COAST DISTRIBUTION SYSTEM INC
Form 10-Q
November 14, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from______ to ______

Commission File Number 1-9511

THE COAST DISTRIBUTION SYSTEM, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE **(State or other jurisdiction of incorporation or organization)**	**94-2490990** **(I.R.S. Employer Identification Number)**
350 Woodview Avenue, Morgan Hill, California **(Address of principal executive offices)**	**95037** **(Zip Code)**

(408) 782-6686

(Registrant s telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 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 x 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 definitions of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.) (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

4,781,597 shares of Common Stock as of November 8, 2011

Table of Contents

THE COAST DISTRIBUTION SYSTEM, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

(i)

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Dollars in Thousands)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash	$ 5,864	$ 4,840
Accounts receivable net of allowances of $558 and $656 as of September 30, 2011 and December 31, 2010, respectively	8,908	9,863
Inventories, net	28,180	25,912
Other current assets	1,772	2,773
Total current assets	44,724	43,388
PROPERTY, PLANT, AND EQUIPMENT, NET	1,437	1,707
OTHER ASSETS	2,622	2,687
Total Assets	$ 48,783	$ 47,782
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,273	$ 3,375
Accrued liabilities	3,342	3,256
Total current liabilities	6,615	6,631
LONG-TERM OBLIGATIONS	10,865	10,113
Total Liabilities	17,480	16,744
COMMITMENTS AND CONTIGENCIES		
STOCKHOLDERS EQUITY		
Preferred stock, $.001 par value: 2,000,000 shares authorized: none issued or outstanding:		
Common stock, $.001 par value: 10,000,000 shares authorized; 4,781,597 and 4,660,097 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	17,210	16,861
Accumulated other comprehensive income	1,237	1,874
Retained earnings	12,856	12,303
Total Stockholders Equity	31,303	31,038
Total Liabilities and Stockholders Equity	$ 48,783	$ 47,782

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

1

Table of Contents

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

Three and Nine Months Ended September 30,

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$ 31,586	$ 32,245	$ 89,501	$ 90,994
Cost of sales, including distribution costs	25,880	26,381	73,595	73,474
Gross profit	5,706	5,864	15,906	17,520
Selling, general and administrative expenses	4,703	4,734	14,558	14,301
Operating income	1,003	1,130	1,348	3,219
Other (income) expense				
Interest	128	141	427	444
Other	(39)	30	63	39
	89	171	490	483
Earnings before income taxes	914	959	858	2,736
Income tax provision	302	300	305	871
Net earnings	$ 612	$ 659	$ 553	$ 1,865
Basic earnings per share	$ 0.13	$ 0.15	$ 0.12	$ 0.42
Diluted earnings per share	$ 0.13	$ 0.14	$ 0.12	$ 0.41

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

Table of Contents

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Dollars in thousands)

Nine months ended September 30,

(Unaudited)

	2011	2010
Cash flows from operating activities:		
Net earnings	$ 553	$ 1,865
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	616	563
Stock-based compensation expense	330	306
Gain on sale of property and equipment	(9)	(2)
Deferred income taxes	(3)	(54)
Changes in assets and liabilities:		
Accounts receivable	955	(87)
Inventories	(2,268)	(4,188)
Other current assets	940	1,365
Accounts payable	(102)	1,476
Accrued liabilities	86	374
Net cash provided by operating activities	1,098	1,618
Cash flows from investing activities:		
Proceeds from sales of property and equipment	19	39
Capital expenditures	(270)	(220)
Decrease (increase) in other assets	18	(23)
Net cash used in investing activities	(233)	(204)
Cash flows from financing activities:		
Borrowings under line of credit agreement	91,409	88,781
Repayments under notes payable and line of credit agreement	(90,657)	(89,069)
Excess tax benefit from stock-based payments	13	
Issuance of common stock pursuant to employee stock option plans	6	65
Net cash provided by (used in) financing activities	771	(223)
Effect of exchange rate changes on cash	(612)	268
NET INCREASE IN CASH	1,024	1,459
Cash, beginning of period	4,840	5,561
Cash, end of period	$ 5,864	$ 7,020

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

3

Table of Contents

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The accompanying (a) condensed balance sheet as of December 31, 2010, which has been derived from audited financial statements, and (b) the unaudited condensed financial statements have been prepared in accordance with accounting principles and SEC rules applicable to interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation. The accounting policies followed by the Company are set forth in Note A to the Company s financial statements in its Annual Report on Form 10-K for its fiscal year ended December 31, 2010. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company s latest shareholders annual report (Form 10-K).

2. The Company s business is seasonal and its results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected in any other interim period during, or for the full year ending, December 31, 2011. See Management s Discussion and Analysis of Financial Condition and Results of Operations Seasonality and Inflation in Item 2 of Part I of this Report.

