27,708
Accounts receivable, less allowance for doubtful accounts and customer credits of \$65,879 and \$56,512	180,777	140,180
Inventories	164,421	145,270
Deferred income taxes	20,798	20,559
Prepays and other current assets	5,851	2,332
Total current assets	432,440	336,049
Property, plant and equipment, net	64,786	48,758
Goodwill and intangible assets, net	30,089	26,553
Other assets	1,854	1,323
Total	\$ 529,169	\$ 412,683
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 61,255	\$ 42,387
Accrued compensation	11,779	9,843
Other accrued liabilities	18,704	11,455
Total current liabilities	91,738	63,685
Other long-term liabilities	5,310	3,447
Deferred income taxes	18,480	12,679
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Common stock, par value \$0.01; authorized 50,000,000 shares; issued and outstanding 36,464,958 and 36,477,506 shares in 2013 and 2012, respectively	365	365
Additional paid-in capital	43,119	41,007
Retained earnings	370,157	291,500
Total shareholders' equity	413,641	332,872
Total	\$ 529,169	\$ 412,683

See accompanying Notes to Consolidated Financial Statements.

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands, except share data)

	Common Stock Shares Issued	Par Value	Additional Paid-In Capital	Cumulative Translation Adjustments	Retained Earnings	Total
Balance at December 25, 2010	35,774,688	\$ 358	\$ 34,744	\$ 2,752	\$ 225,299	\$ 263,153
Common stock issued under Employee Stock Purchase Plan	1,984		28			28
Shares issued under Incentive Stock Plan	291,318	3	626			629
Compensation expense under Incentive Stock Plan			620			620
Purchase and cancellation of common stock	(90,268)	(1)	(80)		(1,505)	(1,586)
Issuance of non-vested stock	178,800	2	(2)			
Other stock related activity			924			924
Net income					53,277	53,277
Currency translation adjustments (net of tax)				58		58
Balance at December 31, 2011	36,156,522	\$ 362	\$ 36,860	\$ 2,810	\$ 277,071	\$ 317,103
Shares issued under Incentive Stock Plan	394,861	4	1,602			1,606
Compensation expense under Incentive Stock Plan			1,007			1,007
Purchase and cancellation of common stock	(70,208)	(1)	(97)		(1,845)	(1,943)
Issuance of non-vested stock, net of cancellations	5,000					
Other stock related activity	(8,669)		1,635		28	1,663
Dividends paid					(54,716)	(54,716)
Net income					70,962	70,962
Currency translation adjustments (net of tax)				(2,810)		(2,810)
Balance at December 29, 2012	36,477,506	\$ 365	\$ 41,007	\$	\$ 291,500	\$ 332,872
Shares issued under Incentive Stock Plan	93,509	1	550			551
Compensation expense under Incentive Stock Plan			960			960
Purchase and cancellation of common stock	(78,580)	(1)	(142)		(3,346)	(3,489)
Cancellations of non-vested stock, net of issuances	(17,626)					
Other stock related activity	(9,851)		744		83	827
Net income					81,920	81,920
Balance at December 28, 2013	36,464,958	\$ 365	\$ 43,119	\$	\$ 370,157	\$ 413,641

See accompanying Notes to Consolidated Financial Statements.

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Cash Flows from Operating Activities:			
Net income	\$ 81,920	\$ 70,962	\$ 53,277
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation, amortization and accretion	10,159	8,225	7,737
Asset write-downs			2,583
Provision for doubtful accounts	194	266	318
Provision (benefit) for deferred income tax	267	(2,384)	(1,997)
Provision for non-cash stock compensation	960	1,007	620
Foreign exchange gain		(2,987)	
Changes in assets and liabilities:			
Accounts receivable	(40,791)	(9,730)	(22,962)
Inventories	(19,045)	(29,405)	2,794
Prepays and other current assets	840	293	(439)
Other assets	(376)	(144)	(406)
Accounts payable	17,627	10,738	(2,377)
Accrued compensation and other liabilities	9,804	2,070	(1,085)
Cash provided by operating activities	61,559	48,911	38,063
Cash Flows from Investing Activities:			
Property, plant and equipment additions	(24,666)	(18,078)	(18,102)
Acquisition	(1,897)		
Cash used in investing activities	(26,563)	(18,078)	(18,102)
Cash Flows from Financing Activities:			
Dividends paid		(54,716)	
Proceeds from exercise of stock options	551	1,606	629
Other stock related activity	827	1,663	953
Purchase and cancellation of common stock	(3,489)	(1,943)	(1,586)
Cash used in financing activities	(2,111)	(53,390)	(4)
Effect of exchange rate changes on Cash and Cash Equivalents		69	(224)
Net Increase (Decrease) in Cash and Cash Equivalents	32,885	(22,488)	19,733
Cash and Cash Equivalents, Beginning of Year	27,708	50,196	30,463
Cash and Cash Equivalents, End of Year	\$ 60,593	\$ 27,708	\$ 50,196
Supplemental Cash Flow Information			
Cash paid for interest expense	\$ 201	\$ 219	\$ 222
Cash paid for income taxes	\$ 44,291	\$ 35,329	\$ 33,398

See accompanying Notes to Consolidated Financial Statements.

