

WACOAL HOLDINGS CORP
Form SC 13G/A
February 08, 2011

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

SCHEDULE 13G
Under the Securities Exchange Act of 1934

(Amendment No. 8)*

Wacoal Holdings Corp.

(Name of Issuer)

Common Stock
(Title of Class of Securities)

930004205

(CUSIP Number)

December 31, 2010
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

: Rule 13d-1(b)

: Rule 13d-1(c)

: Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No.
930004205

1 NAME OF REPORTING PERSON

Mitsubishi UFJ Financial Group, Inc.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Tokyo, Japan

5 SOLE VOTING POWER

NUMBER OF 12,939,772

SHARES BENEFICIALLY 6 SHARED VOTING POWER

OWNED BY EACH -0-

REPORTING PERSON 7 SOLE DISPOSITIVE POWER

WITH 12,939,772

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

12,939,772

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN o
SHARES (See Instructions)

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.2%

12 TYPE OF REPORTING PERSON (See Instructions)

FI

CUSIP No.
930004205

1 NAME OF REPORTING PERSON

The Bank of Tokyo–Mitsubishi UFJ, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Tokyo, Japan

5 SOLE VOTING POWER

NUMBER OF 7,006,029

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED BY EACH

-0-

REPORTING 7 SOLE DISPOSITIVE POWER

PERSON WITH 7,006,029

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

7,006,029

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN o
SHARES (See Instructions)

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.0%

12 TYPE OF REPORTING PERSON (See Instructions)

FI

CUSIP No.
930004205

1 NAME OF REPORTING PERSON

Mitsubishi UFJ Trust and Banking Corporation

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Tokyo, Japan

5 SOLE VOTING POWER

NUMBER OF 4,809,000

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED BY
EACH

-0-

REPORTING 7 SOLE DISPOSITIVE POWER

PERSON WITH 4,809,000

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

4,809,000

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN
SHARES (See Instructions)

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

3.4%

12 TYPE OF REPORTING PERSON (See Instructions)

FI

CUSIP No.
930004205

1 NAME OF REPORTING PERSON

Mitsubishi UFJ Securities Holdings Co., Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Tokyo, Japan

5 SOLE VOTING POWER

NUMBER OF 856,743

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED BY
EACH

-0-

REPORTING 7 SOLE DISPOSITIVE POWER

PERSON WITH 856,743

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

856,743

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN
SHARES (See Instructions)

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.6%

12 TYPE OF REPORTING PERSON (See Instructions)

FI

CUSIP No.
930004205

1 NAME OF REPORTING PERSON

Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Tokyo, Japan

5 SOLE VOTING POWER

NUMBER OF 856,743

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED BY -0-

EACH 7 SOLE DISPOSITIVE POWER

REPORTING PERSON 856,743

WITH 8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

856,743

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN
SHARES (See Instructions)

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.6%

12 TYPE OF REPORTING PERSON (See Instructions)

FI

CUSIP No.
930004205

1 NAME OF REPORTING PERSON

Mitsubishi UFJ Asset Management Co., Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Tokyo, Japan

5 SOLE VOTING POWER

NUMBER OF 256,000

SHARES BENEFICIALLY 6 SHARED VOTING POWER

OWNED BY EACH

-0-

REPORTING PERSON 7 SOLE DISPOSITIVE POWER

WITH 256,000

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

256,000

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN o
SHARES (See Instructions)

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.2%

12 TYPE OF REPORTING PERSON (See Instructions)

FI

CUSIP No.
930004205

1 NAME OF REPORTING PERSON

kabu.com Securities Co., Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Tokyo, Japan

5 SOLE VOTING POWER

NUMBER OF 12,000

SHARES 6 SHARED VOTING POWER
BENEFICIALLY OWNED BY

EACH -0-

REPORTING 7 SOLE DISPOSITIVE POWER

PERSON 12,000
WITH

8 SHARED DISPOSITIVE POWER

-0-

IGN="bottom" ALIGN="center">June 30, 2013

Gilbert, Arizona

34,700 March 31, 2012

Salt Lake City, Utah

30,400 October 31, 2013

Johnstown, New York

52,500 November 30, 2012

Eau Claire, Wisconsin

17,300 January 31, 2012

Canada:

St. Bruno, Quebec

59,600 January 31, 2021

Orillia, Ontario

36,500 November 30, 2011

Calgary, Alberta

41,200 January 31, 2016

Langley, British Columbia

22,800 December 31, 2016

As indicated in the above table, certain of the warehouse and distribution center leases are scheduled to expire within the next seven to twelve months. While we currently expect to renew most of these leases, we could decide, instead, either to relocate or close one or more of these distribution centers.

We also lease 18,100 square feet of space in Elkhart, Indiana where we maintain a product testing facility.

Our executive offices are located in Morgan Hill, California, a suburb of San Jose, where we lease 13,700 square feet of office space. Our address at that location is 350 Woodview Avenue, Morgan Hill, California 95037, where our telephone number is (408) 782-6686.

ITEM 3. LEGAL PROCEEDINGS

From time to time we are named as a defendant, sometimes along with product manufacturers and others, in product liability and personal injury litigation. We believe that this type of litigation is incidental to our operations, and we have our own product liability insurance policies, and in many instances also indemnities from the manufacturers from which we obtain our products, to protect us from liabilities that could arise from such claims. On two occasions, we were named as a defendant in patent infringement litigation brought against manufacturers of certain of our proprietary products. To date we have not incurred any material liabilities in any product liability, personal injury or patent litigation and there is no legal action presently pending against us that we believe is likely to have a material adverse effect on our financial condition or results of operations. However, there is no assurance that we will not incur product liabilities in the future that exceed our product liability coverage. See **RISK FACTORS** *We are subject to product liability risks and warranty claims* above.

Table of Contents***EXECUTIVE OFFICERS OF REGISTRANT***

Name	Age	Positions with Company
James Musbach	60	President, Chief Executive Officer and a Director
Thomas R. McGuire	67	Executive Chairman and Chairman of the Board of Directors
Sandra A. Knell	53	Executive Vice President, Chief Financial Officer and Secretary
David A. Berger	56	Executive Vice President Operations
Dennis A. Castagnola	63	Executive Vice President Proprietary Products

Set forth below is certain information regarding the Company's executive officers.

JAMES MUSBACH. Mr. Musbach, who had served as President of Coast from 1994 to 1995, rejoined the Company in September 2006 as its President and Chief Operating Officer. Mr. Musbach was promoted to the position of Chief Executive Officer of the Company effective April 2008. Between 1995 and his return to Coast, Mr. Musbach held various management positions with Raytek Corporation, a manufacturer of infrared non-contact temperature measurement tools, sensors and systems, most recently serving as an Executive Vice President of Raytek and the General Manager of Raytek's Portable Products Division.

THOMAS R. MCGUIRE. Mr. McGuire is a founder of the Company and has been its Chairman of the Board since the Company's inception in 1977. Mr. McGuire also served as the Company's Chief Executive Officer from 1997 until April 2008, when he relinquished that position upon Mr. Musbach's promotion to Chief Executive Officer. Mr. McGuire retains the position of Executive Chairman of the Company and continues as Chairman of the Board of Directors.

SANDRA A. KNELL. Mrs. Knell has been the Company's Executive Vice President, Chief Financial Officer and Secretary since August 1985. From 1984 until she joined the Company, Mrs. Knell was an Audit Manager, and for the prior four years was a senior and staff accountant, with Grant Thornton LLP. Mrs. Knell is a Certified Public Accountant.

DAVID A. BERGER. Mr. Berger has served as an Executive Vice President of the Company since May 1988. From August 1986 to May 1988, Mr. Berger was Senior Vice President Purchasing of the Company. For the prior 14 years he held various management positions with C/P Products Corp., a distributor of recreational vehicle parts and accessories that we acquired in 1985.

DENNIS A. CASTAGNOLA. Mr. Castagnola was appointed to his current position of Executive Vice President Proprietary Products in August 2007. From November 2000 to August 2007, he served as Executive Vice President Sales and, for the prior 25 years, he held various management positions with the Company, including Vice President/Division Manager of the Company's Portland, Oregon distribution center.

Table of Contents**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCK HOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our shares of common stock are listed and trade on the American Stock Exchange under the trading symbol CRV.

The following table sets forth, for the calendar quarters indicated, the range of the high and low per share sales prices of our common stock as reported by the American Stock Exchange.

	Sales Prices Per Share	
	High	Low
2010		
First Quarter	\$ 4.48	\$ 3.75
Second Quarter	4.55	4.00
Third Quarter	4.25	3.60
Fourth Quarter	4.07	3.33
2009		
First Quarter	\$ 1.63	\$ 0.67
Second Quarter	3.27	0.87
Third Quarter	3.80	1.75
Fourth Quarter	4.57	2.89

On March 18, 2011 the closing per share price of our common stock on the American Stock Exchange was \$4.25 and there were approximately 700 holders of record of the Company's shares.

Dividend Policy

In 2005, our Board of Directors adopted a cash dividend policy that provided for the payment of quarterly cash dividends. In November 2008, the Board decided to suspend the payment of cash dividends in order to preserve cash for the Company's operations in response to the economic recession and the credit crisis. In addition, our bank line of credit agreement contains restrictions on the payment by us of cash dividends. As a result, we do not expect to pay cash dividends at least for the foreseeable future.

No cash dividends were paid in 2010 or 2009. Cash dividends paid to our stockholders in 2008 totaled \$578,000.

Stock Price Performance Graph

The graph that follows presents a five-year comparison of cumulative total returns for (i) Coast, (ii) an index comprised of companies within the recreational products markets that were selected by us (the Peer Group), and (iii) the NYSE American Stock Exchange composite index (the AMEX Composite). The Peer Group consists of Brunswick Corporation, Thor Industries, and Winnebago Industries, Inc., which, during the past five years, were manufacturers of recreational vehicles or boats, TriMas Corporation, which manufactures RV and trailer products, and West Marine Inc. which sells boating parts, supplies and accessories both at wholesale and at retail. The data for the graph was obtained from Research Data Group, Inc.

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The following stock performance graph assumes that \$100 was invested, at the end of fiscal 2005, in Coast's shares and in the shares of the companies comprising the Peer Group Index and the Amex Composite Index and that any dividends issued for the indicated periods were reinvested. Stockholder returns shown in the performance graph are not necessarily indicative of future stock performance.