3. Basic earnings per share for each period are computed using the weighted average number of common shares outstanding during such period. Unvested restricted shares are excluded from outstanding shares for purposes of this calculation. Diluted earnings per share are computed using the weighted average number of common and potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of the incremental common shares issuable upon the exercise of outstanding stock options (using the treasury stock method). Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. For the three months ended September 30, 2011, options to purchase 407,000 shares of common stock and 232,501 restricted shares were excluded from the computation of diluted earnings per share. For the nine months ended September 30, 2011, options to purchase 373,000 shares of common stock and 232,501 restricted shares were excluded from the computation of diluted earnings per share. For both the three and nine months ended September 30, 2010, options to purchase 422,000 shares of common stock and 177,000 restricted shares were excluded from the computation of diluted earnings per share. These options and restricted shares were excluded from the computation of diluted earnings per share because (i) their respective exercise prices were greater than the average market price of the Company s common stock during these periods, or (ii) the inclusion, in the calculation of common stock equivalents under the Treasury method, of the unvested compensation expense attributable to those options or restricted shares would have been anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Numerator				
Net earnings	$ 612	$ 659	$ 553	$ 1,865
Denominator				
Weighted average shares outstanding	4,548	4,481	4,530	4,473
Dilutive effect of stock options	78	91	91	99
Denominator for diluted net income per share	4,626	4,572	4,621	4,572

4.

Long-term Obligations. Our revolving bank line of credit provides that we may borrow up to 85% of eligible accounts receivable and up to 55% of eligible inventory, but in no event more than $25,000,000 at any one time. Interest on our borrowings under the revolving line of credit is payable at the bank s prime rate plus 1.25% or, at our option (but subject to certain limitations), at LIBOR (which was 0.24% at September 30, 2011) plus 3.00% per annum. The maturity date of the bank line of credit is July 10, 2014.

At September 30, 2011, outstanding bank borrowings totaled $10.9 million. Our bank borrowings are secured by substantially all of our assets, and rank senior in priority to other indebtedness of the Company.

Our revolving bank line of credit agreement, as amended, contains a single financial covenant, which requires us to achieve a fixed charge coverage ratio of at least 1.10 to 1.0 for successive rolling 12 month periods ending on the last day of each fiscal quarter. Pursuant to an amendment to the credit line agreement entered into with the bank effective November 8, 2011, the 12 months ending March 31, 2012 will be the first of those rolling 12-month periods to which that covenant will apply. The amendment contains a covenant which requires the

Table of Contents

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company to maintain a minimum EBITDA for the nine months ending September 30, 2011. At September 30, 2011, we were is in compliance with that covenant.

5. The Company leases its corporate offices, warehouse facilities and data processing equipment. Those leases are classified as operating leases The office and warehouse leases expire over the next ten years. Minimum future rental commitments under non-cancelable operating leases are as follows:

Year Ending December 31,	(In thousands)
2011 (remaining three months)	$ 998
2012	3,652
2013	3,378
2014	3,067
2015	2,900
Thereafter	4,066
	$ 18,061

6. Warranty Reserve. We generally do not independently provide warranties on the products that we distribute. Instead, in almost all cases, the manufacturers of the products that we distribute warrant the products and allow us to return defective products, including those that have been returned to us by our customers. However, we sell a line of portable generators under a product supply arrangement which obligates us to provide warranty services for these products and to share the costs of providing those services with the manufacturer. The warranty provision is recorded as a component of cots of products sold in the condensed consolidated statements of income.

Accrued warranty expense, which is included in accrued liabilities on the condensed consolidated balance sheets, as of September 30, 2011 and 2010 is as follows (in thousands):

		September 30, 2011	September 30, 2010
Accrued warranty balance	December 31, 2010	$ 469	$ 358
Warranty costs incurred		(528)	(491)
Provision for warranty		538	687
Accrued warranty balance	September 30, 2011	$ 479	$ 554

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

Three Months Ended September 30,	Nine Months Ended September 30,

	2011	2010	2011	2010
	(In thousands)			
USA	$ 24,344	$ 24,506	$ 67,767	$ 67,473
Canada	7,242	7,739	21,734	23,521
	$ 31,586	$ 32,245	89,501	90,994

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Comprehensive Earnings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Net earnings	$ 612	$ 659	$ 553	$ 1,865
Change in accumulated foreign currency translation adjustment	(1,062)	440	(637)	280
Comprehensive (loss) earnings	$ (450)	$ 1,099	$ (84)	$ 2,145

9. Stock-Based Compensation.

In August 2008, our shareholders approved the 2008 Equity Incentive Plan (the 2008 Plan), which provides for the grant of equity incentives, consisting of options, stock appreciation rights, restricted stock and restricted stock units to officers, other key employees, directors and consultants. The 2008 Plan initially set aside, for the grant of equity incentives, 300,000 shares of the Company s common stock, plus an additional 41,500 shares which was equal to the total of the shares that were then available for the grant of new options under our existing stockholder approved stock incentive plans (the Previously Approved Plans). At the same time, those 41,500 shares ceased to be issuable under the Previously Approved Plans. At September 30, 2011, options to purchase a total of 205,334 shares of our common stock and a total of 232,501 of unvested restricted shares were outstanding and 2,666 shares remained available for future grants of equity incentives under the 2008 Plan. On that same date, options to purchase a total of 390,667 shares of our common stock were outstanding under our Previously Approved Plans.

