COAST DISTRIBUTION SYSTEM INC
Form 10-K
March 31, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to

Commission file number 1-9511

THE COAST DISTRIBUTION SYSTEM, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**94-2490990**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
350 Woodview Avenue, Morgan Hill, California	**95037**
(Address of principal executive offices)	**(Zip Code)**

(408) 782-6686

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value, $.001 per share	**American Stock Exchange**
(Title of Class)	**(Name of Each Exchange on Which Registered)**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Act. YES ¨ NO x.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the outstanding shares of Common Stock held by non-affiliates of registrant as of June 30, 2013, the last day of the second quarter of fiscal 2013, which was determined on the basis of the closing price of registrant s shares on that date, was approximately $14,150,000.

As of March 6, 2014, a total of 5,150,897 shares of registrant s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Except as otherwise stated therein, Part III of the Form 10-K is incorporated by reference from registrant s Definitive Proxy Statement expected to be filed on or before April 30, 2014 for its Annual Meeting.

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THE COAST DISTRIBUTION SYSTEM, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2013

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FORWARD LOOKING STATEMENTS

Statements contained in this Annual Report that are not historical facts or that discuss our expectations, beliefs or views regarding our future operations or future financial performance, or financial or other trends in our business or markets, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the 1933 Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the 1934 Act). Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Often, they include words such as believe, expect, anticipate, intend, plan, estimate, project, or other word meaning, or future or conditional verbs such as will, would, should, could, or may. The forward looking stateme contained in this Report are based on current information and are subject to a number of risks and uncertainties that could cause our financial condition or operating results in the future to differ, possibly significantly, from those expected at the current time. Those risks and uncertainties are described in Item 1A of Part I of this Report in the Section entitled RISK FACTORS and some of the factors and uncertainties that can affect our business, financial condition and results of operations also are set forth in Part II of this Report in the Section entitled MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. Readers of this Report are urged to read the cautionary statements contained in those Sections of this Report.

Due to these risks and uncertainties, readers are cautioned not to place undue reliance on forward-looking statements contained in this Report, which speak only as of the date of this Annual Report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may otherwise be required by applicable law or the rules of the American Stock Exchange.

PART I

ITEM 1. BUSINESS

References in this Annual Report to Coast, we, us, or our or to the Company shall mean The Coast Distribution System, Inc. and its subsidiaries taken as a whole.

Overview of Our Business

The Coast Distribution System, Inc. is one of North America s largest suppliers of replacement parts, supplies and accessories for recreational vehicles (RVs), to RV dealers, supply stores and service centers (Aftermarket Customers), which resell the products they purchase from us, at retail, to consumers. We supply or distribute almost 11,000 products and serve more than 13,000 customers throughout the United States and Canada, from 13 regional distribution centers in the United States that are located in California, Texas, Oregon, Arizona, Colorado, Utah, Indiana, Pennsylvania, New York, Georgia, Florida and Wisconsin and 4 regional distribution centers in Canada located, respectively, in Montreal, Toronto, Calgary and Vancouver. Reference is made to Note G to our Consolidated Financial Statements, contained in Item 8 of this Report, for certain information regarding the Company s operations in the United States and Canada, respectively.

We differ from traditional wholesale product distributors in our markets, in that approximately 30% of our sales are of proprietary products which we have introduced into the marketplace. Our proprietary products have been designed specifically for us, at our request, by independent product design firms or product manufacturers and are manufactured for us, generally on an exclusive basis, by a number of different independent manufacturers, mostly, but not entirely, in Asia. We market our proprietary products under our own brand-names in competition with or, in some cases that complement products from, traditional manufacturers of RV parts, supplies and accessories. For the most part, our proprietary products are comprised of products that are needed or used by RV owners on a regular or recurring basis, such as trailer hitches, plastic wastewater tanks, vent lids, stabilizing jacks and battery boxes. Due to differences in costs, we generally are able to generate higher margins on sales of proprietary products than we are able to realize on sales of functionally similar products available to us from competing manufacturers. See ***Products*** *Proprietary Products Strategy and Sales* below.

We also have recently begun to market and sell portable generators and certain other products, including some of our proprietary products, to other product distributors, national and regional home improvement and home accessories chains, catalogue stores, hardware stores and agricultural equipment outlets that sell outdoor power equipment to consumers. See ***Products*** *Expansion into New Markets* below.