	2005	2006	At December 31,		2009	2010
			2007	2008		
Coast Distribution	100.00	118.96	84.31	15.23	57.82	57.23
Peer Group Index	100.00	119.54	144.62	87.02	118.50	152.13
Amex Composite Index	100.00	94.49	65.64	20.57	53.36	72.54

Equity Compensation Plans

Certain information, as of December 31, 2010, with respect to our equity compensation plans is set forth in Item 12, in Part III, of this Report and is incorporated herein by this reference.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The selected operating data set forth below for the fiscal years ended December 31, 2010, 2009 and 2008, and the selected balance sheet data at December 31, 2010 and 2009, are derived from the Company's audited consolidated financial statements included elsewhere in this Report and should be read in conjunction with those financial statements and MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS set forth in Item 7 of this Report. The selected operating data for the fiscal years ended December 31, 2007 and 2006, and the selected balance sheet data at December 31, 2008, 2007 and 2006, are derived from the Company's audited consolidated financial statements which are not included in this Report.

	2010	Year Ended December 31,			2006
		2009	2008	2007	
(In thousands, except per share data)					
Operating Data:					
Net Sales	\$ 108,600	\$ 103,201	\$ 132,237	\$ 164,293	\$ 179,103
Cost of sales (including distribution costs) ⁽¹⁾	88,985	83,754	107,625	133,578	145,501
Gross margin	19,615	19,447	24,612	30,715	33,602
Selling, general and administrative expenses	18,330	18,552	26,559	28,065	27,160
Operating income (loss)	1,285	895	(1,947)	2,650	6,442
Equity in net earnings of affiliated companies	57	201	147	179	147
Other income (expense)					
Interest expense	(579)	(624)	(1,409)	(2,098)	(1,617)
Other	(194)	(268)	(8)	(156)	(141)
	(773)	(892)	(1,417)	(2,254)	(1,758)
Earnings (loss) before income taxes	569	204	(3,217)	575	4,831
Income tax provision (benefit)	417	105	(1,378)	360	1,858
Net earnings (loss)	\$ 152	\$ 99	\$ (1,839)	\$ 215	\$ 2,973
Net earnings (loss) per diluted share ⁽²⁾	\$ 0.03	\$ 0.02	\$ (0.41)	\$ 0.05	\$ 0.64
Shares used in computation of net earnings (loss) per share	4,574	4,494	4,446	4,526	4,616
(In thousands, except per share data)					
Balance Sheet Data:					
Working Capital	\$ 36,757	\$ 34,524	\$ 40,394	\$ 52,575	\$ 52,704
Total assets	47,782	45,472	52,459	69,307	69,494
Long-term obligations ⁽³⁾	10,113	9,637	17,078	24,665	24,350
Stockholders' equity	31,038	29,632	28,220	32,491	31,847
Book value per share ⁽⁴⁾	\$ 6.79	\$ 6.59	\$ 6.35	\$ 7.18	\$ 6.90
Dividends per share	\$ 0.00	\$ 0.00	\$ 0.13	\$ 0.28	\$ 0.24

(1) Distribution costs consist primarily of warehouse rent, labor and supply costs and product shipping costs.

(2) See Note I to the Company's Consolidated Financial Statements.

(3) Exclusive of current portion. For additional information regarding long-term obligations, see Note D to the Company's Consolidated Financial Statements.

(4) Based on the weighted average number of shares used in the computation of net earnings (loss) per share. See Note I to the Company's Consolidated Financial Statements.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management Overview

We believe that Coast is one of the largest wholesale suppliers of replacement parts, supplies and accessories 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 to retail parts and supplies stores, service and repair establishments and new and used RV and boat dealers (collectively, Aftermarket Customers).

Factors Generally Affecting Sales of RV and Boating Products

Our sales are affected primarily by:

The usage of RVs and boats by the consumers to whom our Aftermarket Customers sell our products, because such usage affects the consumers' needs for and their purchases of replacement parts, repair services and supplies; and

Purchases of new and used RVs and boats by consumer, because they often accessorize their RVs and boats at or shortly after the time of purchase.

The usage and the purchase, by consumers, of RVs and boats depend, in large measure, upon the extent of discretionary income available to consumers, their confidence about economic conditions and the availability and the costs to them of credit. As a result, recessionary conditions and a tightening in the availability or increases in the costs of borrowings to consumers often lead to declines in the purchase and, to a lesser extent, in the usage, of RVs and boats. 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. Finally, the usage by consumers of RVs and boats and, therefore their need for and purchases of the products we sell are affected by weather conditions.

We experienced significant decreases both in our sales and gross profits in 2009 as a result of the economic recession and credit crisis which adversely affected consumer confidence and led to reductions in discretionary income and spending, and reduced the availability of credit which many consumers rely on to finance the purchase and the costs of using RVs and boats. In 2010, we experienced a modest increase in sales and gross profits, as compared to 2009, which we believe were due primarily to a stabilizing of the economy, an improving (albeit cautionary) economic outlook, some easing of consumer credit. However, we continue to see fluctuations, rather than sustained growth, in consumer demand and, due primarily to continued uncertainties about the strength of the economic recovery, and recent increases in the prices of gasoline which can adversely affect the willingness of consumers to use and purchase RVs and boats, we expect conditions in the RV and boating markets to remain unstable and difficult, until there is a more sustained economic recovery, employment levels begin steadily increasing and the availability and cost of consumer credit improve.

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The following table provides information comparing our results of operations in the fiscal year ended December 31, 2010 to our results of operation in fiscal 2009 and fiscal 2008. Dollars are in thousands, except per share data.

	Years Ended December 31,						Increase (Decrease)	
	2010	2009	2008	2010 vs. 2009		2009 vs. 2008		
	Amount	Amount	Amount	Amount	Percent	Amount	Percent	
Net Sales	\$ 108,600	\$ 103,201	\$ 132,237	\$ 5,399	5.2%	\$ (29,036)	(22.0)%	
Costs of products sold ⁽¹⁾	88,985	83,754	107,625	5,231	6.2%	(23,871)	(22.2)%	
Gross profits	19,615	19,447	24,612	168	0.9%	(5,165)	(21.0)%	
SG&A expenses	18,330	18,552	26,559	(222)	(1.2)%	(8,007)	(30.1)%	
Operating income (loss)	1,285	895	(1,947)	390	43.6%	2,842	146.0%	
Interest expense	579	624	1,409	(45)	(7.2)%	(785)	(55.7)%	
Earnings (loss) before income taxes	569	204	(3,217)	365	178.9%	3,421	106.3%	
Income tax provision (benefit)	417	105	(1,378)	312	297.1%	1,483	107.6%	
Net earnings (loss)	152	99	(1,839)	53	53.5%	1,938	105.4%	
Net earnings (loss) per share-diluted	0.03	0.02	(0.41)	0.01	50.0%	0.43	104.9%	

(1) Inclusive of distribution costs.

The economic recession and credit crisis, which began in the latter part of 2007 and worsened in 2008 and 2009, continued to adversely affect consumer confidence and discretionary spending in 2010. Nevertheless, as the above table indicates and as discussed below, we were able to increase our sales and reduce our selling, general and administrative (SG&A) expenses and interest expense, which enabled us to increase both our pre-tax earnings and net earnings in the year ended December 31, 2010, as compared to 2009.

Increase in Sales. We were able to achieve a \$5.4 million, or 5.2%, increase in our sales in 2010 to \$108.6 million in 2010, from \$103.2 million in 2009, primarily as a result of (i) a firming in the demand for the products we sell in the first half of 2010, as our After-Market Customers replenished their inventories in anticipation of the customary increases in usage and purchases of RVs and boats in the spring and summer months, and (ii) an increase in sales of air conditioners during the last half of 2010 as a result of a gain in the share of the RV air conditioner after-market that was primarily attributable to the withdrawal from the market of a manufacturer that had supplied air conditioners to some of the RV parts and accessories distributors with which we compete.

Reduction in SG&A Expenses. Due to cost saving measures which we began implementing in late 2008 in response to the onset of the economic recessions and credit crisis and which we continued in 2009 and 2010, we reduced our SG&A expenses by \$222,000 in 2010 as compared to 2009. That reduction, coupled with the increase in net sales, enabled us to increase operating income by approximately \$400,000 in 2010 as compared to 2009.

Interest Expense. Interest expense declined by \$45,000, or 7%, to \$579,000 in 2010, from \$624,000 in 2009, primarily as a result of (i) a reduction in average bank borrowings outstanding during 2010, made possible primarily by reductions in average inventories and accounts receivable, and (ii) lower market rates of interest in 2010 which determine the rate of interest charged on our bank borrowings.

Increases in Pre-Tax and Net Earnings. Due primarily to the combined effects of the increase in net sales and the reductions in SG&A expenses and interest expense in 2010 (i) pre-tax earnings increased by \$365,000, or 179%, to \$569,000 from \$204,000 in 2009, and (ii) net earnings increased by \$53,000, or 53.5%, to \$152,000, or \$0.03 per diluted share, from \$99,000, or \$0.02 per diluted share, in 2009, as an increase in income tax expense of \$312,000, or 297.1%, substantially reduced the bottom line impact of the increase in pre-tax earnings in 2010.

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Outlook for 2011

Continuing uncertainties and concerns among businesses and consumers regarding the strength and sustainability of the economic recovery and persistent high rates of unemployment have continued into 2011. We expect these conditions will continue to adversely affect purchases and the usage by consumers of RVs and boats and, therefore, also the purchases, both by consumers and our Aftermarket Customers, of the products that we sell during 2011.

As a result, our strategic goals for 2011 are to capture additional market share and to improve our gross margin, primarily by increasing our sales of higher-margin proprietary products and other foreign sourced products and taking advantage of opportunities to reduce our costs of sales. For example, during the latter part of 2010, we succeeded in renegotiating some of our warehouse leases and, as a result, we expect warehouse rents to decline. In addition, in response to this difficult economic climate, we are continuing to monitor and look for additional measures to reduce our SG&A expenses. As a result, we believe that we can achieve a modest improvement in our operating results in 2011, as compared to 2010, assuming that economic and market conditions in the United States and Canada stabilize and the availability of credit to businesses and consumers increases. On the other hand, if these conditions do not improve meaningfully in 2011, it may become necessary for us to implement additional cost-cutting measures.

Due to the risks in the economy and in our business and the uncertainties that exist regarding future economic and market conditions, it is not possible to predict with any degree of accuracy whether we will succeed in achieving our goals for 2011. See **RISK FACTORS** in Item 1A of Part I of this Report for a discussion of some of those risks and uncertainties.

Critical Accounting Policies and Use of Estimates

General

In accordance with accounting principles generally accepted in the United States of America (**GAAP**), we record most of our assets at the lower of cost or fair value. In the case of some of our assets, principally accounts receivable, inventories and deferred income taxes, we make adjustments to their cost or fair values to arrive at what we expect to be able to collect on outstanding accounts receivables, the amounts for which we expect to be able to sell our inventories and the amount of available tax loss and credit carryforwards and deductions that we will be able to use to reduce our future income tax liability. Those adjustments are made on the basis of a number of different factors, including the assumptions and judgments we make regarding economic and market conditions and trends and their impact on our financial performance. However, those assumptions and judgments are necessarily 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 had recorded these assets, pursuant to GAAP we may be required to further adjust the carrying values at which we record these assets for financial reporting purposes. Any resulting downward adjustments are commonly referred to as **write-downs** of the assets affected by the changed conditions.