The Previously Approved Plans had provided that, if any options outstanding under any of those Plans were to expire or otherwise terminate, rather than being exercised, the shares that had been subject to those options would become available for the grant of new options or other equity incentives under those Plans. However, the 2008 Plan provides, instead, that if any of those options expire or terminate for any reason, then, the number of shares that will become available for grants or awards of equity incentives under the 2008 Plan will be increased by an equivalent number of shares, instead of becoming available for new equity incentive grants under the Previously Approved Plans.

The fair value of each outstanding option is estimated as of the date of grant using a binomial model. This model incorporates certain assumptions including a risk-free market interest rate, expected dividend yield of the underlying common stock, expected option life and expected volatility in the market value of the underlying common stock.

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

We used the following weighted average assumptions in estimating the fair values of the options granted in the periods indicated below:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Stock Incentive Plans:		
Expected volatility	72.0%	71.0%
Risk-free interest rate	2.15%	2.79%
Expected dividend yields	N/A	N/A
Expected lives	10 years	10 years

The weighted average grant-date fair values of options granted during the nine months ended September 30, 2011 and 2010 were $1.97 and $3.23, respectively.

The following table summarizes stock option activity during the nine month periods ended September 30, 2011 and 2010:

Table of Contents

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	652,001	$ 5.01		
Granted	8,000	2.74		
Exercised	(7,000)	0.82		
Forfeited	(57,000)	7.15		
Outstanding at September 30, 2011	596,001	$ 4.83	2.6 years	$ 274,208
Exercisable at September 30, 2011	526,801	$ 5.30	2.4 years	$ 177,988
Options vested and expected to vest as of September 30, 2011	592,835	$ 4.85	2.6 years	$ 269,627

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	707,667	$ 4.99		
Granted	8,000	4.25		
Exercised	(33,666)	1.94		
Forfeited	(30,000)	7.78		
Outstanding at September 30, 2010	652,001	$ 5.01	3.3 years	$ 505,399
Exercisable at September 30, 2010	449,401	$ 5.79	3.1 years	$ 189,159

The aggregate intrinsic values set forth in the above table represent the total pre-tax intrinsic values (the aggregate differences between the closing stock price of the Company s common stock on September 30, 2011, and the exercise prices for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on September 30, 2011. The total pre-tax intrinsic values of options exercised during the nine months ended September 30, 2011 and 2010 were $21,007 and $72,942, respectively.

A summary of the status of the Company s nonvested options as of September 30, 2011 and 2010, and changes during the nine month periods ended September 30, 2011 and 2010, is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2011	190,100	$ 1.11
Granted	8,000	1.97
Vested	(128,900)	1.37
Forfeited		

Nonvested at September 30, 2011	69,200	$	0.73

	Shares		Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2010	368,500	$	1.20
Granted	8,000		3.23
Vested	(170,150)		1.63
Forfeited	(3,750)		2.60
Nonvested at September 30, 2010	202,600	$	1.22

Unrecognized compensation cost related to nonvested options granted under the Company s 2008 Plan and Previously Approved Plans totaled $24,504 and $149,522 as of September 30, 2011 and 2010, respectively. That cost is expected to be recognized over a weighted average period of 0.5 years in 2011 and 1.6 years in 2010. At September 30, 2011, a total of 592,835 shares of our common stock were subject to outstanding stock options that were exercisable or were expected to become exercisable in the future.

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Shares of Common Stock. During the first three months of 2010, we began granting awards of restricted shares of common stock under the 2008 Plan to some of our officers and other key management employees. Restricted shares generally vest in equal annual increments over a three or four year service period. Compensation expense for such awards, which is based on the fair value of the awards on their respective dates of grant, is recorded over those service periods.

A summary of the status of the Company s restricted stock activity follows:

	Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2011	177,000	$ 4.15
Granted	114,500	4.47
Vested	(58,999)	4.15
Forfeited		
Nonvested at September 30, 2011	232,501	$ 4.31

	Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2010		$
Granted	177,000	4.15
Vested		
Forfeited		
Nonvested at September 30, 2010	177,000	$ 4.15

We recognized stock-based compensation expense related to restricted share grants of $105,000 and $116,000 for the quarters ended September 30, 2011 and 2010, respectively, and $330,000 and $306,000 for the nine months ended September 30, 2011 and 2010, respectively, as a component of selling, general and administrative expenses in our condensed consolidated statements of income.

Unrecognized compensation cost related to the nonvested service-condition restricted shares granted under the 2008 Plan totaled approximately $793,900 and $598,000 at September 30, 2011 and 2010, respectively. The cost is expected to be recognized generally over a weighted average period of 1.6 years measured from September 30, 2011 and 2.5 years measured from September 30, 2010. No restricted shares are outstanding under any of our Previously Approved Plans. All 232,501 restricted shares outstanding on September 30, 2011 are expected to vest. The aggregate intrinsic value of these shares of restricted stock, at September 30, 2011 was $616,130.

10. Recent Accounting Pronouncements.
Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of Accounting Standards Updates (ASU s) to the FASB s Accounting Standards Codification.

The Company considers the applicability and impact of all ASU s. Those ASU s not listed below are assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

In May 2011, the FASB issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011, result in common definition of fair value and common requirements for measurement of and disclosure

Table of Contents

THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

requirements between U.S. GAAP and International Financial Reporting Standards (IFRS). Consequently, the amendments change some fair value measurement principles and disclosure requirements. The implementation of this amended accounting guidance is not expected to have a material impact on our consolidated financial position and results of operations.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of stockholders equity. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not believe our adoption of the new guidance in the first quarter of fiscal 2012 will have an impact on our consolidated financial position, results of operations, or cash flows.