The Company was incorporated in California in June 1977, and reincorporated in Delaware in April 1998.

The RV Parts, Supplies and Accessories Aftermarket

Many manufacturers of RV replacement parts, supplies and accessories rely on independent distributors, such as the Company, to market and distribute their products or to augment their own product distribution operations. Distributors relieve manufacturers of a portion of the costs associated with distribution of their products while providing geographically dispersed selling, order processing and delivery capabilities. At the same time, distributors offer retailers access to a broad line of products and the convenience of rapid delivery of orders which reduces the amount of product inventories that retailers must carry and, therefore, their costs of operations.

The market for RV parts, supplies and accessories distributed by the Company are comprised primarily of RV dealers and supply stores and service centers (Aftermarket Customers). Our RV Aftermarket customers purchase a broad range of RV parts, supplies and accessories from us. See ***Products*** below.

Products

General. We carry a full line of almost 11,000 RV parts, supplies and accessories which we purchase from more than 300 manufacturers, comprised primarily of manufacturers who supply products to multiple product distribution companies, and manufacturers that produce our proprietary products in most cases on an exclusive basis specifically for us. The RV products that we distribute include antennae, vents, electrical items, towing equipment and hitches, and portable generators and appliances such as air conditioners, refrigerators, stoves and ranges and LP gas equipment, and portable toilets and plumbing parts, hardware and tools, specialized recreational vehicle housewares, chemicals and supplies, and various accessories, such as ladders, jacks, fans, load stabilizers, outdoor furniture, mirrors and compressors.

Proprietary Products Strategy and Sales. We have introduced into the RV Aftermarket a growing number of products, which are manufactured specifically for us, usually on an exclusive basis, by a number of different independent manufacturers, based primarily, but not exclusively, in Asia. These products (which we refer to as our proprietary products) consist of products that are needed or used by RV consumers on a regular or recurring basis, such as trailer hitches and other towing equipment, plastic wastewater tanks, vent lids, stabilizing jacks, battery boxes, and LED lighting. The proprietary products manufactured for us also include portable generators. Most of these products have been designed for us by independent professional product design firms or by the independent manufacturers that we have retained to manufacture the products for us. We market the proprietary products under our own brand-names in competition with brand name products from traditional suppliers that usually sell their products to a number of different RV product distributors and sometimes into other markets.

We conduct our own quality control testing of proprietary products that could fail or be damaged due to stress during usage, such as portable generators and towing hitches and equipment, either at the plants where the products are manufactured for us or at product testing facilities that we operate in Elkhart, Indiana and Wilsonville Oregon.

Generally, the costs to us of purchasing proprietary products are lower than the costs of purchasing competing products from traditional suppliers based in the United States. As a result, our proprietary products strategy has enabled us, over the years, to offer our customers lower-priced products, without compromising quality, and at the same time has enabled us to increase our gross profit margins. However, the costs of testing and marketing our proprietary products reduce some of the margin advantage we gain on sales of those products.

Expansion into New Markets. During the past few years we have begun to source, primarily from overseas manufacturers, and to market and sell in the United States and Canada, products, such as portable generators, that have applications not only in the RV Aftermarket, but also in other markets, such as the outdoor power equipment market. We intend to continue our efforts to source additional products from independent manufacturers, primarily in Asia, that we can sell into multiple markets domestically, in order to increase our sales and gross margins and reduce our

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dependence on the RV market. It is too early to predict if this strategy will prove to be successful. Among other things, we have encountered stiff competition in those new markets from manufacturers and distributors of competing products. A number of those manufacturers and distributors are larger and have more marketing and capital resources than we do and are better known in those markets than we are. Additionally, we expect that it will be necessary for us to assume primary responsibility for marketing these foreign sourced products to consumers and, in some instances, for providing warranty service for such products, the costs of which reduce some of the margin advantage we enjoy on sales of these products.

Marketing and Sales

Our Customers. Our customers include primarily (i) RV dealers, which purchase optional equipment and accessories for new recreational vehicles and replacement and repair parts for their service departments, (ii) independent RV supply stores and service centers that purchase parts, supplies and accessories for resale to owners of RVs and for their service centers, and (iii) specialty retailers, which purchase our products to sell either in their stores or online. We are not dependent on any single customer for any material portion of our business and no single customer accounted for more than 2% of our sales in 2013, 2012 or 2011.