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DORMAN PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 28, 2013

1. Summary of Significant Accounting Policies

Dorman Products, Inc. (Dorman, the Company, we, us, or our) is a leading supplier of Original Equipment (OE) Dealer Exclusive automotive replacement parts, automotive hardware, brake products and household hardware to the Automotive Aftermarket and Mass Merchandise markets. Dorman products are marketed under the OE Solutions, HELP®, TECHoice, AutoGrade, Conduct-Tite, FirstStop, Renew HD Solutions and Hybrid Drive Batteries brand names.

We operate on a fifty-two, fifty-three week period ending on the last Saturday of the calendar year. The fiscal years ended December 28, 2013 and December 29, 2012 were fifty-two week periods. The fiscal year ended December 31, 2011 was a fifty-three week period.

Principles of Consolidation. The Consolidated Financial Statements include our accounts and the accounts of our wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications. The previously reported Consolidated Financial Statements include an adjustment to present accrued customer rebates which may be settled in cash as an accrued liability. The effect of this reclassification adjustment was a \$6.4 million increase to accounts receivable and other accrued liabilities as of December 29, 2012. We believe the adjustment is inconsequential to any previous annual or interim Consolidated Financial Statements. Additionally, certain other amounts in the prior-years Consolidated Financial Statements have been reclassified to conform with current-year presentation.

Cash and Cash Equivalents. We consider all highly liquid short-term investments with original maturities of three months or less to be cash equivalents.

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. During fiscal 2013, fiscal 2012 and fiscal 2011, we sold \$406.4 million, \$312.7 million and \$208.8 million, respectively, pursuant to these agreements. If receivables had not been sold, \$267.8 million and \$180.5 million of additional receivables would have been outstanding at December 28, 2013 and December 29, 2012, respectively, based on standard payment terms. Selling, general and administrative expenses include \$5.2 million, \$4.4 million and \$3.5 million in fiscal 2013, fiscal 2012 and fiscal 2011, respectively, of financing costs associated with these accounts receivable sales programs.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. We provide reserves for discontinued and excess inventory based upon historical demand, forecasted usage, estimated customer requirements and product line updates.

Property and Depreciation. Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives, which range from three to thirty-nine years, using the straight-line method for financial statement reporting purposes and accelerated methods for income tax purposes. The costs of maintenance and repairs are expensed as incurred. Renewals and betterments are capitalized. Gains and losses on disposals are included in operating results.

Estimated useful lives by major asset category are as follows:

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Buildings and building improvements	10 to 39 years
Machinery, equipment and tooling	3 to 10 years
Software and computer equipment	3 to 10 years
Furniture, fixtures and leasehold improvements	3 to 15 years

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

Goodwill. Goodwill is reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of the goodwill may be impaired. In regards to the annual test, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. During fiscal 2013 and fiscal 2012, we assessed the qualitative factors which could affect the fair values of our reporting units and determined that it was not more likely than not that the fair values of each reporting unit was less than its carrying amount.

Other Assets. Other assets consist primarily of deposits and the equity value of an investment in a joint venture.

Other Accrued Liabilities. Other accrued liabilities consist primarily of accrued customer rebates which we expect to settle in cash of \$13.7 million and \$6.4 million as of December 28, 2013 and December 29, 2012, respectively. Also included are accrued commissions, product warranties, insurance liabilities and other current liabilities.

Product Warranties. We warrant our products against certain defects in material and workmanship when used as designed on the vehicle on which it was originally installed. We offer a limited lifetime warranty on all of our products. Our warranty limits the customer's remedy to the repair or replacement of the part that is defective. Estimated warranty costs are based upon actual experience and forecasts using the best historical and current claim information available.

The following table summarizes the activity of our product warranty liability included in other accrued liabilities in the accompanying Consolidated Balance Sheets:

(in thousands)	2013	2012	2011
Balance at beginning of year	\$ 286	\$ 70	\$ 25
Provisions for warranty costs	1,249	1,064	586
Claims paid	(1,445)	(848)	(541)
Balance at end of year	\$ 90	\$ 286	\$ 70

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

Research and Development. Research and development costs are expensed as incurred. Research and development costs totaling \$13.4 million in fiscal 2013, \$10.5 million in fiscal 2012 and \$8.6 million in fiscal 2011 have been recorded in selling, general and administrative expenses in the Consolidated Statements of Operations.

Stock-Based Compensation. At December 28, 2013 and December 29, 2012, we had one stock-based employee compensation plan, which is described more fully in Note 12, Capital Stock. We record equity-classified compensation expense for all awards granted. The fair value of stock options granted was determined using the Black-Scholes model. The value of restricted stock issued is based on the fair value of our common stock on the grant date.

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Income Taxes. We follow the asset and liability method of accounting for deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered.

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Foreign Currency Translation. Assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the rate of exchange prevailing at the end of the year. Income statement accounts are translated at the average exchange rate prevailing during the year. Translation adjustments resulting from this process are recorded directly in shareholders' equity.

Comprehensive Income. Comprehensive income includes all changes to shareholders' equity during a period, except those resulting from investment by and distributions to shareholders. Components of comprehensive income include net income and changes in foreign currency translation adjustments.

Concentrations of Risk. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. All cash equivalents are managed within established guidelines which limit the amount which may be invested with one issuer. A significant percentage of our accounts receivable have been, and will continue to be, concentrated among a relatively small number of automotive retailers and warehouse distributors in the United States. Our five largest customers accounted for 81% and 86% of net accounts receivable as of December 28, 2013 and December 29, 2012, respectively. We continually monitor the credit terms and credit limits to these and other customers. In fiscal 2013, approximately 75% of our products were purchased from suppliers located in a variety of foreign countries, with the largest portion coming from China.