In September 2011, the Financial Accounting Standards Board (FASB) issued updated guidance on the periodic testing of goodwill for impairment. This guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This new guidance is effective for us beginning January 1, 2012, with early adoption permitted. We are currently evaluating this guidance, but do not expect the adoption will have a material impact on our consolidated financial statements.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Forward Looking Information

Statements contained in this Report that are not historical facts or that discuss our expectations regarding our future operations or future financial performance or future financial condition, or financial or other trends in our business or in the markets in which we operate, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Often they include words such as believe, expect, anticipate, intend, plan, estimate, projec forecast or words of similar meaning, or future or conditional verbs such as will, would, should, could, or may. Such forward-looking stat are based upon current information that is available to us, and on assumptions that we make, about future events over which we do not have control. In addition, our business and the markets in which we operate are subject to a number of risks and uncertainties. Such risks and uncertainties, and unexpected future events, could cause our financial condition or actual operating results in future periods to differ significantly from our expected financial condition and operating results that are set forth in the forward-looking statements contained in this Report and could, therefore, also affect the price performance of our shares.

The principal risks and uncertainties to which our business is subject are discussed (i) in Item 1A in our Annual Report on Form 10-K for our fiscal year ended December 31, 2010 (our 2010 10-K) that we filed with the Securities and Exchange Commission (the SEC), and (ii) in the subsection below, entitled *Management Overview Factors Generally Affecting Sales of RV and Boating Products*. Therefore, you are urged to read not only the information contained below in this Item 2, but also the cautionary information contained in Item 1A of our 2010 10-K, which qualify the forward-looking statements contained in this report.

Due to these risks and uncertainties, you are cautioned not to place undue reliance on the forward-looking statements contained in this report and not to make predictions about future performance based solely on our historical financial performance. We also disclaim any obligation to update forward-looking statements contained in this Report or in our 2010 10-K or any other of our filings previously made with the SEC, except as may otherwise be required by law or the rules of the American Stock Exchange.

Table of Contents

Management Overview

We believe that we are one of the largest wholesale distributors of replacement parts, accessories and supplies for recreational vehicles (RVs), and boats in North America. We supply more than 11,000 products and serve more than 15,000 customers throughout the United States and Canada, from 13 regional distribution centers in the United States and 4 regional distribution centers in Canada. Our sales are made primarily to retail parts and supplies stores, service and repair establishments and new and used RV and boat dealers (After-Market Customers). Our sales to our Aftermarket Customers are affected primarily by (i) the usage of RVs and boats by the consumers, because such usage affects their need for and their purchases of replacement parts, repair services and supplies from our Aftermarket Customers, and (ii) sales of new RVs and boats, because consumers often accessorize their RVs and boats at the time of purchase.

Factors Generally Affecting Sales of RV and Boating Products

Our sales and operating results are directly affected by the extent to which consumers purchase and use RVs and boats. Such purchases and usage, in turn, depend in large measure upon the extent of discretionary income available to consumers, their confidence about future economic conditions, which affects their willingness to spend disposable income, and the availability and cost of credit that consumers use to finance the purchase of RVs and boats, each of which can affect the willingness and ability of consumers to purchase and use RVs and boats. As a result, recessionary conditions or a tightening in the availability or increases in the costs of credit often lead consumers to reduce their purchases and, to a lesser extent, their usage of RVs and boats and, therefore, their purchases of the products that we sell. Additionally, increases in the prices and shortages in the supply of gasoline can lead to declines in the usage and purchases of RVs and boats, because these conditions increase the costs of, and create difficulties for consumers in, using RVs and boats.

Weather conditions also can affect our operating results. Purchases and the usage of RVs and boats decline in the winter months. As a result, our sales and operating results in the first and fourth calendar quarters generally are lower than in the spring and summer months in the second and third quarters of the year. See Seasonality and Inflation below. Moreover, our sales and operating results can be adversely affected if unusually severe or winter weather conditions occur during the spring or summer months, because conditions of this nature will cause consumers to reduce their usage of RVs and boats, therefore, their purchase of the products we sell during periods when such purchases and usage ordinarily increase.

These same circumstances and conditions, in turn, affect the willingness and ability of Aftermarket Customers to purchase the products that we sell. Aftermarket Customers will reduce their purchases of products from us if consumer demand for those products declines, or Aftermarket Customers lose confidence about future economic conditions or encounter difficulties in obtaining or affording bank financing they need to fund their working capital requirements. Moreover, during the winter, as well as any other periods of the year that may encounter unusually adverse weather conditions, Aftermarket Customers also reduce their purchases of the products we sell due to declines in the usage and purchases of RVs and boats by consumers. By contrast, when the economy and consumer confidence are strong and financing is readily available, Aftermarket Customers are more willing to increase their product purchases in order to be able to meet increases in consumer demand.

As a result, our sales and operating results can be, and in the past have been, affected by economic conditions, the availability and the costs of consumer and business financing, the supply and the prices of gasoline and weather conditions.