It is our practice to establish reserves or allowances against which we are able to charge any such 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 against our deferred tax asset to the extent necessary to reduce its carrying value to the amount of that asset that we believe we are likely to be able to use to reduce our income tax liability in future periods. The amounts at which those allowances or reserves are established and maintained are based on our historical experience and also on our assumptions and judgments about economic or market conditions or trends and 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 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 or assumptions about market and economic conditions or trends and about their effects on our financial performance can and will affect not only the amounts at which we record these assets on our balance sheet, but also our results of operations.

The decisions as to the timing of (i) adjustments or write-downs of this nature and (ii) the increases we make to our allowances or 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 downturns, will be of

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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 to 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 the services rendered to it. Additionally, in the case of a business that grants its customers contractual rights to return products sold to them, GAAP requires that a reserve or allowance be established for product returns by means of a reduction in the amount at which its sales are recorded, based primarily on the nature, extensiveness and duration of those rights and 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 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 that 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 product for return.

Accounts Receivable and the Allowance for Doubtful Accounts. In the normal course of our 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. We regularly review our customers' accounts and estimate the amount of, and establish an allowance for, uncollectible accounts receivable in each reporting period. The amount of the allowance is based on several factors, including the age of unpaid amounts, a review of significant past due accounts and current economic and market trends that can affect the ability of 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 some of our customers or economic or market conditions were to deteriorate, adversely affecting the ability of customers to make payments to us on a timely basis, it could become necessary for us to increase the allowance for uncollectible accounts. 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.

Inventory and Reserve for Excess, Slow-Moving and Obsolete Inventory. We are a wholesale distributor and not a manufacturer of products and, therefore, 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 slowing-moving or obsolete inventories. The amount of the allowance is determined on the basis of historical experience with different product lines and estimates or assumptions concerning future 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 reserves for excess and obsolete inventory were \$2,009,000, or approximately 7.8% of total inventories, at December 31, 2010, as compared to \$1,796,000, or approximately 7.8% of total inventories, at December 31, 2009.

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Deferred Tax Asset and Valuation Allowance. 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 we believe will be 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 fully use our deferred tax asset depends on the amount of taxable income that we generate during those time periods. At least once each 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 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 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. That reduction would be 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 December 31, 2010, the aggregate amount of our net deferred tax asset was approximately \$2.7 million, as compared to \$2.8 million at December 31, 2009.

Long-Lived Assets. Long-lived assets are reviewed for possible impairment at least annually or if and when events or changes in circumstances indicate the carrying amount of any 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 Canadian and other foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of each foreign subsidiary are translated into U.S. dollars at the rate of exchange in effect at the end of each reporting period. Revenues and expenses are translated into U.S. dollars at the average exchange rate for the reporting period. Foreign currency translation gains and losses not impacting cash flows are credited to or charged against other comprehensive earnings. Foreign currency translation gains and losses arising from cash transactions are credited to or charged against current earnings.

Stock Based Compensation. The Company accounts for stock based compensation in accordance with ASC 718, Stock Compensation, which requires the recognition of the fair value of stock compensation as an expense in the calculation of net income (loss). The Company recognizes stock compensation expense in the period in which the employee is required to provide service, which is generally over the vesting period of the individual equity instruments. Stock options issued in lieu of cash to non-employees for services performed are recorded at the fair value of the options at the time they are issued and are expensed as service is provided. Stock based compensation expense in the years ended December 31, 2010 and 2009 totaled \$429,000 and \$230,000, respectively.

Warranty Costs. We generally do not independently warrant the products that we distribute. Instead, in almost all cases, the manufacturers of the products that we distribute warrant the products and allow us to return defective products, including those that have been returned to us by our customers. However, we sell a line of portable and standby generators under a product supply arrangement which obligates us to provide warranty services for these products and to share the costs of providing those services with the manufacturer. The duration of the warranty period for these products is 24 months following the sale of the product to a retail customer. We established warranty reserves for these products of \$469,000 and \$358,000 at December 31, 2010 and 2009, respectively. Those amounts were determined on the basis of a number of factors, including our estimates of future sales of the products that we warrant and our historical and expected future warranty claims experience. In the event changes occur in the conditions or circumstances upon which those assumptions and estimates were made, it could become necessary for us to increase the reserve by means of a charge to our income.

Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2010, that we believe are of significance, or potential significance to the Company based upon current operations.

In October 2009, the FASB amended its rules regarding the accounting for multiple element revenue arrangements. The objective of the amendment is to allow vendors to account for revenue for different deliverables separately as opposed to part of a combined unit when those deliverables are provided at different times. Specifically,

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this amendment addresses how to separate deliverables and simplifies the process of allocating revenue to the different deliverables when more than one deliverable exists. The new rules are effective for us beginning January 1, 2011. We are in the process of evaluating the impact that this amendment will have on our Consolidated Financial Statements.

In January 2010, we adopted the applicable sections of the FASB's guidance on earnings per share that addresses whether instruments granted in share-based payment transactions are participating securities. That guidance indicates that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic earnings per share pursuant to the two-class method. The adoption of these applicable sections did not have a material effect on our financial condition, results of operations or cash flows.

In January 2010, the FASB issued new guidance for improving disclosures about Fair Value Measurements. This guidance requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring the presentation, on a gross basis, of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. This guidance also clarifies existing disclosures regarding the level of disaggregation, inputs and valuation techniques. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009 and became effective for the Company on January 1, 2010. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years ending after December 31, 2010 and became effective for the Company on March 31, 2010. The adoption of this new accounting guidance impacts only disclosure requirements and did not have an impact on the Company's consolidated financial position, results of operations or financial condition.

In February 2010, the FASB issued an update to Subsequent Events. This guidance amends the previous definition of an SEC filer and removed the requirement that an SEC filer disclose the date through which subsequent events have been evaluated in both issued and revised financial statements. The update also requires SEC filers to evaluate subsequent events through the date the financial statements are issued rather than the date the financial statements are available to be issued. The Company adopted this guidance upon issuance with no material impact to our consolidated financial statements.

In April 2010, the FASB issued an update to Stock-Based Compensation; which clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity shares trade should not be considered to contain a condition that is not a market performance or service condition. Therefore, an entity would not classify such an award as a liability if the award otherwise qualifies as equity. The standard was effective for interim and annual periods ending after December 15, 2010. The adoption of this standard did not have a material impact to our consolidated financial statements.

Results of Operations

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:

	Year Ended December 31,		
	2010	2009	2008
Net sales	100.0%	100.0%	100.0%
Cost of sales	81.9	81.1	81.4
Gross profit	18.1	18.8	18.6
SG&A expenses	16.9	18.0	20.1
Operating income (loss)	1.2	0.9	(1.5)
Interest expense	0.5	0.6	1.1
Earnings (loss) before taxes	0.5	0.2	(2.4)
Income tax provision (benefit)	0.4	0.1	(1.0)
Net earnings (loss)	0.1%	0.1%	(1.4)%

Net Sales

Net sales consist of revenues from the sales of the products we supply or distribute, net of an allowance for product returns. The following table sets forth certain information regarding the changes in our net sales in fiscal 2010 and 2009, in each case as compared to the immediately preceding year. Dollars in the table are in thousands.

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		% Change		% Change	
	2010	2009	2010 vs. 2009	2008	2009 vs. 2008
	\$ 108,600	\$103,201	5.2%	\$132,237	(22.0)%

2010 vs. 2009. The increase in net sales in 2010 as compared to 2009 was due to a modest firming, in the first half of the year, in the demand for the products that we sell, as our customers replenished product inventories, and in the second half of the year, to an increase in sales of air conditioners that are installed on RVs. That increase in our share of the RV air conditioner after-market was primarily attributable to an unexpected withdrawal, from the RV market, of a manufacturer that had supplied air conditioners to some of the RV aftermarket distributors with which we compete, which led some of their After-Market Customers to order air conditioners from us.

2009 vs. 2008. The decrease in sales in 2009, as compared to 2008, was primarily attributable to declines in purchases and in the usage of RVs and boats. Those declines were primarily attributable to the worsening of the economic recession, further increases in unemployment, and a decline in the availability of consumer and business credit in the United States and Canada during 2009, which adversely affected confidence, both of consumers and our After-Market, about future economic conditions and discretionary spending by them.

Gross Margin

Gross profit is calculated by subtracting the costs of sales from net sales. Costs of sales consist primarily of the amounts paid to manufacturers and suppliers for the products that we purchase for resale, inbound freight charges, merchandise receiving, handling and storage costs, and out-bound freight charges. Gross margin is gross profits stated as a percentage of net sales.

	2010	2009	2008
	(Dollars in thousands)		
Gross profit	\$ 19,615	\$ 19,447	\$ 24,612
Gross margin	18.1%	18.8%	18.6%

2010 vs. 2009. Although gross profits increased modestly in 2010, as compared to 2009, our gross margin declined to 18.1% in 2010 from 18.8% in 2009. This decline was due to a combination of factors, consisting primarily of (i) a change in the mix of products sold to a greater proportion of lower-margin items, (ii) selected price reductions that we implemented in response to increased price competition in our markets, (iii) an increase in freight-in costs.

2009 vs. 2008. Due to the decrease in our net sales in 2009, gross profits declined by nearly \$5.2 million, or 21.0%, in 2009 as compared to 2008. Notwithstanding that decline, our gross margin improved to 18.8% in 2009 from 18.6% in 2008, due to a combination of factors, including (i) a reduction in shipping costs due to decreases in the price of fuel; (ii) a reduction in cash discounts and rebates offered to our customers, (iii) a change in the mix of products sold to a greater proportion of higher-margin products sourced from Asia, (v) reductions in warehouse labor and other distribution costs due primarily a full year's effect of the cost savings measures that we began implementing in late 2008, which included reductions in the number of and in the wages paid to warehouse personnel, and (vi) a strengthening of the Canadian dollar during the second half of 2009, which enabled our Canadian subsidiary, which purchases products from suppliers in the United States, to improve its margins during that period.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses consist primarily of selling and marketing costs, and administrative labor and other administrative expenses, professional fees, insurance and the provision made for uncollectible accounts.