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. We did not hold any foreign currency forward contracts at December 28, 2013 or December 29, 2012.

2. New and Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an update to its authoritative guidance which allows only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement or (2) in two separate but consecutive financial statements. The guidance is effective in two stages. The requirement to present a single continuous statement or two separate but consecutive statements was effective for us beginning January 1, 2012. The second stage requires us to disclose the effects of reclassification adjustments from other comprehensive income to net income and was effective for us on December 30, 2012. For items reclassified in their entirety, we are required to disclose the effect of the reclassification on each line of net income that is affected by the reclassification adjustment. For items not reclassified in their entirety, we are required to add a cross reference to the U.S. GAAP disclosure that includes additional information about the effect of the reclassification. The adoption of these updates affect presentation only and therefore did not impact our results of operations, financial condition or cash flows. Other comprehensive loss of \$2.8 million for the fiscal year ended December 29, 2012 is related to currency translation adjustments at our discontinued operations which is discussed in Note 4.

3. Acquisition

On May 17, 2013, we acquired certain assets and assumed certain liabilities of Re-Involt Technologies, LLC, a remanufacturer of hybrid battery systems, primarily to expand our product portfolio. The purchase price was approximately \$3.7 million, comprised of \$1.9 million in cash and \$1.8 million of estimated contingent payments to the former owner. The contingent payment arrangement is based upon future earnings levels of the acquired business. In connection with this acquisition, we recorded \$3.6 million in goodwill and other intangible assets, all of which are expected to be deductible for tax purposes. The financial results of the acquired business have been included in the Consolidated Financial Statements since the acquisition date.

4. Discontinued Operations

On September 21, 2011, we announced our plan to exit the international portion of our ScanTech business due to continued operating losses and to focus on growing our North American business. ScanTech was headquartered outside Stockholm, Sweden and distributed a line of Volvo and Saab replacement parts throughout the world.

The following table summarizes ScanTech's net sales and income (loss) before taxes which have been presented as a discontinued operation in the Consolidated Statements of Operations:

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(in thousands)	December 28, 2013	December 29, 2012	December 31, 2011
Net sales	\$	\$ 2,907	\$ 15,855
Income (loss) before taxes		3,203	(3,027)

During fiscal 2012, we reclassified approximately \$3.0 million of previously recorded currency translation adjustments from accumulated other comprehensive income to net income as a result of the substantial liquidation of our investment and recorded a deferred tax asset of \$1.4 million related to foreign tax credits we expect to utilize in the future. In fiscal 2011, we recorded charges of \$2.2 million to write-down inventory and tooling and \$0.4 million for other asset write-downs and employee related costs.

Table of Contents**5. Inventories**

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

(in thousands)	December 28, 2013	December 29, 2012
Bulk product	\$ 63,550	\$ 49,121
Finished product	97,742	93,466
Packaging materials	3,129	2,683
Total	\$ 164,421	\$ 145,270

6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(in thousands)	December 28, 2013	December 29, 2012
Buildings	\$ 26,859	\$ 20,460
Machinery, equipment and tooling	58,620	48,830
Furniture, fixtures and leasehold improvements	3,833	3,384
Software and computer equipment	53,915	48,299
Total	143,227	120,973
Less-accumulated depreciation and amortization	(78,441)	(72,215)
Property, plant and equipment, net	\$ 64,786	\$ 48,758

7. Long-Term Debt

Our Revolving Credit Facility, which provides for borrowings up to \$30.0 million, will expire in June 2015. Borrowings under the facility are on an unsecured basis with interest at rates ranging from LIBOR plus 75 basis points to LIBOR plus 250 basis points based upon the achievement of certain benchmarks related to the ratio of funded debt to EBITDA. The interest rate at December 28, 2013 was LIBOR plus 75 basis points (0.92 %). There were no borrowings under the Revolving Credit Facility at December 28, 2013 or December 29, 2012. We did not borrow under the Revolving Credit Facility during 2013 or 2012. The loan agreement also contains covenants, the most restrictive of which pertain to net worth and the ratio of debt to EBITDA. We are in compliance with all financial covenants contained in the Revolving Credit Facility as of December 28, 2013.

8. Operating Lease Commitments and Rent Expense

We lease certain equipment and operating facilities, including our primary operating facility which is leased from a partnership described in Note 9, Related Party Transactions, under non-cancelable operating leases. Approximate future minimum rental payments as of December 28, 2013 under these leases are summarized as follows:

(in thousands)	
2014	\$ 3,115

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2015	2,843
2016	2,843
2017	2,853
2018	894
Thereafter	
Total	\$ 12,548

Rent expense, including payments for short-term equipment and storage rentals, was \$3.7 million in each of fiscal 2013 and fiscal 2011 and, \$3.5 million in fiscal 2012.

Table of Contents**9. Related Party Transactions**

We have a non-cancelable operating lease for our primary operating facility from a partnership in which Steven L. Berman, our Chairman and Chief Executive Officer, and his family members are partners. Total rental payments each year to the partnership under the lease arrangement were \$1.5 million in each of fiscal 2013 and fiscal 2012, and were \$1.4 million in fiscal 2011. During 2012, we entered into a new lease with the partnership which 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.