Overview of Operating Results Three and Nine months Ended September 30, 2011 and 2010

The following table sets forth certain financial data, expressed as a percentage of net sales, derived from our statements of operations for the respective periods indicated below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Amounts		% Change	Amounts		% Change
	2011	2010	2011 vs. 2010	2011	2010	2011 vs. 2010
	(Dollars in thousands, except per share amounts)					
Net sales	$ 31,586	$ 32,245	(2.0)%	$ 89,501	$ 90,994	(1.6)%
Cost of sales	25,880	26,381	(1.9)%	73,595	73,474	0.2%
Gross profit	5,706	5,864	(2.7)%	15,906	17,520	(9.2)%
Selling, general and administrative exp.	4,703	4,734	(0.7)%	14,558	14,301	1.8%
Operating income	1,003	1,130	(11.2)%	1,348	3,219	(58.1)%
Other expense	89	171	(48.0)%	490	483	1.4%
Earnings before income taxes	914	959	(4.7)%	858	2,736	(68.6)%
Income tax provision	302	300	0.7%	305	871	(65.0)%
Net earnings	$ 612	$ 659	(7.1)%	$ 553	$ 1,865	(70.3)%
Earnings per common share diluted	$ 0.13	$ 0.14	(7.1)%	$ 0.12	$ 0.41	(70.7)%

As indicated in the table above, our net earnings declined by $47,000 or 7.1%, to $612,000, or $0.13 per diluted share, in this year s third quarter from $659,000, or $0.14 per diluted share, in the third quarter of 2010. In the nine months ended September 30, 2011 our net earnings declined by approximately $1.3 million, or 70.3%, to $553,000, or $0.12 per diluted share, as compared to approximately $1.9 million or $0.41 per diluted share during the same nine months of 2010.

The declines in our net earnings in both those periods were primarily attributable to declines in our net sales and, to a somewhat lesser extent, decreases in our gross profits. We believe that the declines in our net sales were due primarily to reductions in purchases by consumers of RVs and boats and, therefore, their purchases of the products that we sell, largely due to the continued weakness of the economic recovery, the continued high unemployment and a further decline in consumer confidence in the United States. Also contributing to the decline in our net sales in the nine months ended September 30, 2011 were unusually severe weather conditions in the Northeastern U.S. and in Canada during the first six months of this year, which adversely affected the usage of RVs and boats by consumers in those regions and, therefore, their need for the products we sell. The decreases in our gross profits were primarily the result of those declines in our net sales, a change in the mix of products sold to a higher proportion of lower margin items, and selected price reductions that we implemented in response to increased price competition within our markets.

Critical Accounting Policies

General

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

Table of Contents

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

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

Under GAAP, most businesses also must make estimates or judgments regarding the periods during which sales are recorded and also the amounts at which they are recorded. Those estimates and judgments will depend on such factors as the steps or actions that a business must take to complete a sale of products or to perform services for a customer and the circumstances under which a customer would be entitled to return the products or reject or adjust the payment for services sold to them. GAAP requires that a reserve or allowance be established for product returns by means of a reduction in the amount at which its sales are recorded, based primarily on the nature, extensiveness and duration of those rights and its historical return experience.

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

Our Critical Accounting Policies

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

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

Accounts Receivable and the Allowance for Doubtful Accounts. In the normal course of business we extend 30 day payment terms to our customers and, due to the seasonality of our business, during late fall and winter we sometimes grant payment terms of longer duration to those of our customers that have good credit records with us. We regularly review our customers accounts and estimate the amount of, and establish an allowance for, uncollectible accounts receivables in each reporting period. The amount of the allowance is based on several factors, including the age of unpaid accounts receivable, a review of significant past due accounts and current economic and market trends that can affect the ability of our customers to keep their accounts current. Estimates of uncollectible amounts are reviewed periodically to determine if the allowance should be increased, and any increases are recorded in the accounting period in which the events or circumstances that require such increases become known. For example, if the financial condition of customers or economic or market conditions were to

Table of Contents

deteriorate further, adversely affecting their ability to make payments to us on a timely basis, increases in the allowance may be required. Since the allowance is increased or replenished by recording a charge which is included in, and has the effect of increasing, selling general and administrative expenses, an increase in the allowance will reduce income in the period when the increase is recorded.

Reserve for Excess, Slow-Moving and Obsolete Inventory. Due to the nature of our business, all of our inventory consists of finished goods. Inventories are valued at the lower of cost (first-in, first-out) or net realizable value and that value is reduced by an allowance for excess and slow-moving or obsolete inventories. The amount of the allowance is determined on the basis of historical experience with different product lines, estimates or assumptions concerning economic and market conditions and trends. If there is an economic downturn or a decline in sales, causing inventories of some product lines to accumulate, it may become necessary for us to increase the allowance. Other factors that can require increases in the allowance or inventory write downs are reductions in pricing or introduction of new or competitive products by manufacturers; however, due to the relative maturity of the markets in which we operate, usually these are not significant factors. Increases in this allowance also will cause a decline in operating results as such increases are effectuated by charges against income. Our reserve for excess and obsolete inventory was $1,380,000 or 4.9% of gross inventory, at September 30, 2011, and $1,800,000 or 6.5% of gross inventory, at September 30, 2010.