	2010	2009	2008
	(Dollars in thousands)		
SG&A expenses	\$ 18,330	\$ 18,552	\$ 26,559
As a percentage of net sales	16.9%	18.0%	20.0%

2010 and 2009. In 2009, we reduced our SG&A expenses, in absolute dollars, by \$8.0 million, as compared to 2008, and by an additional \$222,000 in 2010, as compared to 2009. These reductions in SG&A expenses were attributable to cost cutting measures that we began implementing in the latter part of 2008, including (i) workforce

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reductions, (ii) reductions in management salaries and employee wages, and (iii) reductions in selling and marketing and other administrative expenses, in response to the onset of the economic recession and the credit crisis. In 2009, we continued those cost savings measures and implemented others, including further reductions in salaries and wages. We continued those cost savings measures throughout 2010, with the exception of the salary and wage reductions. Effective July 1, 2010 we restored, on a prospective basis, one-half of the salary and wage cuts that we implemented in 2008 and in 2009, in response to improving economic conditions and increases in our sales and operating income.

The majority of our corporate overhead costs are incurred in the United States. A portion of those costs are allocated to our foreign operations to the extent that they directly benefit from the expenses incurred.

Operating Income (loss)

	2010	2009	2008
	(Dollars in thousands)		
Operating income (loss)	\$ 1,285	\$ 895	\$ (1,947)
As a percentage of net sales	1.2%	0.9%	(1.5)%

2010 vs. 2009. The \$390,000, or 43.6%, increase in operating income in 2010, as compared to 2009, was primarily the result of the increase in net sales and the reduction in SG&A expenses in 2010.

2009 vs. 2008. We generated operating income of \$0.9 million in 2009, an improvement of \$2.8 million from the loss from operations of \$1.9 million incurred in 2008. That improvement was the result of the increase in gross margin and the reduction in SG&A expenses, which more than offset the effects on our operating results of the decrease in net sales in 2009.

Other Expense

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Other expense			
Interest expense	\$ 579	\$ 624	\$ 1,409
Other expense	194	268	8
Total	\$ 773	\$ 892	\$ 1,417
	0.7%	0.9%	1.1%

The largest component of Other Expense is the interest expense that we incur on borrowings. The other component of Other Expense consists primarily of foreign currency gains or losses and gains or losses on disposal of assets.

2010 vs. 2009. Interest expense decreased in 2010 by \$45,000, or 7%, in 2010, as compared to 2009, due primarily to a reduction in our average outstanding credit line borrowings and a decrease in the average rate of interest charged on those borrowings. That reduction in credit line borrowings was made possible by a modest reduction in average inventories primarily as a result of efficiencies realized in our distribution and warehouse operations and a decrease in accounts receivable primarily due to our continued application of the stringent credit standards adopted in 2009. The decrease in the average rate of interest charged on our credit line borrowings was due to declines in market rates of interest which determine the interest rates charged by the bank on those borrowings.

2009 vs. 2008. Interest expense decreased by \$785,000, or 56%, in 2009, as compared to 2008, due primarily to reductions in our average outstanding credit line borrowings and decreases in the average rate of interest charged on those borrowings. We were able to reduce our average outstanding borrowings in 2009 primarily as a result of (i) reductions in inventories due to the decline in net sales in 2009, as compared to 2008, and efficiencies we achieved in our warehouse and distribution operations, and (ii) decreases in accounts receivable due to the decline in net sales and our implementation of more stringent credit standards in response to the economic recession. The decrease in the average rate of interest charged on our credit line borrowings was due to declines in market rates of interest in 2009.

Table of Contents*Income Tax Provision (Benefit)*

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Income tax provision (benefit)	\$ 417	\$ 105	\$ (1,378)
As a percentage of net sales	0.4%	0.1%	(1.0)%
Effective tax rate	73.3%	51.5%	42.8%

Our effective income tax rate is affected primarily by the amount of our expenses that are not deductible for income tax purposes, including stock based compensation expense, and by varying tax rates on income generated by our foreign subsidiaries, because tax rates in their respective countries vary, sometimes considerably, from income tax rates in the United States. In addition, in years when our income or loss is marginal, such as in 2010 and 2009, state franchise and other taxes can lead to increases in our overall tax rate.

*Liquidity and Capital Resources**Working Capital, Liquidity and Cash Flows*

We finance our working capital requirements for our operations primarily with borrowings under a revolving bank line of credit and internally generated funds. See *Sources and Uses of Cash* below.

As previously reported, effective November 8, 2010, we entered into a Seventh Amendment to the bank line of credit agreement (the *Seventh Amendment*). Among other things, that Amendment extended by three years the maturity date of the credit line to July 10, 2014; (ii) reduced the rates at which we pay interest on our borrowings, (iii) modified the formula for determining the maximum borrowings that may be outstanding at any one time during the period from February 1 through May 31 of each year from 80% to 85% of eligible accounts receivable and from 50% to 55% of eligible inventory, but in no event more than \$25,000,000. 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 plus 2.75% per annum. The amended revolving bank line of credit agreement contains only one financial covenant that we are required to meet, which is a quarterly fixed charge covenant. That covenant requires us to achieve a fixed charge coverage ratio of at least 1.1-to-1.0 for rolling 12 month periods ending on the last day of each fiscal quarter. At December 31, 2010 we were, and we expect that at March 31, 2011 we will be, in compliance with the quarterly fixed charge covenant.

At March 19, 2011, outstanding borrowings under the revolving credit facility totaled \$16,600,000. Our bank borrowings are secured by substantially all of our consolidated assets and rank senior in priority to any other indebtedness that the Company may incur.

Due to the nature of our business, our primary need for working capital is to finance our accounts receivable and our purchases of inventory. Typically we bill our customers on an open account basis with 1%, 10 day, net 30-day terms. During late fall and in winter, however, we sometimes provide our most creditworthy customers with payment terms of longer duration and, as a result, we generally use a greater proportion of our borrowing availability during the first and fourth quarters of each year than during other parts of the year.

Sources and Uses of Cash

We generally use cash for, rather than generate cash from, operations in the first half of the year, because we build inventories, and accounts receivables increase, as our customers begin increasing their product purchases prior to and in anticipation of the spring and summer selling seasons. See *Seasonality and Inflation* below.

Cash Used in Operations in 2010 and 2009. During 2010, we used cash of \$1.6 million for our operations, which was comprised of a \$2.9 million increase in inventory and a \$1.0 million increase in accounts receivable, partially offset by cash provided by operations, consisting of a \$0.4 million increase in accounts payable and \$0.1 million increase in accrued liabilities, net earnings of \$0.2 million, \$0.7 million in depreciation and amortization and \$0.4 in stock based compensation expense. By comparison, in 2009, our operations provided net cash of \$10.2 million, due primarily to reductions in inventory and accounts receivable of \$7.7 million and \$0.5 million due primarily to the decline in net sales and measures taken to reduce inventories and, thereby reduce interest expense, and a \$1.6 million increase in prepaid expenses and income tax refunds.

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Cash Provided by Financing Activities in 2010 and 2009. During 2010, our financing activities provided us with \$0.4 million of cash principally the result of net borrowings of long term debt under our revolving bank line of credit. In 2009, we used net cash of \$7.5 million in financing activities, primarily to reduce outstanding bank borrowings, made possible by reductions in inventories and accountants receivable.

Cash Flows Used in Investing Activities in 2010 and 2009. In 2010, we used \$0.3 million of cash in investing activities in 2010, principally to fund capital expenditures, primarily for warehouse, office, and computer equipment. In 2009, we used cash of \$0.3 million in investing activities, primarily to fund the purchase of other assets and for capital expenditures, primarily for warehouse, testing and design, and computer equipment.

Contractual Obligations

Lease Obligations. We lease our facilities and certain of our equipment under non-cancelable operating leases. In 2010, rent expense under all operating leases totaled approximately \$4.6 million. The following table sets forth our future operating lease commitments (in thousands of dollars), as of December 31, 2010:

Year Ending December 31,	
2011	\$ 4,146
2012	3,094
2013	2,812
2014	2,494
2015	2,365
Thereafter	3,644
	\$ 18,555

Total and Maturity of Contractual Obligations. The following table sets forth the total and the maturities of our contractual obligations, in thousands of dollars, at December 31, 2010:

	Total of Contractual Obligations	Maturities of Contractual Obligations			
		Less than One Year	More than One and Less than Four Years	Four to Five Years	More than Five Years
Contractual Obligations at December 31, 2010:					
Long-term debt obligations ⁽¹⁾	\$ 10,113	\$	\$ 10,113	\$	\$
Operating lease obligations	18,555	4,146	5,906	4,859	3,644
Totals	\$ 28,668	\$ 4,146	\$ 16,019	\$ 4,859	\$ 3,644

(1) Consists of borrowings under our bank credit facility, which matures in July 2014.

Our long term debt obligations consist primarily of borrowings under our long term revolving bank credit facility. It is not possible to calculate future estimated interest payments on those borrowing 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.

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Dividend Policy and Dividend Payments. In 2005, our Board of Directors adopted a dividend policy that provided for the payment of quarterly cash dividends to our stockholders. In 2008 we paid total cash dividends of \$578,000. In November 2008, our Board of Directors suspended the payment of cash dividends in order to preserve cash for operations in response to the worsening of the economic recession and the tightening of credit by banks and other lending institutions to businesses, as well as consumers. In addition, our bank credit line agreement contains restrictions on our payment of cash dividends. As a result, we do not anticipate paying cash dividends at least for the foreseeable future.

Table of Contents*Expected Uses and Sources of Funds*

We expect to make capital expenditures in 2011 that we estimate will range from \$300,000 to \$400,000. We expect that these expenditures will be of a recurring nature, for such purposes as the replacement and upgrading of warehouse, computer or office equipment in the ordinary course of our business.

We expect to be able to fund these expenditures and our working capital requirements with borrowings under our revolving bank line of credit and internally generated funds, assuming that there is not a further worsening of the economic recession in 2011. See Item 1A of PART I of this Report above, entitled *RISK FACTORS Our business and financial performance are affected by economic conditions We rely heavily on bank borrowings in the operation of our business, which makes us more vulnerable to adverse changes in economic conditions* in Part I of this Report.

We will continue to explore opportunities to increase our sales and our market share and to improve our profit margins by, among other things, establishing new product supply relationships that enable us to increase the products that we source from lower cost, but high quality, overseas suppliers, including product suppliers in Asia, and to invest in tooling needed for such products. We also may seek to take advantage of other growth opportunities if and when they may arise. As a result, we may have occasion in the future to use internally generated funds or bank borrowings for these purposes. There is no assurance, however, that, if required, we will be able to obtain bank borrowings for these purposes.

Seasonality and Inflation

Seasonality. 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 weather conditions are not optimal for outdoor activities. Because a substantial portion 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.

The following tables presents unaudited quarterly financial information for each of the fiscal years ended December 31, 2010 and 2009. This information has been prepared by us on a basis consistent with our audited financial statements included elsewhere in this Report. The information includes all necessary adjustments, consisting only of normal recurring adjustments, that management considers necessary for a fair presentation of the unaudited quarterly operating results when read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Report. These quarterly operating results are not necessarily indicative of results that may be expected in future periods.