We are a partner in a joint venture with one of our suppliers. Purchases from this joint venture were \$5.6 million, \$5.4 million and \$1.7 million in fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

10. Income Taxes

The components of the income tax provision (benefit) are as follows:

(in thousands)	2013	2012	2011
Current:			
Federal	\$ 42,458	\$ 37,192	\$ 30,952
State	3,105	2,895	2,377
	45,563	40,087	33,329
Deferred:			
Federal	249	(2,214)	(1,927)
State	18	(170)	(70)
	267	(2,384)	(1,997)
Total	\$ 45,830	\$ 37,703	\$ 31,332

Also, the income tax benefit related to our discontinued operations was \$1.4 million and \$0.1 million for the years ended December 29, 2012 and December 31, 2011, respectively.

The following is a reconciliation of income taxes at the statutory tax rate to the Company's effective tax rate:

	2013	2012	2011
Federal taxes at statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax benefit	1.6	1.7	1.7
Proceeds from 2011 receipt of officer's life insurance			(0.8)
Stock-based compensation		0.1	0.1
Research and development tax credit	(0.7)	(0.3)	
Other		(0.3)	(0.2)
Effective tax rate	35.9%	36.2%	35.8%

At December 28, 2013, we have \$1.2 million of unrecognized tax benefits, \$0.9 million of which would affect our effective tax rate if recognized.

The following table summarizes the change in uncertain tax benefits for the three years ended December 28, 2013:

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(in thousands)	2013	2012	2011
Balance at beginning of year	\$ 1,785	\$ 2,161	\$ 2,532
Reductions due to lapses in statutes of limitations	(30)	(44)	(65)
Reductions due to payments for tax positions settled	(271)	(379)	(702)
Reductions due to reversals of prior year positions	(736)	(651)	(210)
Additions based on tax positions taken during the current period	453	698	606
Balance at end of year	\$ 1,201	\$ 1,785	\$ 2,161

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We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 28, 2013, we have approximately \$0.2 million of accrued interest related to uncertain tax positions.

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of temporary differences are as follows:

(in thousands)	December 28, 2013	December 29, 2012
Assets:		
Inventories	\$ 6,546	\$ 6,779
Accounts receivable	12,390	10,847
Accrued expenses	1,928	2,079
Other	417	1,764
Gross deferred tax assets	21,281	21,469
Liabilities:		
Depreciation	9,136	3,367
Goodwill	9,343	9,231
Other	484	991
Gross deferred tax liabilities	18,963	13,589
Net deferred tax assets	\$ 2,318	\$ 7,880

Based on our history of taxable income and our projection of future earnings, we believe that it is more likely than not that sufficient taxable income will be generated in the foreseeable future to realize the remaining net deferred tax assets.

We file income tax returns in the United States. All years before 2010 are closed for federal tax purposes. In regard to state tax, we are currently under examination by one state tax authority for years 2008-2010. Tax years before 2009 are closed for the remaining states in which we file. We filed tax returns in Sweden through 2012 and all years prior to 2008 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.

11. Commitments and Contingencies

Shareholder Agreement. A shareholder agreement was entered into in September 1990 and amended and restated on July 1, 2006. Under the agreement, each of the late Richard Berman, Steven Berman, Jordan Berman, Marc Berman, Fred Berman, Deanna Berman and additional shareholders named in the agreement has, among other things, granted the others of them rights of first refusal, exercisable on a pro rata basis or in such other proportions as the exercising shareholders may agree, to purchase shares of our common stock which any of them, or upon their deaths their respective estates, proposes to sell to third parties. We have agreed with these shareholders that, upon their deaths, to the extent that any of their shares are not purchased by any of these surviving shareholders and may not be sold without registration under the Securities Exchange Act of 1933, as amended (the "1933 Act"), we will use our best efforts to cause those shares to be registered under the 1933 Act. The expenses of any such registration will be borne by the estate of the deceased shareholder. The additional shareholders party to the agreement are trusts affiliated with the late Richard Berman, Steven Berman, Jordan Berman, Marc Berman or Fred Berman, or each person's respective spouse or children.

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

12. Capital Stock

Controlling Interest by Officers, Directors and Family Members. As of February 18, 2014, the estate of the late Richard Berman, Sharyn Berman, Steven Berman, who is Chairman and Chief Executive Officer and director of the Company, his father and his brothers beneficially own approximately 26% of the outstanding shares of our Common Stock have a controlling influence over the election of our Board of Directors, the outcome of most corporate actions requiring shareholder approval (including certain fundamental transactions) and the affairs of the Company.

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Undesignated Stock. We have 50,000,000 shares authorized of undesignated capital stock for future issuance. The designation, rights and preferences of such shares will be determined by our Board of Directors.

Dividend. On December 5, 2012, we announced a special cash dividend of \$1.50 per share payable on December 28, 2012 to shareholders of record at the close of business on December 17, 2012. This dividend resulted in a cash payment of \$54.7 million to our shareholders.

Incentive Stock Plan. 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. At December 28, 2013, 1,724,826 shares were available for grant under the Plan.