Allowance for Deferred Income Taxes. We record as a deferred tax asset on our balance sheet an amount equal to the tax credit and tax loss carryforwards and tax deductions (tax benefits) that are available to us to offset or reduce the amounts of our income taxes in future periods. Under applicable federal and state income tax laws and regulations, such tax benefits will expire if not used within specified periods of time. Accordingly, the ability to use our deferred tax asset, in its entirety, depends on the taxable income that we generate during those time periods. At least once a year, we make estimates of future taxable income that we believe we are likely to generate during those future periods. If we conclude, on the basis of those estimates and the aggregate amount of the tax benefits available to us, that it is more likely than not that we will be able to fully utilize those tax benefits prior to their expiration, we recognize the deferred tax asset in full on our balance sheet. On the other hand, if we conclude that it is more likely than not that we will be unable to utilize those tax benefits in their entirety prior to their expiration, then, we would establish (or increase any existing) valuation allowance to reduce the deferred tax asset on our balance sheet to the amount that we believe we will be able to utilize. Such a reduction is implemented by recognizing a non-cash charge that would have the effect of increasing the provision, or reducing any credit, for income taxes that would be recorded in our statement of operations. At September 30, 2011, the aggregate amount of net deferred tax asset was approximately $2.8 million, as compared to $2.9 million at September 30, 2010.

Long-Lived Assets and Intangible Assets. Long-lived assets are reviewed for possible impairment at least annually or if and when events or changes in circumstances indicate that the carrying value of those assets may not be recoverable in full, by comparing the fair value of the long-lived asset to its carrying amount.

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

Warranty Reserves and Costs. We generally do not independently provide warranties on the products that we distribute. Instead, in almost all cases, the manufacturers of the products that we distribute warrant the products and allow us to return defective products, including those that have been returned to us by our customers. However, we sell a line of portable generators under a product supply arrangement which obligates us to provide warranty services for these products and to share the costs of providing those services with the manufacturer. The warranty provision is recorded as a component of costs of products sold in the condensed consolidated statements of income.

Results of Operations

Net Sales

Net sales consist of revenues from the sales of the products we sell, net of an allowance for product returns. The following table sets forth and compares our net sales (in thousands of dollars) for the three and nine months ended September 30, 2011 and 2010:

Three Months Ended September 30, Amounts		% Change	Nine Months Ended September 30, Amounts		% Change
2011	2010	2011 vs. 2010	2011	2010	2011 vs. 2010
(Unaudited)					
$31,586	$ 32,245	(2.0)%	$ 89,501	$ 90,994	(1.6)%

We believe that the decreases in net sales during the three and nine months ended September 30, 2011 were due to decreases in purchases and in the usage of RVs and boats, and, therefore, in the purchases of the products we sell, primarily as a result of the continuing weakness in the economy, continuing high unemployment and a further decline in confidence about future economic conditions, which led both consumers and Aftermarket Customers to reduce their discretionary spending. Also contributing to the declines in net sales during the first nine months of 2011 were unusually severe weather conditions in the Northeastern U.S. and Canada in the first half of 2011, which led to a reduction in the usage of RVs and boats by consumers in those regions and, therefore, in their need for the products we sell.

Gross Profit and Gross Margin

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

The following table compares our gross profits (in thousands of dollars) and our gross margin in the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Gross profit	$ 5,706	$ 5,864	$ 15,906	$ 17,520
Gross margin	18.1%	18.2%	17.8%	19.3%

Our gross margin in this year s third quarter was approximately the same as in the third quarter of 2010, due to a decrease in our costs of sales, which substantially offset the adverse impact on our gross margin of the decline in net sales this year s third quarter. The decrease in our gross margin in the nine months ended September 30, 2011, as compared to the same period of 2010, was primarily due to (i) the reduction in net sales, (ii) a change in the mix of products sold to a greater proportion of products, such as air conditioners, on which we realize lower margins than we do on sales of our other products, and (ii) selected price reductions that we implemented in response to increased price competition in our markets.

Selling, General and Administrative Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Selling, general and administrative expenses	$ 4,703	$ 4,734	$ 14,558	$ 14,301
As a percentage of net sales	14.9%	14.7%	16.3%	15.7%

In the three months ended September 30, 2011, our selling, general and administrative (SG&A) expenses declined by $31,000 or 0.7%. This decline was due to our implementation of a number of cost reductions, the most significant of which was a reduction in rent expense for our corporate offices that we negotiated in the first quarter of 2011. These reductions more than offset increased compensation expense that was attributable primarily to the restoration, effective July 1, 2010, of one-half of the salary and wage reductions that we implemented throughout the Company in 2008 and 2009. In the nine months ended September 30, 2011, our SG&A expenses increased by $257,000, or 1.8%, due largely to increased compensation expense primarily as a result of that partial restoration of salaries and wages at the beginning of this year s second quarter.

Table of Contents

Other Expense (Income)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Other Expense				
Interest expense	$ 128	$ 141	$ 427	$ 444
Other	(39)	30	63	39
Total	$ 89	$ 171	$ 490	$ 483
As a percentage of net sales	0.3%	0.5%	0.5%	0.5%

The largest component of other expense is the interest expense that we incur on bank borrowings. To a lesser extent, other (income) expense also includes foreign currency gains or losses and gains or losses on disposal of assets.

Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Income tax provision	$ 302	$ 300	$ 305	$ 871
Effective tax rate	33.0%	31.3%	35.5%	31.8%

Our effective tax rate is affected primarily by the amount of our expenses that are not deductible for income tax purposes and by differences in the tax rates on income generated or losses incurred by our U.S. operations and the tax rates on income generated or losses incurred by our foreign subsidiaries.

Financial Condition, Liquidity and Capital Resources

We finance our working capital requirements for our operations primarily with borrowings under a revolving bank line of credit and internally generated funds.

The revolving bank line of credit provides that we may borrow up to 85% of eligible accounts receivable and up to 55% of eligible inventory, but in no event more than $25,000,000 at any one time. Interest on our borrowings under the revolving line of credit is payable at the bank s prime rate plus 1.25% or, at our option (but subject to certain limitations), at LIBOR (which was 0.24% at September 30, 2011) plus 3.00% per annum. The maturity date of the bank line of credit is July 10, 2014.

At September 30, 2011, outstanding bank borrowings totaled $10.9 million. Our bank borrowings are secured by substantially all of our assets, and rank senior in priority to other indebtedness of the Company.

The revolving bank line of credit agreement, as amended, contains a single financial covenant, which was to have required us to achieve a fixed charge coverage ratio of at least 1.10 to 1.0 for successive rolling 12 month periods ending on the last day of each fiscal quarter, beginning with the 12 months ending March 31, 2011. As previously reported, in July 2011, the credit line agreement was amended to provide that the first of these rolling 12 month periods would, instead, be the 12 months ending September 30, 2011. Effective as of November 8, 2011, the credit line agreement was further amended to provide that (i) the first of the rolling 12-month periods will, instead, be the 12 month period ending March 31, 2012, and (ii) until that covenant is achieved, the bank may reduce the maximum amount of credit line borrowings that will be available to the Company by $1 million. This latest amendment also establishes a new financial covenant that requires the Company s earnings before interest, taxes and depreciation and amortization expense (commonly known as EBITDA), adjusted upward for certain additional non-cash expenses, to be at least $1,825,000 for the nine months ended September 30, 2011 and $200,000 for the year ending December 31,2011. The Company satisfied this EBITDA covenant for the nine months ended September 30, 2011.

16

Table of Contents

Cash provided by Operations. Ordinarily, we generate cash from operations for the nine months ended September 30 of each year, because we begin to reduce inventories, and accounts receivable collections increase, in the third quarter of the year as we move into the winter months when purchases and the usage of RVs and boats decline due to weather conditions, resulting in decreases in purchases by consumers of the products we sell. See Seasonality and Inflation below.

During the nine months ended September 30, 2011, we generated $1.1 million of cash from our operations, primarily attributable to net earnings of $0.6 million, non-cash expenses of $0.9 million, decreases in accounts receivable and other current assets of $1.0 million and $0.9 million, respectively, partially offset by a $2.3 million increase in inventories. During the nine months ended September 30, 2010, we generated $1.6 million of cash from our operations, which was attributable to net earnings of $1.9 million, non-cash expenses of $0.8 million, decreases in other current assets of $1.4 million, increases in accounts payable of $1.5 million, partially offset by a $4.2 million increase in inventories. Our inventories were $28.2 million at September 30, 2011 and $27.2 million at September 30, 2010.

Net Cash Used in Investing Activities. We used cash for investing activities of $233,000 in the nine months ended September 30, 2011, as compared to $204,000 in the same nine months of 2010. Those activities included capital expenditures of $270,000, primarily for purchases of warehouse and computer equipment, in the nine months ended September 30, 2011, as compared to capital expenditures of $220,000 in the first nine months of 2010.

Net Cash Provided by Financing Activities. Cash provided by financing activities consists primarily of cash from the borrowings we obtain net of repayments of such borrowings under our revolving bank credit facility. In the first nine months of 2011, financing activities provided us with cash of $771,000. By comparison, in the first nine months of 2010, we used $223,000 of cash for these activities.

We lease the majority of our facilities and certain of our equipment under non-cancelable operating leases. Our future lease commitments are described in Note 5 of Notes to our Condensed Consolidated Financial Statements included elsewhere in this report. The following table sets forth, by maturity dates, the total of our contractual obligations, in thousands of dollars, at September 30, 2011:

Contractual Obligations at September 30, 2011:	**Total**	**Less than One Year**	**One to Three Years**	**Four to Five Years**	**More than Five Years**
Long-term debt obligations	$ 10,865	$	$ 10,865	$	$
Operating lease obligations	18,061	998	7,030	5,967	4,066
Total	$ 28,926	$ 998	$ 17,895	$ 5,967	$ 4,066

Our long-term debt obligations consist primarily of borrowings under our revolving bank credit facility. It is not possible to calculate future estimated interest payments on those borrowings predictably, because the amounts of such borrowings fluctuate throughout the year depending on our liquidity needs, which can vary widely primarily due to the seasonality of our business and the effects of prevailing economic conditions on the demand for and the purchases of our products by customers. Also, the interest rate on those borrowings is determined by reference to the bank s prime rate or LIBOR, which also can and often do fluctuate during the year. Additionally, the formulas for determining the specific interest rate that will apply to such borrowings can change from year to year. Set forth above, under the caption Financial Condition, Liquidity and Capital Resources are the formulas for determining the interest rates that will apply to those borrowings during the fiscal year ending December 31, 2011.