	March 31, 2010	June 30, 2010	September 30, 2010 (Unaudited)	December 31 2010
Revenues	\$ 24,102	\$ 34,647	\$ 32,245	\$ 17,606
Gross profit	4,924	6,732	5,864	2,095
Net earnings (loss)	22	1,184	659	(1,713)
Net earnings (loss) per share diluted	0.00	0.26	0.14	(0.38)

	March 31, 2009	June 30, 2009	September 30, 2009 (Unaudited)	December 31 2009
Revenues	\$ 23,198	\$ 33,138	\$ 29,596	\$ 17,269
Gross profit	4,323	6,628	6,132	2,364
Net earnings (loss)	(888)	1,162	902	(1,077)
Net earnings (loss) per share diluted	(0.20)	0.26	0.20	(0.24)

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.

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ITEM 7A 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 December 31, 2010, we had outstanding borrowings under our revolving bank line of credit of \$10.1 million.

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 associated 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 value of our net investment in our Canadian subsidiary that can occur as a result of changes in currency exchange rates. As of December 31, 2010 we held no foreign currency derivatives. We do not use financial instruments for trading or other speculative purposes.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The Coast Distribution System, Inc.

We have audited the accompanying consolidated balance sheets of The Coast Distribution System, Inc. and Subsidiaries (the Company) as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity, and cash flows for the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Company as of December 31, 2010 and 2009 and the results of their operations and their cash flows in each of the years in the three year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. 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.

/s/ BURR PILGER MAYER, INC.
Burr Pilger Mayer, Inc.
San Francisco, California
March 30, 2011

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)

	As of December 31,	
	2010	2009
ASSETS		
Current Assets		
Cash	\$ 4,840	\$ 5,561
Accounts receivable (less allowance for doubtful accounts of \$656 in 2010 and \$740 in 2009)	9,863	8,831
Inventories	25,912	22,985
Prepaid expenses	869	804
Deferred income taxes	1,768	1,908
Income tax refunds receivable	136	638
Total current assets	43,388	40,727
Property, Plant and Equipment	1,707	2,192
Other Assets	2,687	2,553
	\$ 47,782	\$ 45,472
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 3,375	\$ 2,942
Accrued liabilities	3,256	3,149
Current maturities of long-term obligations		112
Total current liabilities	6,631	6,203
Long-Term Obligations	10,113	9,637
Commitments		
Stockholders' Equity		
Preferred stock, \$.001 par value; authorized: 2,000,000 shares; none issued or outstanding:		
Common stock, \$.001 par value; authorized: 10,000,000 shares; 4,660,097 and 4,449,431 issued as of December 31, 2010 and 2009, respectively	16,861	16,367
Accumulated other comprehensive earnings	1,874	1,114
Retained earnings	12,303	12,151
Total Stockholders' Equity	31,038	29,632
	\$ 47,782	\$ 45,472

The accompanying notes are an integral part of these financial statements

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands, except per share data)		
Net sales	\$ 108,600	\$ 103,201	\$ 132,237
Cost of products sold (including distribution costs)	88,985	83,754	107,625
Gross profits	19,615	19,447	24,612
Selling, general and administrative expenses	18,330	18,552	26,559
Operating income (loss)	1,285	895	(1,947)
Equity in net earnings of affiliated companies	57	201	147
Other expense			
Interest expense	(579)	(624)	(1,409)
Other	(194)	(268)	(8)
Earnings (loss) before income taxes	569	204	(3,217)
Income tax provision (benefit)	417	105	(1,378)
Net earnings (loss)	\$ 152	\$ 99	\$ (1,839)
Basic earnings (loss) per share	\$ 0.03	\$ 0.02	\$ (0.41)
Diluted earnings (loss) per share	\$ 0.03	\$ 0.02	\$ (0.41)
Dividends paid per share	\$ 0.00	\$ 0.00	\$ 0.13

The accompanying notes are an integral part of these financial statements

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(Dollars in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2008	4,439,225	\$ 15,865	\$ 14,469	\$ 2,157	\$ 32,491
Net loss for the year			(1,839)		(1,839)
Foreign currency translation adjustments				(2,147)	(2,147)
Derivative change in fair value				21	21
Comprehensive earnings for the year					(3,965)
Issuance of common stock under option plans	10,454	42			42
Retirement of common stock	(248)	(1)			(1)
Dividends paid			(578)		(578)
Stock based compensation		231			231
Balance at December 31, 2008	4,449,431	16,137	12,052	31	28,220
Net earnings for the year			99		99
Foreign currency translation adjustments				1,295	1,295
Derivative change in fair value				(212)	(212)
Comprehensive earnings for the year					1,182
Issuance of common stock under option plans					
Dividends paid					
Stock based compensation		230			230
Balance at December 31, 2009	4,449,431	16,367	12,151	1,114	29,632
Net earnings for the year			152		152
Foreign currency translation adjustments				760	760
Comprehensive earnings for the year					912
Issuance of common stock under employee option plans	33,666	65			65
Issuance of restricted shares of common stock under equity incentive plan	177,000				
Stock based compensation		429			429
Balance at December 31, 2010	4,660,097	\$ 16,861	\$ 12,303	\$ 1,874	\$ 31,038

The accompanying notes are an integral part of these financial statements

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net earnings (loss)	\$ 152	\$ 99	\$ (1,839)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities			
Depreciation	716	814	941
Amortization	37	36	22
(Gain) Loss from sale of property and equipment	2	15	82
Equity in net earnings of affiliated companies, net of distributions	(57)	(175)	(102)
Loss from transfer of ownership in affiliated company	98		
Stock based compensation expense	428	230	231
Deferred income taxes	51	215	(865)
Change in assets and liabilities:			
Accounts receivable	(1,032)	502	5,556
Inventory	(2,927)	7,725	14,317
Prepays and income tax refunds receivable	425	1,627	(1,454)
Accounts payable	433	(615)	(4,915)
Accrued liabilities	107	(320)	45
	(2,994)	8,919	13,549
Net cash (used in) provided by operating activities	(1,567)	10,153	12,019
Cash flows from investing activities:			
Proceeds from sale of property and equipment	44	4	1
(Increase) decrease in other assets	(63)	(250)	(118)
Capital expenditures	(247)	(166)	(428)
Tax benefit from settlement of derivative instrument		117	
Cash paid for derivative instrument		(44)	(265)
Net cash (used in) investing activities	(266)	(339)	(810)
Cash flows from financing activities:			
Borrowings under notes payable and line-of credit agreements	108,945	102,150	164,273
Repayments under notes payable and line-of credit agreements	(108,469)	(109,479)	(171,725)
Repayments of long-term debt	(111)	(135)	(125)
Issuance of common stock under employee stock purchase and stock option plans	65		42
Retirement of common stock			(1)
Dividends paid			(578)
Net cash provided by (used in) financing activities	430	(7,464)	(8,114)
Effect of exchange rate changes on cash	682	1,351	(2,025)
Net increase (decrease) in cash	(721)	3,701	1,070
Cash beginning of year	5,561	1,860	790
Cash end of year	\$ 4,840	\$ 5,561	\$ 1,860

Supplemental disclosures of cash flow information:

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Cash paid (refunded) during the year for:

Interest	\$ 579	\$ 637	\$ 1,394
Income taxes	(79)	(2,146)	1,163

The accompanying notes are an integral part of these financial statements

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

- Principles of Consolidation.* The Company consolidates the accounts of its wholly-owned subsidiaries, The Coast Distribution System (Canada) Inc. (Coast Canada) and Eur-Asia Recreational Vehicle Accessories Taiwan Company (Coast Taiwan). Investments in unconsolidated affiliates are accounted for by the equity method. All material intercompany transactions have been eliminated.
- Inventories.* We are a wholesale distributor, and not a manufacturer of products. Therefore, all of our inventory consists of finished goods, which are comprised of replacement parts, supplies and accessories held for resale. Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or net realizable value. We regularly assess the appropriateness of the inventory valuations with particular attention to obsolete, slow-moving and non-saleable inventory. At December 31, 2010 and 2009, our reserves for excess and obsolete inventory was \$2,009,000 and \$1,796,000, respectively.
- Property, Plant and Equipment.* Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on a straight-line basis. The estimated lives used in determining depreciation and amortization are:

Buildings and improvements	12	40 years
Warehouse and office equipment	5	7 years
Automobiles	3	5 years

Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Currently the amortization periods range from 5 to 15 years.

- Revenue Recognition.* Revenue from sales of products is recognized upon shipment. Shipping and handling costs that are billed to our customers are included in revenue. We provide our customers with a limited right of return. 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 data, which can affect the level at which customers submit product returns.
- Segment Reporting.* We have one operating segment, which is the distribution of recreational vehicle and boating replacement parts, supplies and accessories. We distribute our recreational vehicle and boating products from 17 distribution centers located throughout the United States and Canada. No single customer accounted for 10% or more of our net sales in 2010, 2009 or 2008.
- Long-Lived Assets.* Long-lived assets are reviewed for possible impairment at least annually or, more frequently, if and when events or changes in circumstances indicate the carrying amount of any 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.* Exchange adjustments resulting from foreign currency transactions are generally recognized in net earnings, whereas adjustments resulting from the translation of financial statements are reflected as a separate component of stockholders' equity. The functional currency of our Canadian subsidiary is the Canadian dollar.
- Derivative Financial Instruments.* We sometimes use derivatives to partially offset our exposure to fluctuations in certain foreign currencies. We do not enter into derivatives for speculative or trading purposes. Derivatives are recorded at fair value on the balance sheet and gains or losses resulting from changes in fair value of the derivative are recorded based on the derivative's hedge designation.
- Cash and Cash Equivalents.* Cash and cash equivalents include highly liquid instruments with maturities of three months or less and overnight investments funded with cash from sweep accounts maintained by the Company at one or more banks.

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)

Net Investment Hedges. As a part of our risk management policy, we have hedged certain portions of our net investment in our foreign operations. We have elected to designate those hedges for special hedge accounting treatment as net investment hedges. The derivatives were held at fair value on the balance sheet, with the effective portion of the hedge, including the time value of holding the investment, accounted for as an offset to the foreign currency translation effects accounted for as adjustments to Accumulative Other Comprehensive Income. In 2009 we recorded, in accumulated other comprehensive income, a loss of \$212,165 as a result of the change in fair value of these instruments. We did not enter into any hedges in 2010.

We documented all hedging relationships at the inception of the hedge and have ensured that hedges are highly effective in offsetting changes in the value of net investment of its foreign subsidiaries. We recorded all changes in the value of these net investment hedges in accumulated other comprehensive income (loss) unless there is a substantial liquidation of the foreign subsidiary, at which time the amounts recorded in accumulated other comprehensive income (loss) would be recognized in current income.