We grant restricted stock to certain employees and members of our Board of Directors. The value of restricted stock issued is based on the fair value of our common stock on the grant date. Vesting of restricted stock is conditional based on continued employment or service for a specified period. Compensation cost related to the stock is recognized on a straight-line basis over the vesting period. We retain the restricted stock, and any dividends paid thereto, until the vesting provisions have been met. Compensation cost related to restricted stock was \$881,000, \$803,000 and \$426,000 before taxes in fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

The following table summarizes our restricted stock activity for the three years ended December 28, 2013:

	Shares	Weighted Average Price
Balance at December 25, 2010	45,000	\$ 7.84
Granted	178,800	\$ 19.12
Vested	(9,000)	\$ 7.84
Cancelled	(10,000)	\$ 19.40
Balance at December 31, 2011	204,800	\$ 17.12
Granted	15,000	\$ 26.70
Vested	(45,646)	\$ 16.84
Balance at December 29, 2012	174,154	\$ 18.02
Granted	25,500	\$ 45.06
Vested	(47,069)	\$ 17.38
Cancelled	(43,126)	\$ 18.28
Balance at December 28, 2013	109,459	\$ 24.47

As of December 28, 2013, there was approximately \$2.1 million of unrecognized compensation cost related to nonvested restricted stock, which is expected to be recognized over a weighted-average period of approximately 2.8 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 were vested in fiscal 2013 and fiscal 2012 was \$0.3 million in both periods and was credited to additional paid in capital.

We grant stock options to certain employees and members of our Board of Directors. We expense the grant-date fair value of stock options. Compensation cost is recognized on a straight-line basis over the vesting period which related services are performed. The compensation cost charged against income for the year ended December 28, 2013, December 29, 2012 and December 31, 2011 was \$79,000, \$204,000 and \$194,000 before taxes, respectively. The compensation costs were classified as selling, general and administrative expense in the Consolidated Statements of Operations. No cost was capitalized during fiscal 2013, fiscal 2012 or fiscal 2011.

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No stock options were granted in fiscal 2013 or fiscal 2011. In fiscal 2012, we used 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 is based on the U.S. Treasury security with terms equal to the expected time of exercise as of the grant date. The weighted-average grant-date fair value of options granted during fiscal 2012 was \$11.05 per option. We included a forfeiture assumption of 5.4% in the calculation of expense in fiscal 2013, fiscal 2012 and fiscal 2011.

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The following table summarizes the valuation assumptions used to calculate the fair value of options granted:

	2012
Expected dividend yield	0%
Expected stock price volatility	59%
Risk-free interest rate	0.9%
Expected life of options	4.7 years

The following table summarizes our stock option stock option activity for the three years ended December 28, 2013:

	Shares	Option Price per Share		Weighted Average Price	Weighted Average Remaining Terms (years)	Aggregate Intrinsic Value
Balance at December 25, 2010	990,900	\$ 0.47	\$ 19.37	\$ 4.54		
Exercised	(298,100)	\$ 0.47	\$ 7.74	\$ 2.41		
Balance at December 31, 2011	692,800	\$ 2.00	\$ 19.37	\$ 5.46		
Granted	20,000		\$ 22.71	\$ 22.71		
Exercised	(438,800)	\$ 2.00	\$ 7.74	\$ 4.27		
Balance at December 29, 2012	274,000	\$ 2.54	\$ 22.71	\$ 8.62		
Exercised	(96,500)	\$ 2.54	\$ 22.71	\$ 7.21		
Cancelled	(36,000)	\$ 7.74	\$ 22.71	\$ 16.98		
Balance at December 28, 2013	141,500	\$ 5.05	\$ 19.37	\$ 7.13	3.9	\$ 6,786,000

Options exercisable at December 28, 2013 131,500 \$ 5.05 \$ 19.37 \$ 7.09 3.7 \$ 6,313,000

The total intrinsic value of stock options exercised during fiscal 2013 was \$3.3 million. As of December 28, 2013, there was approximately \$0.1 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 1.6 years.

The following table summarizes information concerning currently outstanding and exercisable options at December 28, 2013:

Range of Exercise Price	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 5.05 \$5.67	29,000	4.9	\$ 5.65	29,000	\$ 5.65
\$ 6.24 \$6.90	87,500	2.9	\$ 6.65	87,500	\$ 6.65
\$ 7.74	19,000	6.0	\$ 7.74	9,000	\$ 7.74
\$19.37	6,000	7.0	\$ 19.37	6,000	\$ 19.37
Balance at December 28, 2013	141,500	3.9	\$ 7.13	131,500	\$ 7.09

Cash received from option exercises during fiscal 2013 and fiscal 2012 was \$0.6 million and \$1.6 million, respectively. The excess tax benefit generated from option exercises during fiscal 2013 and fiscal 2012 was approximately \$0.8 million and \$2.4 million, respectively, and was credited to additional paid in capital.

Performance-Based Long Term Award Program. In December 2012, the Compensation Committee of our Board of Directors approved the Performance-Based Long Term Award Program which connects compensation for certain of our executives to the compounded annual growth in our pre-tax income, as defined in the program, over our most recent three fiscal years. At the discretion of the Compensation Committee, the Performance-Based Long Term Award will be paid in either cash or equity. If the award is paid in equity, it will be paid under the 2008 Stock Option and Stock Incentive Plan. This is a liability-classified award. For fiscal 2013, the Compensation Committee elected to settle the award in cash.

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Employee Stock Purchase Plan. In March 1992, our Board of Directors adopted the Employee Stock Purchase Plan which was subsequently approved by the shareholders. The Employee Stock Purchase Plan permitted the grant of options to purchase up to 1,200,000 shares of common stock by our employees. In any given year, employees were able purchase up to 4% of their annual compensation, with the option price set at 85% of the fair market value of the stock on the date of exercise. All options granted during any year expired on the last day of the fiscal year. During fiscal 2011, optionees exercised rights to purchase 1,984 shares at prices from \$12.68 to \$16.38 per share for total net proceeds of \$28,600. Our Board of Directors cancelled this plan effective December 31, 2011.