Expected Uses and Sources of Funds. We expect our principal uses for cash in the year ending December 31, 2011 will be primarily to fund the working capital requirements of our business and capital expenditures and we anticipate that we will be able to fund our cash requirements in 2011 with borrowings under our revolving credit facility and internally generated funds.

We continue to explore opportunities to increase our sales and our market share and to improve our profit margins. As a result, we plan to establish new product supply relationships, including relationships that enable us to increase the products that we source from lower cost, but high quality, overseas suppliers, and to invest in tooling needed for such products. As a result, we may have occasion in the future to use internally generated funds or bank borrowings for these purposes as well.

Table of Contents

Seasonality and Inflation

Seasonality. Sales of recreational vehicle and boating parts, supplies and accessories are seasonal. We generate significantly higher sales during the six-month period from March through August, when usage of RVs and boats are at their peak, than we do during the remainder of the year when winter weather conditions are not optimal for outdoor activities. Because a substantial portion of our expenses are fixed, operating income declines and we may incur losses and must rely more heavily on borrowings to fund operating requirements during the period from September through February when our sales are lower.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk with respect to financial instruments is primarily related to changes in interest rates with respect to borrowing activities, which may adversely affect our financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage exposures through our regular operating and financing activities. The fair value of borrowings under our revolving credit facility approximates the carrying value of such obligations. As of September 30, 2011, we had outstanding approximately $10.9 million under our revolving credit facility.

We have substantial sales operations in Canada and as a result, our earnings, cash flows and financial position can be affected by movements in the Canadian dollar exchange rate. Consequently, we are exposed to market risk from foreign currency fluctuations association with our Canadian operations and our Canadian currency denominated debt. Therefore, from time to time, we may hedge the net investment of our foreign operations in Canada by purchasing foreign exchange derivatives, such as purchased put option contracts, to mitigate the risk of changes in the value of our net investment in our Canadian subsidiary that can occur as a result of changes n currency exchange rates. As of September 30, 2011, we held no foreign currency derivatives. We do not use financial instruments for trading or other speculative purposes.

ITEM 4T. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In accordance with SEC rules, an evaluation was performed under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness, as of September 30, 2011, of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2011, the Company s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A RISK FACTORS

There have been no material changes in the risk factors that were disclosed in Item 1A, under the caption Risk Factors in Part I of our Annual Report on Form 10-K for our fiscal year ended December 31, 2010.

Item 5. Other Information.

As we have previously reported, the Company finances a substantial portion of its working capital requirements with borrowings under a long-term revolving bank line of credit, which is governed by a bank line of credit agreement (the Credit Line Agreement) entered into by the Company with Bank of America N.A. (the Bank).

The Credit Line Agreement contains a single financial covenant which requires the Company to achieve a fixed charge coverage ratio of at least 1.10 to-1.0 for successive rolling 12 month periods ending on the last day of each fiscal quarter. The first of those rolling 12-month periods to which the covenant was to have been applicable was the 12 month period ending March 31, 2011. As previously reported, the Credit Line Agreement was amended, to provide, instead, that the first of those rolling 12-month periods would be the 12 month period ending September 30, 2011.

Effective as of November 8, 2011, the Bank and the Company entered into another amendment to the Credit Line Agreement (the Tenth Agreement), which provides that (i) the first of those rolling 12-month periods to which that financial covenant will apply will, instead, be the 12 month period ending March 31, 2012; and (ii) until that covenant is achieved, the Bank may reduce the maximum amount of borrowings that will be available to the Company under the Credit Line Agreement by $1 million. The Tenth Amendment also establishes a new financial covenant that requires the Company s EBITDA, adjusted upward for certain additional non-cash expenses, to be at least $1,825,000 for the nine months ended September 30, 2011 and $200,000 for the year ending December 31, 2011. The Company satisfied this EBITDA covenant for the nine months ended September 30, 2011.

The foregoing summary of the Tenth Amendment is not intended to be complete and is qualified in its entirety by reference to that Amendment, a copy of which is attached as Exhibit 99.1 to this Report.

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

(a) Exhibits.

Exhibit No.	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Tenth Amendment to Third Amended & Restated Loan and Security Agreement dated as of November 8, 2011 between the Company and Bank of America, N.A.
101	XBRL (eXtensive Business Reporting Language). The following financial materials from The Coast Distribution System, Inc. s Quarterly Report on Form 10-Q for the period ended September 30, 2011, formatted in WBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.*

* As provided in Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

Table of Contents

SIGNATURES

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

THE COAST DISTRIBUTION SYSTEM, INC.

Dated: November 14, 2011

By: /s/ SANDRA A. KNELL
Sandra A. Knell
Executive Vice President and
Chief Financial Officer

S-1

Table of Contents

INDEX TO EXHIBITS

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