10. *Income Taxes.* We provide a deferred tax expense or benefit equal to the net change in the deferred tax liability or asset during the year. Deferred income taxes represent tax deductions and tax loss carryforwards and future net tax effects resulting from temporary differences between the financial statement and tax basis of assets and liabilities, using enacted tax rates. A valuation allowance is established against deferred tax assets if and to the extent we determine that it is more likely, than not, that the deferred tax asset will not be realized in full.

11. *Use of Estimates.* In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. *Earnings (Loss) per Share.* Basic earnings (loss) per share for any period are computed using the weighted average number of common shares outstanding during that 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 exercise of stock options and vested restricted shares (using the treasury stock method). Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive.

Options to purchase 422,000 and 452,000 shares in 2010 and 2009, respectively, and 177,000 restricted shares in 2010, were excluded from the computation of diluted earnings per share because the respective exercise prices per share of those options were greater than the average market price of our shares of common stock during the year, or because by including the unvested compensation expense associated with the options, the calculation of common stock equivalents under the treasury method would be anti-dilutive. Options to purchase 597,333 shares in 2008 were excluded from the computation of diluted earnings per share because the Company incurred a loss for 2008 and, for that reason, the inclusion of the shares would have been anti-dilutive.

13. *Fair Value Measurement of Financial Assets and Liabilities.* We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring the fair values of financial and non-financial assets and liabilities. These tiers consist of:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)**

Level 3: Unobservable inputs that are not corroborated by market data

The following tables summarize the fair value measurements (in thousands of dollars), of our financial assets:

		At December 31, 2010		
		Quoted market prices in active markets (level 1)		Significant other observable inputs (level 2)
Total				
Cash Equivalents	Overnight Investments	\$ 3,864	\$	\$ 3,864

		At December 31, 2009		
		Quoted market prices in active markets (level 1)		Significant other observable inputs (level 2)
Total				
Cash Equivalents	Overnight Investments	\$ 4,554	\$	\$ 4,554

We use the income approach to value derivatives, using observable Level 2 market expectations at measurement date and standard valuation techniques to convert future amounts to a single discounted present amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the asset and liabilities, which include interest rate and credit risk. We have used mid market pricing as a practical expedient for fair value measurements.

14. *Accounts Receivable and the Allowance for Doubtful Accounts.* The majority of our accounts receivable are due from RV and boat dealers, supply stores and service centers. Credit is extended to a customer based on evaluation of its financial condition and, generally, collateral is not required. We maintain allowances for doubtful accounts for estimated losses that would result from the inability of customers to make required payments on their accounts. We regularly evaluate the adequacy of the allowance for doubtful accounts. We estimate potential losses on our accounts receivable on the basis of the aging of accounts receivable balances, a review of significant past due accounts, and our historical write-off experience, net of recoveries. If the financial condition of our customers were to deteriorate, whether due to deteriorating economic conditions generally or otherwise, adversely affecting their ability to make payments, we would make additional provisions to increase the allowance for doubtful accounts.

15. *Stock Based Compensation.* We account for stock based compensation in accordance with ASC 718, Stock Compensation, which requires the recognition of the fair value of stock compensation as an expense in the calculation of net income (loss). Accordingly, we recognize stock compensation expense in the period in which the employee to whom stock based compensation is awarded is required to provide service, which is generally over the vesting period of the individual equity instruments. Stock options issued in lieu of cash to non-employees for services performed are recorded at the fair value of the options at the time they are issued and are expensed as service is provided.

16. *Warranty Costs.* We generally do not independently warrant the products that we distribute. Instead, the manufacturers of those products warrant their 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 and standby generators under a product supply arrangement which obligates us to provide warranty services for these products and provides for us to share the costs of providing those services with the manufacturer. The warranty period is 24 months following the sale of the product to a retail customer. Accordingly, we maintained a warranty reserve for these products of \$469,000 and \$358,000 at December 31, 2010 and 2009, respectively. The actual amounts that we may become obligated to pay with

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)

respect to warranty claims on these products may differ from the amounts that were set aside in those reserves, because the reserves have been established on the basis not only of experience, but also on estimates that we have made regarding expected warranty returns and costs in the future and actual warranty experience may differ from those estimates.

We do maintain insurance to protect us against product liability claims relating to all of the products we distribute and sell, including the generator products.

17. *Recent Accounting Pronouncements.* With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2010, that we believe are of significance, or potential significance to the Company based upon current operations.

In October 2009, the FASB amended its rules regarding the accounting for multiple element revenue arrangements. The objective of the amendment is to allow vendors to account for revenue for different deliverables separately as opposed to part of a combined unit when those deliverables are provided at different times. Specifically, this amendment addresses how to separate deliverables and simplifies the process of allocating revenue to the different deliverables when more than one deliverable exists. The new rules are effective for us beginning January 1, 2011. We are in the process of evaluating the impact that this amendment will have on our Consolidated Financial Statements.

In January 2010, we adopted the applicable sections of the FASB's guidance on earnings per share that addresses whether instruments granted in share-based payment transactions are participating securities. That guidance indicates that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic earnings per share pursuant to the two-class method. The adoption of these applicable sections did not have a material effect on our financial condition, results of operations or cash flows.

In January 2010, the FASB issued new guidance for improving disclosures about Fair Value Measurements. This guidance requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring the presentation, on a gross basis, of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. This guidance also clarifies existing disclosures regarding the level of disaggregation, inputs and valuation techniques. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009 and became effective for the Company on January 1, 2010. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years ending after December 31, 2010 and became effective for the Company on March 31, 2010. The adoption of this new accounting guidance impacts only disclosure requirements and did not have an impact on the Company's consolidated financial position, results of operations or financial condition.

In February 2010, the FASB issued an update to Subsequent Events. This guidance amends the previous definition of an SEC filer and removed the requirement that an SEC filer disclose the date through which subsequent events have been evaluated in both issued and revised financial statements. The update also requires SEC filers to evaluate subsequent events through the date the financial statements are issued rather than the date the financial statements are available to be issued. The Company adopted this guidance upon issuance with no material impact to our consolidated financial statements.

In April 2010, the FASB issued an update to Stock-Based Compensation; which clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity shares trade should not be considered to contain a condition that is not a market performance or service condition. Therefore, an entity would not classify such an award as a liability if the award otherwise qualifies as equity. The standard was effective for interim and annual periods ending after December 15, 2010. The adoption of this standard did not have a material impact to our consolidated financial statements.

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)****NOTE B: PROPERTY, PLANT AND EQUIPMENT**

Property and equipment consist of the following at December 31:

	2010	2009
	(In thousands)	
Warehouse equipment	\$ 5,634	\$ 5,530
Office equipment	5,740	6,019
Leasehold improvements	1,706	1,657
Automobiles	192	252
	13,272	13,458
Less accumulated depreciation and amortization	(11,565)	(11,266)
	\$ 1,707	\$ 2,192

NOTE C: LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31:

	2010	2009
	(In thousands)	
Secured notes payable to bank due July 10, 2014	\$ 10,113	\$ 9,637
Capital lease obligations		112
	10,113	9,749
Current portion		112
	\$ 10,113	\$ 9,637

Secured Notes Payable to Bank

The secured notes payable to bank evidence borrowings under a revolving credit facility which are collateralized by substantially all of our assets. The maturity date of the revolving credit facility is July 10, 2014. The credit line agreement permits us to borrow up to the lesser of (i) \$25,000,000, or (ii) an amount equal to 85% of the value of our eligible accounts receivable and up to 55% of the value of our eligible inventory. Interest is payable at the bank's prime rate (3.25% at December 31, 2010) plus 1.25% or, at the Company's option but subject to certain limitations, at the bank's LIBOR rate (0.261% at December 31, 2010) plus 2.75%.

The credit facility contains certain financial and other covenants, which require us to maintain a minimum fixed charges covenant and that restricts our ability to repurchase our stock, make investments in or acquisitions of other businesses and pay dividends above certain levels during the term of the credit facility.

NOTE D: COMMITMENTS

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Operating Leases. We lease our corporate offices, warehouse facilities, and some of our office equipment. These leases are classified as operating leases as they do not meet the required capitalization criteria. The office and warehouse leases expire at various dates over the next twelve years.

Minimum future rental commitments under non-cancelable operating leases as of December 31, 2010, in thousands of dollars, are as follows:

Year Ending December 31,	
2011	\$ 4,146
2012	3,094
2013	2,812
2014	2,494
2015	2,365
Thereafter	3,644
	\$ 18,555

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)**

Rent expense charged to operations amounted to \$4,511,000 in 2010, \$4,519,000 in 2009, and \$4,492,000 in 2008.

Legal Proceedings. We are subject to legal proceedings, claims and litigation arising in the ordinary course of business, including product liability and personal injury and intellectual property litigation. While the outcome of currently pending litigation is not yet determinable, based on the information currently available to us, we do not expect that any liabilities or costs that might be incurred to resolve these matters will have a material adverse effect on our financial condition, results of operations or cash flows.

NOTE E: STOCK INCENTIVE PLANS

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 (SARs), and restricted shares of common stock (restricted shares), to officers, other key employees, directors and consultants. The 2008 Plan initially set aside, for the grant of such equity incentives, 300,000 shares of our 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 then existing stockholder-approved stock incentive plans (the Previous Plans). At the same time, those 41,500 shares ceased to be available for the grant of equity incentive under those Previous Plans. At December 31, 2010, options to purchase a total of 202,334 shares of our common stock and a total of 177,000 shares of restricted stock were outstanding, and 68,166 shares remained available for future grants of equity incentives, under the 2008 Plan.

At the time the 2008 Plan was adopted, options to purchase a total of 593,333 shares of our common stock, granted under the Previous Plans, were outstanding. The Previous Plans had provided that, if outstanding options were to expire or otherwise terminate, the shares that had been subject to those options that were left unexercised would become available for the grant of new options under those Plans. However, the 2008 Plan provides that if any of the outstanding options granted under the Previous Plans expire or are terminated for any reason, they will not become available for the grant of equity incentives under those Plans and, instead, the number of shares that are available for grants of equity incentives under the 2008 Plan will be increased by an equivalent number of shares. At December 31, 2010, options to purchase a total of 449,667 shares of our common stock were still outstanding under the Previous Plans.

The fair value of each option was 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.