Our Customer Service Center and Electronic Order Entry and Warehousing System. We have designed and implemented a computer-based order entry and warehousing system which enables our customers to transmit orders electronically to our central computers and also enables us, subject to product availability, to prepare and invoice most customer orders within 24 hours of receipt.

We operate a national customer sales and service center which enables our customers to obtain product information and place product orders by telephone using toll-free telephone numbers. Our customer sales and service center is staffed by sales personnel who are trained to promote the sale of our products and to handle customer service issues. We also maintain websites where our customers can transmit online orders to us.

Orders transmitted by customers either via telephone to the national customer sales and service center or online, are entered into our computer system and then are electronically transmitted to the regional distribution center selected by the customer, where the products are picked, packed and shipped. At the time the order is received, the customer is informed, either by electronic confirmation or by the sales person handling the customer s call at the customer service center, that the order has been accepted and whether any items are not currently in stock.

Distribution

General. Our regional distribution and warehouse centers in North America carry an inventory of up to approximately 11,000 RV and boating parts, supplies and accessories, although the nature and number of products at each distribution and warehouse center does vary, based primarily on the historical product sales of each distribution center to customers in its geographic region. We rely primarily on independent freight companies to ship our products to our customers.

We have implemented an inventory management and deployment system that we designed to improve our ability to fill customer orders from the distribution centers closest to the customer and, thereby, improve our responsiveness to the customer and at the same time reduce our costs of service. We track product sales from each of our distribution and warehouse centers and stock at each such center only the products which are in relatively high demand from customers in the region serviced by that distribution center. At the same time we offer our customers a program by which we ship products that are not available at the Company s distribution center closest to the customer from the next closest of the Company s distribution centers which stock those products. This program reduces back-orders that could adversely affect service levels to our customers and, at the same time, reduces our costs because it eliminates the need to stock duplicative products at all of our warehouses.

Arrangements with Manufacturers

General. The products which we supply or distribute are purchased from more than 300 different manufacturers. As is typical in the industry, in most instances we acquire those products on a purchase order basis and we have no long term supply contracts or guaranteed price or delivery agreements with manufacturers, including the manufacturers that produce proprietary products for us. As a result, short-term inventory shortages can occur. We

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sometimes choose to carry only a single manufacturer s products for certain of the brand-name product lines that we sell, although comparable products usually are available from multiple sources. In addition, generally we obtain each of our proprietary products from a single source manufacturer.

Dependence on a single manufacturer for any product or line of related products, however, presents some risks, including the risk that we will be unable to readily obtain products from alternative suppliers in the event that a single source supplier encounters production problems or decides to enter into an exclusive supply arrangement or alliance with competing distributors or decides, for any other reason, to terminate its supply arrangement with us. Termination of a single source supply relationship could adversely affect our sales and operating income, possibly to a significant extent. See Risk Factors in Item 1A of Part I of this Report.

Our increased purchases of foreign sourced products subjects us to foreign currency risks that could reduce the margin advantage we would otherwise be able to realize on the sales of those products to our customers in North America. See RISK FACTORS *Our financial performance can be adversely affected by currency fluctuations associated with our operations in Canada and our increased reliance on foreign product suppliers.*

The following table identifies the product manufacturers that accounted for 5% or more of our total product purchases, and the respective percentages of our total product purchases accounted for by each of them, in each of 2013, 2012 and 2011:

	2013	2012	2011
Airexcel, Inc.	25%	22%	27%
Zhejiang Xingyu Industry & Trade Co., Ltd.	*	6%	6%

* Less than 5%.

Airexcel, Inc. has manufactured and supplied us with Coleman® brand RV air conditioners for more than the past 15 years. Zhejiang Xingyu Industry & Trade Co., Ltd. (Zhejiang) manufactures and since 2010 has been supplying us with portable generators, which we market and sell under our own Powerhouse brand name. No other product manufacturers accounted for as much as 5% of our product purchases in 2013, 2012 or 2011.