401(k) Retirement Plan. The Dorman Products, Inc. 401(k) Retirement Plan and Trust (the 401(k) Plan) is a defined contribution profit sharing and 401(k) plan covering substantially all of our employees as of December 28, 2013. Annual contributions under the 401(k) Plan are determined by our Board of Directors. Total expense related to the 401(k) Plan was \$1.9 million, \$2.0 million and \$1.6 million in fiscal 2013, fiscal 2012 and fiscal 2011 respectively. At December 28, 2013, the 401(k) Plan held 422,968 shares of our common stock.

Common Stock Repurchases. We periodically repurchase, at the then current market price, and cancel common stock issued to 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. During fiscal 2013, our Board of Directors approved the repurchase and cancellation of 78,580 shares of our common stock at an average price of \$44.39 per share. During fiscal 2012, our Board of Directors approved the repurchase and cancellation of 70,208 shares of our common stock at an average price of \$27.68 per share.

Share Repurchase Program. On December 12, 2013, we announced that our Board of Directors authorized the repurchase of up to \$10,000,000 of our outstanding common stock. No shares were repurchased under the program in fiscal 2013.

13. Earnings Per Share

Basic earnings per share was 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 computed based on the number of outstanding stock options and nonvested restricted stock as calculated using the treasury stock method. However, in periods when the exercise price of our stock options, by grant, is greater than our average stock price during the period, those common share equivalents are considered anti-dilutive and are excluded from the calculation of diluted earnings per share. Options to purchase 20,000 and 30,000 shares of common stock were outstanding at December 29, 2012 and December 31, 2011, respectively, but were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive.

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

(in thousands, except per share data)	2013	2012	2011
Numerator:			
Income from continuing operations	\$ 81,920	\$ 66,405	\$ 56,202
Income (loss) from discontinued operations		4,557	(2,925)
Net income	\$ 81,920	\$ 70,962	\$ 53,277
Denominator:			
Weighted average basic shares outstanding	36,347	36,124	35,866
Effect of compensation awards	277	370	504
Weighted average diluted shares outstanding	36,624	36,494	36,370
Earnings Per Share:			
Basic:			
Income from continuing operations	\$ 2.25	\$ 1.84	\$ 1.57
Income (loss) from discontinued operations		0.12	(0.08)

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Net income	\$ 2.25	\$ 1.96	\$ 1.49
Diluted:			
Income from continuing operations	\$ 2.24	\$ 1.82	\$ 1.55
Income (loss) from discontinued operations		0.12	(0.08)
Net income	\$ 2.24	\$ 1.94	\$ 1.47

Table of Contents**14. Business Segments**

We have determined that our business comprises a single reportable operating segment, namely, the sale of replacement parts for the automotive aftermarket.

During fiscal 2013, fiscal 2012 and fiscal 2011, our four largest customers (Autozone, Advance Auto Parts, O'Reilly Auto Parts and Genuine Parts Co.) each accounted for more than 10% of net sales and in the aggregate accounted for 57% of net sales in each period. Net sales to countries outside the United States, primarily to Europe, Mexico, the Middle East, Asia and Canada in fiscal 2013, fiscal 2012 and fiscal 2011 were \$33.2 million, \$23.5 million and \$13.9 million, respectively.

15. Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly Results of Operations for the fiscal years ended December 28, 2013 and December 29, 2012:

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	2013			
Net sales	\$ 154,443	\$ 162,261	\$ 177,953	\$ 169,809
Income from operations	29,908	30,754	35,670	31,607
Income from continuing operations	19,072	19,342	22,887	20,619
Income from discontinued operations				
Net income	19,072	19,342	22,887	20,619
Diluted earnings per share	0.52	0.53	0.62	0.56
	2012			
Net sales	\$ 134,823	\$ 144,172	\$ 156,411	\$ 135,014
Income from operations	24,407	25,727	31,131	22,966
Income from continuing operations	15,294	16,106	19,756	15,249
Income from discontinued operations	284	3,636	586	51
Net income	15,578	19,742	20,342	15,300
Diluted earnings per share	0.43	0.54	0.56	0.42

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures, as defined in Rule 13a-15(e), were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation, as of December 28, 2013, of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992). Based on this evaluation under the framework in Internal Control - Integrated Framework, our management concluded that, as of December 28, 2013, our internal control over financial reporting was effective.

Our independent registered public accounting firm, KPMG LLP, has issued a report on our internal control over financial reporting. Their report appears below.

Changes in Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter ended December 28, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there was no such change during the quarter ended December 28, 2013.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Dorman Products, Inc.:

We have audited Dorman Products, Inc.'s internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Dorman Products, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that material misstatement exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Dorman Products, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Dorman Products, Inc. and subsidiaries as of December 28, 2013 and December 29, 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 28, 2013, and the related financial statement schedule listed under Item 15(a)(2), and our report dated February 25, 2014 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

KPMG LLP

Philadelphia, PA

February 25, 2014

Item 9B. Other Information.

None

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Except for the information provided in Part I Item 4.1 Executive Officers of the Registrant and as set forth below, the required information is incorporated by reference from our definitive proxy statement for our 2014 Annual Meeting of Shareholders, including, but not necessarily limited to, the section entitled Proposal I Election of Directors, Committees of the Board of Directors Audit Committee and Section 16(a) Beneficial Ownership Reporting Compliance .