We used the following assumptions in estimating the fair value of the options issued in the periods indicated below:

	Year Ended December 31,		
	2010	2009	2008
Options Granted under Stock Incentive Plans:			
Expected volatility	71.0%	57.0%	42.0%
Risk free interest rates	2.79%	1.76%	2.6%
Expected dividend yields	N/A	N/A	5.4%
Expected lives	10 years	3 years	3 years

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

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)**

The following table summarizes stock option activity during the years ended December 31, 2010 and 2009:

	Year Ended December 31, 2010			
	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 December 31, 2010	652,001	5.01	3.3 years	\$ 545,000
Exercisable at December 31, 2010	461,901	5.85	3.1 years	\$ 207,800
Options vested and expected (as of December 31, 2010) to vest in the future	642,957	5.05	3.3 years	\$ 526,000

	Year Ended December 31, 2009			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2009	597,333	\$ 6.26		
Granted	193,000	1.14		
Exercised				
Forfeited	(82,666)	5.13		
Outstanding at December 31, 2009	707,667	4.99	4.0 years	\$ 1,031,000
Exercisable at December 31, 2009	339,167	6.08	3.7 years	\$ 620,000

The aggregate intrinsic value in each of the tables above represents the total pre-tax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on December 31, 2010 or 2009, respectively, and the exercise price for in-the-money options that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2010 or 2009, respectively. The total pre-tax intrinsic value of options exercised during 2010 was \$72,950. There were no options exercised during 2009.

The weighted-average grant-date fair values of options granted during the years ended December 31, 2010 and 2009 were \$3.23 and \$0.64, respectively.

A summary of the status of the Company's nonvested stock options as of December 31, 2010 and 2009 and changes during each of the years then ended is presented below:

	Weighted Average Grant Date Fair Value	
	Shares	
Nonvested at January 1, 2010	368,500	\$ 1.38
Granted	8,000	3.23
Vested	(182,650)	1.72
Forfeited	(3,750)	2.60

Nonvested at December 31, 2010	190,100	1.11
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Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)**

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2009	359,500	\$ 2.11
Granted	193,000	0.63
Vested	(159,650)	2.02
Forfeited	(24,350)	1.99
Nonvested at December 31, 2009	368,500	1.38

As of December 31, 2010 and 2009, there was \$88,900 and \$289,700, respectively, of total unrecognized compensation cost related to nonvested options granted under the Company's equity incentive plans. At December 31, 2010 and 2009, those costs were expected to be recognized over a weighted average period of 1.1 years and 1.3 years, respectively.

During 2010, we awarded a total of 177,000 restricted shares of common stock (restricted shares) to certain officers and other key management employees under the 2008 Plan. A holder's restricted shares are subject to possible forfeiture in their entirety if he or she does not remain in the continuous service of the Company for at least one year from the date the shares were awarded. For each year, during the three year period following the date of the award, that a holder of such restricted shares remains in the Company's continuous service, one-third of his or her restricted shares will cease to be subject to the risk of forfeiture (that is, become vested shares). As a result, a holder of any of those restricted shares must remain in the continuous service of the Company for a period of three years following the date of the award in order for all of his or her restricted shares to become vested. Until restricted shares become vested, those shares may not be sold or otherwise transferred, in whole or in part, by the holders of those shares, and are subject to additional restrictions. Compensation expense for these restricted share awards is based on the fair market value of the shares on their respective award dates and such expense is recorded over the vesting period of the awards. At December 31, 2010, the unrecognized compensation cost attributable to these restricted shares totaled approximately \$535,900 which, as of that date, was expected to be recognized over a weighted average period of approximately 2.7 years. As of December 31, 2010, all of the recipients of the 177,000 restricted shares outstanding under the 2008 Plan were still in the Company's employ and, although none of these restricted shares were vested as of December 31, 2010, all of those restricted shares are expected to vest. The aggregate intrinsic value of these restricted shares, at December 31, 2010, was \$685,000.

A summary of the status of the Company's restricted stock activity is presented below:

	2010 Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2010		\$
Granted	177,000	4.15
Vested		
Forfeited		
Outstanding and unvested at end of year	177,000	\$ 4.15

Set forth below is additional information with respect to the stock options that were outstanding under our equity incentive plans at December 31, 2010:

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Range		Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	Weighted Average Exercise Price
\$0.63	\$4.50	238,001	\$ 1.59	4	109,401	\$ 1.97
\$4.75	\$9.80	414,000	\$ 6.98	3	352,500	\$ 7.05
\$0.63	\$9.80	652,001	\$ 5.01	3	461,901	\$ 5.85

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)****NOTE F: EMPLOYEE BENEFIT PLAN**

We have established a profit sharing plan in which all full-time employees are eligible to participate beginning the first quarter following the completion of three months of employment with the Company or any of its subsidiaries. This plan allows participants to make pretax contributions and apply for and secure loans from their respective accounts. The plan permits the Company to make discretionary contributions to be determined annually by the Company's Board of Directors or Compensation Committee. The Company made no contributions to the plan in 2008, 2009 or 2010.

NOTE G: FOREIGN OPERATIONS

A summary of the Company's operations by geographic area is presented below for the years ended December 31:

	2010	2009	2008
	(In thousands)		
Sales to external customers			
United States	\$ 80,890	\$ 78,345	\$ 95,788
Canada	27,710	24,856	36,449
Other			
Operating income			
United States	\$ 206	\$ (198)	\$ (3,116)
Canada	769	1,037	978
Other	310	56	191
Identifiable assets			
United States	\$ 34,175	\$ 33,163	\$ 42,258
Canada	12,742	11,403	9,784
Other	865	906	417

The Company has an equity investment in a corporation which conducts a business that is similar to the Company's business, but in a much smaller scale, in Mexico. The Company's investment in that corporation, which is included in long term assets on the Company's consolidated balance sheet, totaled approximately \$757,000 and \$692,000, at December 31, 2010 and 2009, respectively. The results of operation of this corporation are included in equity in the net earnings of affiliated companies in the Company's consolidated statements of operations.

NOTE H: INCOME TAXES

Pretax income for the years ending December 31, 2010, 2009 and 2008 was taxed in the following jurisdictions:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Domestic	\$ (383)	\$ (691)	\$ (4,222)
Foreign	952	895	1,005
	\$ 569	\$ 204	\$ (3,217)

The provision for income taxes is summarized as follows for the year ended December 31:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Current:			
Federal	\$	\$ (1)	\$ (726)
State	86	85	(111)
Foreign	273	317	318
	359	401	(519)
Deferred:			
Federal	\$ (30)	\$ (231)	\$ (517)
State	13	(43)	(422)
Foreign	75	(22)	80
	\$ 58	\$ (296)	\$ (859)
	\$ 417	\$ 105	\$ (1,378)

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)**

Deferred tax assets (liabilities) are comprised of the following at December 31:

	2010	2009
	(In thousands)	
Deferred tax assets		
Inventory	\$ 1,195	\$ 1,358
Bad debt provision	134	208
Property, plant and equipment	53	54
Deferred credits	1,282	1,245
Loss carryforwards	940	908
Rent	149	176
Other	369	238
Gross deferred tax assets	4,122	4,187
Less valuation allowance	(1,198)	(1,161)
	\$ 2,924	\$ 3,026
Deferred tax liabilities		
Investment in affiliates	\$	\$ (10)
Property, plant and equipment	(98)	(139)
Unremitted earnings of foreign affiliates	(78)	(78)
Gross deferred tax liabilities	(176)	(227)
Net deferred tax assets ⁽¹⁾	\$ 2,748	\$ 2,799

(1) Of the total deferred tax assets, \$1,768,000 and \$1,908,000 in 2010 and 2009, respectively, is included in current assets and \$980,000 and \$891,000 in 2010 and 2009, respectively, of long term deferred income taxes is included in other long term assets.

A reconciliation between actual tax expense for the year and expected tax expense is as follows:

	2010	2009	2008
	(In thousands)		
Earnings before income taxes	\$ 569	\$ 204	\$ (3,217)
Expected income tax expense at 34%	\$ 193	\$ 69	\$ (1,094)
Difference in rates on earnings of foreign operations	6	(19)	63
Stock based compensation and other nondeductible expenses	96	95	173
State taxes and credits (net of federal benefit)	80	(5)	(1,571)
Change in valuation allowance	36	(5)	1,100
Unremitted earnings of foreign subsidiaries	---	8	(3)
Exclusion of earnings of foreign affiliates	(6)	(58)	(38)
Other	12	20	(8)

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Income tax provision	\$ 417	\$ 105	\$ (1,378)
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Deferred income taxes have been provided on the undistributed earnings of certain foreign subsidiaries where it is contemplated that earnings will not be reinvested.

At December 31, 2010, the totals of the operating loss carryforwards available for federal and for state income tax purposes were \$1,701,000 and \$4,618,000, respectively. The earliest carryforwards begin to expire in 2012. At December 31, 2010, foreign tax credit carryforwards available for federal income tax purposes totaled \$66,000, which expire in 2015. State targeted tax area credit carryforwards of \$1,245,000 are available with no expiration dates.

It is our policy to classify interest and penalties as a component of tax expense. At December, 31, 2010 we had \$260,000 of unrecognized tax benefits of which \$19,000 impacted the effective tax rate. Interest and penalties were \$107,000 as of December 31, 2010, of which \$90,000 was included in the balance sheet and \$17,000 was included as an expense in the current year income statement as unrecognized tax benefits.

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)**

The Company and its domestic subsidiaries file income tax returns in the US federal jurisdiction and in various state jurisdictions. The Company's foreign subsidiaries file income tax returns in the respective jurisdictions in which they are based. With few exceptions, we are no longer subject to tax examinations by taxing authorities for years before 2005. We do not anticipate total unrecognized tax benefits will change significantly during the year ending December 31, 2011 due to the expiration of any statutes of limitations.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Unrecognized Tax Benefits (in thousands):	2010	2009
Balance as of January 1,	\$ 241	\$ 208
Additions for tax positions related to the current year	19	33
Additions for tax positions related to prior years		
Reductions for tax positions of prior years		
Settlements		
Balance as of December 31,	\$ 260	\$ 241

NOTE I: EARNINGS PER SHARE

We calculate basic earnings (loss) per share (EPS) of our common stock by dividing the Company's net income (loss) by the weighted-average number of common shares outstanding for the period. The calculation of diluted EPS assumes the issuance of common stock for all potentially dilutive share equivalents outstanding. Set forth below are the computations for basic and diluted earnings (losses) per share:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Numerator:			
Net earnings (loss)	\$ 152	\$ 99	\$ (1,839)
Denominator:			
Weighted average shares outstanding	4,475	4,449	4,446
Dilutive effect of stock options and restricted shares	99	45	
Denominator for diluted earnings (loss) per share	4,574	4,494	4,446

NOTE J: ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	2010	2009
	(In thousands)	
Payroll and related benefits	\$ 658	\$ 524
Rent	426	489
Income and other taxes	486	707

Other	1,686	1,429
	\$ 3,256	\$ 3,149

NOTE K: SIGNIFICANT CONCENTRATIONS

Our ability to satisfy demand for our products may be limited by the availability of those products from our suppliers. We purchase air conditioners from Airxcel, Inc. (Airxcel). Those purchases accounted for approximately 20%, 18%, and 15% of our total product purchases in 2010, 2009, and 2008, respectively. In 2009 and 2008, we purchased towing products from Thule Towing Systems, LLC. (Thule), formerly known as Valley Industries, Inc., which amounted to 5% and 6% of our total product purchases in 2009 and 2008, respectively. In 2008, we purchased generators from WUXI Kipor Power Co. Ltd. These purchases accounted for 6% of our total product purchases in 2008.

Table of Contents**THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.-)**

Concentration of Credit Risk. We maintain bank accounts with high quality financial institutions to minimize credit risk. However, our deposit balances may periodically exceed federal deposit insurance limits.

NOTE L: QUARTERLY FINANCIAL DATA

	March 31, 2010	June 30, 2010	Quarter Ended September 30, 2010 (Unaudited)	December 31, 2010
Net Sales	\$ 24,102	\$ 34,647	\$ 32,245	\$ 17,606
Gross profit	4,927	6,732	5,864	2,095
Net earnings (loss)	22	1,184	659	(1,713)
Net earnings (loss) per share diluted	0.00	0.26	0.14	(0.38)

	March 31, 2009	June 30, 2009	Quarter Ended September 30, 2009 (Unaudited)	December 31, 2009
Net Sales	\$ 23,198	\$ 33,138	\$ 29,596	\$ 17,269
Gross profit	4,323	6,628	6,132	2,364
Net earnings (loss)	(888)	1,162	902	(1,077)
Net earnings (loss) per share diluted	(0.20)	0.26	0.20	(0.24)

Table of Contents**SCHEDULE II****THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES****VALUATION AND QUALIFYING ACCOUNTS****December 31, 2008, 2009 and 2010**

Description	Balance at Beginning of Period	Adjustments	Write Off of Bad Debts	Balance at End of Period
Allowance for doubtful accounts:				
Year Ended December 31, 2008	\$ 1,504,000	\$ 602,000	\$ 707,000	\$ 1,399,000
Year Ended December 31, 2009	\$ 1,399,000	\$ 411,000)	\$ 248,000	\$ 740,000
Year Ended December 31, 2010	\$ 740,000	\$ (48,000)	\$ 36,000	\$ 656,000

Description	Balance at Beginning of Period	Adjustments	Write Off of Scrapped Inventory	Balance at End of Period
Allowance for obsolete or slow-moving inventory:				
Year Ended December 31, 2008	\$ 2,570,000	\$ 130,000	\$ 359,000	\$ 2,341,000
Year Ended December 31, 2009	\$ 2,341,000	\$ (282,000)	\$ 263,000	\$ 1,796,000
Year Ended December 31, 2010	\$ 1,796,000	\$ 470,000	\$ 257,000	\$ 2,009,000

Description	Balance at Beginning of Period	Additions	Deductions⁽¹⁾	Balance at End of Period
Valuation allowance for deferred tax assets:				
Year Ended December 31, 2008	\$ 66,000	\$ 1,100,000	\$	\$ 1,166,000
Year Ended December 31, 2009	\$ 1,166,000	\$	\$ 5,000	\$ 1,161,000
Year Ended December 31, 2010	\$ 1,161,000	\$ 37,000	\$	\$ 1,198,000

(1) Net operating loss carryforwards used or expired.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A(T). CONTROLS AND PROCEDURES

Disclosure 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 rules and forms of the Securities and Exchange Commission (the SEC), 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.

As required by 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 December 31, 2010, 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 December 31, 2010, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the 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.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting in the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting

Management of The Coast Distribution System, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our 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 accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;

provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorization of our management and board of directors; and

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provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified. 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 risks that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

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Management's Assessment of Internal Control over Financial Reporting

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on criteria for effective internal control over financial reporting described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design and the testing of the operational effectiveness of the Company's internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on that assessment, management determined that, as of December 31, 2010, The Coast Distribution System, Inc. maintained effective internal control over financial reporting.

The foregoing report on internal control over financial reporting shall not be deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section.

Section 989G of the Dodd-Frank Act, signed into law in July 2010, permanently exempts smaller reporting companies, such as the Company, and other non-accelerated filers from Section 404(b) of the Sarbanes-Oxley Act requiring SEC reporting companies to obtain and include in their annual reports on Form 10-K, an attestation report from their independent registered accountants with respect to the effectiveness of their internal control over financial reporting. As a result, no such attestation report is included in this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents**PART III****ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE**

Except for information concerning the Company's executive officers which is included in Part I of this Report, the information required by Item 10 is incorporated by reference from our definitive proxy statement expected to be filed with the Commission on or before April 30, 2011 for the Company's 2011 Annual Stockholders Meeting.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference from our definitive proxy statement expected to be filed with the Commission on or before April 30, 2011 for the Company's 2011 Annual Stockholders Meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information below regarding our equity compensation plans, the information required by Item 12 is incorporated herein by reference from our definitive proxy statement expected to be filed with the Commission on or before April 30, 2011 for the Company's 2011 Annual Stockholders Meeting.

The following table provides information relating to our equity compensation plans as of December 31, 2010:

	Column A	Column B	Column C
	Number of Securities to be Issued on Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A
Equity compensation plans approved by stockholders			
Stock option and incentive plans	652,001	\$ 5.01	68,166
Equity compensation plans not approved by stockholders			
	652,001	\$ 5.01	68,166

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference from our definitive proxy statement expected to be filed with the Commission on or before on or before April 30, 2011 for the Company's 2011 Annual Stockholders Meeting.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference from our definitive proxy statement to be filed with the Commission on or before April 30, 2011 for the Company's 2011 Annual Stockholders Meeting.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

(a) The following documents are filed as part of this Report:

- (1) Financial Statements. The Consolidated Financial Statements of The Coast Distribution System, Inc. and Financial Statement Schedules: See Index to Financial Statements on Page 30 of this Report.
- (2) Financial Statement Schedules. Schedule II Valuation and Qualifying Accounts is set forth at Page 48 of this Report. All other schedules are omitted as the information is not required, is not material or is otherwise furnished.
- (3) Exhibits. See Index to Exhibits, elsewhere in this Report, for a list and description of (i) exhibits previously filed by the Company with the Commission and (ii) the exhibits being filed with this Report.

Table of Contents**SIGNATURES**

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

THE COAST DISTRIBUTION SYSTEM, INC.

Dated: March 31, 2011

By: */s/ JAMES MUSBACH*
James Musbach
 President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby appoints James Musbach, Thomas R. McGuire and Sandra A. Knell, and each of them individually, to act severally as his or her attorneys-in-fact and agent, with full power and authority, including the power of substitution and resubstitution, to sign and file on his or her behalf and in each capacity stated below, all amendments and/or supplements to this Annual Report on Form 10-K, which amendments or supplements may make changes and additions to this Report as such attorneys-in-fact, or any of them, may deem necessary or appropriate.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
<i>/s/ JAMES MUSBACH</i> James Musbach	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2011
<i>/s/ THOMAS R. MCGUIRE</i> Thomas R. McGuire	Executive Chairman and Chairman of the Board of Directors	March 31, 2011
<i>/s/ SANDRA A. KNELL</i> Sandra A. Knell	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 31, 2011
<i>/s/ JOHN W. CASEY</i> John W. Casey	Director	March 31, 2011
<i>/s/ LEONARD P. DANNA</i> Leonard P. Danna	Director	March 31, 2011
<i>/s/ BEN A. FRYDMAN</i> Ben A. Frydman	Director	March 31, 2011
<i>/s/ ROBERT S. THROOP</i> Robert S. Throop	Director	March 31, 2011

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Table of Contents**INDEX TO EXHIBITS**

Exhibit Number	Description of Exhibits
3.1A	Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on July 1, 1997 and as in effect since that date (incorporated by reference to Exhibit B to the Company's Definitive Proxy Statement dated and filed with the SEC on July 3, 1997).
3.3	Amended and Restated Bylaws of the Company effective as of December 19, 2007 (Incorporated by reference to the Exhibit 3.3 to the Company's Current Report on Form 8-K dated December 19, 2007).
4.1	Rights Agreement, dated as of February 3, 2006, between the Company and U.S. Stock Transfer Corporation, which includes, as Exhibit A, a form of Certificate of Designation for the Series A Junior Participating Preferred Stock; as Exhibit B, the Form of Rights Certificate and. As Exhibit C, a Summary of Rights. (Incorporated by reference from the same numbered Exhibit to the Company's Registration Statement on Form 8-A filed with the Commission on February 6, 2006).
10.31	1993 Stock Option and Incentive Plan. (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (File No. 33-64582) filed with the SEC on June 17, 1993).
10.34	Distribution Agreement dated October 11, 1995 between the Company and Recreation Vehicle Products, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1995).
10.36	1999 Stock Incentive Plan (Incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.39	Third Amended and Restated Loan & Security Agreement dated as of August 30, 2005 between Coast and certain of its Subsidiaries and Standard Federal Bank NA, LaSalle Business Credit, LLC, and LaSalle Business Credit, a Division of ABN AMRO BANK N.V., Canada Branch. (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated August 30, 2005 and filed with the SEC on September 6, 2005).
10.40	2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-136864 filed with the Commission on August 24, 2006).
10.41	Sole Sales and Service Agreement, effective as of April 13, 2006, with Wuxi Kipor Power Co., Ltd., which appointed Coast Distribution as the sole distributor in the North America of Kipor's line of portable and standby generators and certain other products. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 13, 2006.)
10.44	The 2008 Equity Incentive Plan approved by the Company's stockholders (incorporated by reference to Appendix A to the Company's definitive Proxy Statement filed with the SEC on July 22, 2008).
10.45	Fourth Amendment and Waiver, dated as of March 27, 2008, entered into by the Company and Bank of America, N. A., amending certain of the terms and provisions of the Loan and Security Agreement for the Company's revolving bank credit line. (Incorporated by reference to the same numbered Exhibit to the Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on March 31, 2009.)
10.46	Fifth Amendment to Third Amended & Restated Loan and Security Agreement entered into November 30, 2009 by The Coast Distribution System, Inc. and Bank of America, N. A. (Incorporated by reference to Exhibit 10.46 to the Company's Current Report on Form 8-K dated November 30, 2009.)
10.47	Seventh Amendment to Third Amended & Restated Loan and Security Agreement entered into as November 8, 2010 by the Company and Bank of America, N. A. (Incorporated by reference to Exhibit 10.99 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.)
21	Subsidiaries of Registrant
23.1	Consent of Burr Pilger Mayer, Inc., Independent Registered Public Accounting Firm
24	Power of Attorney Included on Signature Page.
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

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- 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

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