We have adopted a written code of ethics, Our Values and Standards of Business Conduct, which is applicable to all of our directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, Controller and other executive officers (collectively, the Selected Officers). We have also adopted a written code of ethics, Code of Ethics for Senior Financial Officers, which applies to our Chief Executive Officer, Chief Financial Officer, Controller and any other person performing similar functions (collectively, the Senior Financial Officers). In accordance with the SEC's rules and regulations a copy of each code of ethics is posted on our website www.dormanproducts.com. We intend to disclose any changes in or waivers from our codes of ethics on our website at www.dormanproducts.com.

Item 11. Executive Compensation.

The required information is incorporated by reference from our definitive proxy statement for our 2014 Annual Meeting of Shareholders, including, but not necessarily limited to, the section entitled Proposal I Election of Directors Director Compensation, Executive Compensation and Compensation Committee Interlocks and Insider Participation .

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

Except for the information set forth below, the required information is incorporated by reference from our definitive proxy statement for our 2014 Annual Meeting of Shareholders, including, but not necessarily limited to, the section entitled Security Ownership of Certain Beneficial Owners and Management .

Equity Compensation Plan Information

The following table details information regarding our existing equity compensation plans as of December 28, 2013:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	141,500	\$ 7.13	1,724,826
Equity compensation plans not approved by security holders			
Total	141,500	\$ 7.13	1,724,826

Item 13. Certain Relationships and Related Transactions, and Director Independence.

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The required information is incorporated by reference from our definitive proxy statement for our 2014 Annual Meeting of Shareholders, including, but not necessarily limited to, the section entitled **Certain Relationships and Related Transactions** and **Governance of the Company The Board of Directors and Director Independence** .

Item 14. Principal Accounting Fees and Services.

The required information is incorporated by reference from our definitive proxy statement for our 2014 Annual Meeting of Shareholders, including, but not necessarily limited to, the section entitled **Principal Accountant Fees and Services** and **Pre-Approval Policies and Procedures** .

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Consolidated Financial Statements. Our Consolidated Financial Statements and related documents are provided in Part II Item 8 Financial Statements and Supplementary Data of this annual report on Form 10-K:

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Operations for the years ended December 28, 2013, December 29, 2012 and December 31, 2011.

Consolidated Statements of Comprehensive Income for the years ended December 28, 2013, December 29, 2012 and December 31, 2011.

Consolidated Balance Sheets as of December 28, 2013 and December 29, 2012.

Consolidated Statements of Shareholders' Equity for the years ended December 28, 2013, December 29, 2012 and December 31, 2011.

Consolidated Statements of Cash Flows for the years ended December 28, 2013, December 29, 2012, and December 31, 2011.

Notes to Consolidated Financial Statements.

(a)(2) Consolidated Financial Statement Schedules. The following consolidated financial statement schedule of the Company and related documents are filed with this annual report on Form 10-K:

Schedule II Valuation and Qualifying Accounts.

(a)(3) Exhibits required by Item 601 of Regulation S-K and Item 15(b) of Form 10-K to be filed as part of this annual report on Form 10-K are listed below:

Number	Title
3.1	Amended and Restated Articles of Incorporation of the Company. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated May 24, 2007.
3.2	Amended and Restated Bylaws of the Company. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated July 31, 2009.
4.1	Specimen Common Stock Certificate of the Company incorporated by reference to the Exhibit filed with the Company's Registration Statement on Form S-8 (Registration No. 333-160979).
4.2	Amended and Restated Shareholders' Agreement dated July 1, 2006. Incorporated by reference to the Exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 2008.
10.1	Lease, dated December 1, 1990, between the Company and the Berman Real Estate Partnership, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania. Incorporated by reference to the Exhibit filed with the Company's Registration Statement on Form S-1 and Amendments No. 1, No. 2, and No. 3 thereto (Registration No. 33-37264).
10.1.1	Amendment to Lease, dated September 10, 1993, between the Company and the Berman Real Estate Partnership, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania. Incorporated by reference to the Exhibit filed with the Company's Registration Statement on Form S-1 and Amendment No. 1 thereto (Registration No. 33-68740).
10.1.2	Assignment of Lease dated February 24, 1997, between the Company, the Berman Real Estate Partnership and BREP I, for the premises located at 3400 East Walnut Street, Colmar, Pennsylvania. Incorporated by reference to the Exhibit filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 1996.

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- 10.1.3 Amendment to Lease, dated April 1, 2002, between the Company and BREP I, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania. Incorporated by reference to the Exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2002.
- 10.1.4 Amendment to Lease, dated December 12, 2007, between the Company and BREP I, for premises located at 3400 East Walnut Street, Colmar, Pennsylvania. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated December 12, 2007.
- 10.1.5 Lease Agreement, dated December 29, 2012, by and between the Company and the BREPI, for the premises located at 3400 East Walnut Street, Colmar, Pennsylvania. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated November 16, 2012.
- 10.2 Lease Agreement, dated January 31, 2006, by and between the Company and First Industrial, LP, for premises located at 3150 Barry Drive, Portland, Tennessee. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated February 2, 2006.
- 10.2.1 Amendment to Lease Agreement, dated January 28, 2008, by and between the Company and First Industrial, LP, for premises located at 3150 Barry Drive, Portland, Tennessee. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated January 29, 2008.
- 10.3 Third Amended and Restated Credit Agreement dated as of July 24, 2006, between the Company and Wachovia Bank, N.A. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated May 24, 2005.
- 10.3.1 Amendment to the Amended and Restated Credit Agreement, dated December 24, 2007, by and between the Company and Wachovia Bank N.A. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated January 2, 2008.
- 10.3.2 Second Amendment to the Amended and Restated Credit Agreement, dated April 26, 2010, by and between the Company and Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association). Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated April 27, 2010.
- 10.3.3 Amendment No. 3 to the Third Amended and Restated Credit Agreement, dated as of December 20, 2012, by and between the Company and Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association). Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated December 21, 2012.
- 10.4 Dorman Products, Inc. 2008 Stock Option and Stock Incentive Plan. Incorporated by reference to the Exhibit filed with the Company's Registration Statement on Form S-8 (Registration No. 333-160979).
- 10.4.1 Form of Incentive Stock Option Agreement pursuant to the Dorman Products, Inc. 2008 Stock Option and Stock Incentive Plan. Incorporated by reference to the Exhibit filed with the Company's Registration Statement on Form S-8 (Registration No. 333-160979).
- 10.4.2 Form of Non-Qualified Stock Option Agreement for Officers and other Key Employees pursuant to the Dorman Products, Inc. 2008 Stock Option and Stock Incentive Plan. Incorporated by reference to the Exhibit filed with the Company's Registration Statement on Form S-8 (Registration No. 333-160979).
- 10.4.3 Form of Non-Qualified Stock Option Agreement for Outside Directors and important Consultants and/or Advisors pursuant to the Dorman Products, Inc. 2008 Stock Option and Stock Incentive Plan. Incorporated by reference to the Exhibit filed with the Company's Registration Statement on Form S-8 (Registration No. 333-160979).
- 10.4.4 Form of Restricted Stock Agreement pursuant to the Dorman Products, Inc. 2008 Stock Option and Stock Incentive Plan. Incorporated by reference to the Exhibit filed with the Company's Registration Statement on Form S-8 (Registration No. 333-160979).
- 10.4.5 First Amendment to the Dorman Products, Inc. 2008 Stock Option and Stock Incentive Plan. Incorporated by reference to the Exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2013.
- 10.5 Dorman Products, Inc. Nonqualified Deferred Compensation Plan. Incorporated by reference to the Exhibit filed with the Company's Report on Form 8-K dated February 11, 2011.

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- 10.6 Employment Agreement, dated April 1, 2008, between the Company and Richard N. Berman. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated April, 1, 2008.
- 10.7 Employment Agreement, dated April 1, 2008, between the Company and Steven L. Berman. Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K dated April, 1, 2008.
- 10.8 Executive Cash Bonus Plan, approved by the Company's shareholders at the 2010 Annual Shareholders Meeting held on May 20, 2010. Incorporated by reference to Exhibit filed with Company's Current Report on Form 8-K dated May 24, 2010.
- 10.9 General Release and Waiver signed by Joseph M. Beretta dated July 11, 2013. Incorporated by reference to the Exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2013.
- 10.10 Separation Agreement, dated February 25, 2011, between the Company and Jeffery Darby (filed with this report).
- 21 Subsidiaries of the Company.
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive and Chief Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The financial statements from the Dorman Products, Inc. annual report on Form 10-K for the year ended December 28, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations for the years ended December 28, 2013, December 29, 2012 and December 31, 2011; (ii) Consolidated Statements of Comprehensive Income for the years ended December 28, 2013, December 29, 2012 and December 31, 2011; (iii) the Consolidated Balance Sheets as of December 28, 2013 and December 29, 2012; (iv) the Consolidated Statements of Shareholders' Equity for the years ended December 28, 2013, December 29, 2012 and December 31, 2011; (v) the Consolidated Statements of Cash Flows for the years ended December 28, 2013, December 29, 2012 and December 31, 2011; and (vi) the Notes to Consolidated Financial Statements.

Management Contracts and Compensatory Plans, Contracts or Arrangements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dorman Products, Inc.

By: /s/ Steven L. Berman
Steven L. Berman, Chairman and Chief Executive Officer

Date: February 25, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Steven L. Berman Steven L. Berman	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	February 25, 2014
/s/ Mathias J. Barton Mathias J. Barton	President Director	February 25, 2014
/s/ Matthew S. Kohnke Matthew S. Kohnke	Chief Financial Officer (principal financial and accounting officer)	February 25, 2014
/s/ Richard T. Riley Richard T. Riley	Director	February 25, 2014
/s/ Paul R. Lederer Paul R. Lederer	Director	February 25, 2104
/s/ Edgar W. Levin Edgar W. Levin	Director	February 25, 2014
/s/ Robert M. Lynch Robert M. Lynch	Director	February 25, 2014

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SCHEDULE II: Valuation and Qualifying Accounts

(in thousands)

	December 28, 2013	For the Year Ended December 29, 2012	December 31, 2011
Allowance for doubtful accounts:			
Balance, beginning of period	\$ 1,120	\$ 1,397	\$ 1,015
Provision	194	266	516
Charge-offs	(33)	(228)	(134)
Discontinued operations		(315)	
Balance, end of period	\$ 1,281	\$ 1,120	\$ 1,397
Allowance for customer credits:			
Balance, beginning of period	\$ 55,392	\$ 46,491	\$ 41,909
Provision	141,559	127,597	111,224
Credits issued	(132,353)	(118,527)	(106,642)
Discontinued operations		(169)	
Balance, end of period	\$ 64,598	\$ 55,392	\$ 46,491