Product Warranties and Product Liability Insurance. We generally do not independently warrant the products that we distribute and sell. Instead, product manufacturers generally warrant the products they sell to us and allow us to return defective products for credit or replacement, including those that have been returned to us by our customers. However, we do sell portable generators under a product supply arrangement with the manufacturer which provides for us to share the costs of providing warranty services for these products. The warranty period is 24 months following the sale of a generator to the retail customer. At December 31, 2013 and 2012, our reserves for potential warranty claims with respect to those products totaled $737,000 and $690,000, respectively. However, there is no assurance that warranty claims in the future will not exceed these amounts. See MANAGEMENT S DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *Critical Accounting Policies* *Warranty Costs* in Item 7 of this report below.

We also maintain insurance to protect us against product liability claims relating to all of the products we distribute and sell. Additionally, we often are able to obtain indemnification agreements from our product suppliers to protect us against product liability claims that may arise out of the use of the products they manufacture and supply to us for resale.

Competition

We face significant competition. There are a number of national and regional distributors of RV parts, supplies and accessories that compete with us. There also are mass merchandisers, web retailers, catalog houses and national and regional retail chains specializing in the sale of RV parts, supplies and accessories that purchase such products directly from manufacturers. The mass merchandisers, web retailers and national and regional chains compete directly with the RV supply stores and service centers that purchase products from us. This competition affects both the volume of our sales and the prices we are able to charge our customers for those products. Additionally, there is no assurance that changes in supply relationships or new alliances within the RV industry will not occur that would further increase competition.

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We compete on the basis of the quality, speed and reliability of our service, the breadth of our product lines and on price. We believe that we are highly competitive in each of these areas.

As discussed earlier in this Report, we sell portable generators and certain other products, not only in the RV market, but also in other markets, such as the outdoor power equipment market, in which we have not previously sold products. We also intend to seek additional products that we can source from overseas suppliers for resale into other markets in the United States and Canada. We expect to encounter intensive competition from manufacturers and distributors of competing products in those other markets. Many of those companies are larger and have greater marketing and financial resources than we do and are better known than us in these markets. Therefore, there is no assurance that we will be successful in competing against those companies.

Seasonality

Sales of RV and boating parts, supplies and accessories are seasonal. Generally, we have significantly higher sales during the six-month period from March through August than we do during the remainder of the year when winter weather conditions result in reductions in purchases and in the usage of RVs and, therefore, also in the demand for the products we sell. Because a substantial portion of our expenses are fixed, operating income declines and we sometimes incur losses and must rely more heavily on borrowings to fund our operations in the winter months when sales are lower.

Employees

At December 31, 2013, we had approximately 275 full-time employees, which include 63 employees in Canada. During the peak summer months, we also employ part-time workers at our regional distribution and warehouse centers. None of our employees is represented by a labor union and we believe that relations with our employees are good.

Our Website

Our internet website address is www.coastdistribution.com. Our Annual Report to Stockholders and all of our SEC filings are available on our website, without charge. Copies of these filings also are available as soon as reasonably practicable after we have filed or furnished these documents to the SEC at its website, which is www.sec.gov. The information contained on our website is not a part of, or incorporated by reference into, this Report on Form 10-K.

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ITEM 1A. RISK FACTORS

Statements contained in this Annual Report on Form 10-K that are not historical facts or that discuss our expectations, beliefs or views regarding our future operations or financial performance or our future financial condition, or trends in our business or markets, constitute forward-looking statements. Forward-looking statements contain estimates and predictions and discuss our expectations, beliefs and views, about our future financial performance or future financial condition, or regarding financial or market trends that may affect our future operating results. The forward looking statements in this Report are based on current information available to us and our business is subject to a number of risks, market conditions and uncertainties that could cause our actual financial performance or financial condition in future periods to differ, possibly significantly, from our current expectations and the estimates that are set forth in those forward looking statements. Set forth below is a discussion of those risks and uncertainties. However, readers of this Report are cautioned that it is not possible to predict all of the events or circumstances that might occur which may adversely affect our financial performance or operating results in the future and, therefore, there may be other risks to which our business is subject that are not addressed below.

Our business and financial performance are affected by economic conditions that affect consumers.

Our sales are affected directly by the level of purchases and the usage by consumers of RVs which, in turn, are dependent on the ability and willingness of consumers to spend money to make purchases of and to use their RVs. As a result, our sales are affected primarily by (i) the discretionary income that consumers have available to spend, (ii) their confidence about economic conditions which determines their willingness to spend their discretionary income, (iii) the availability of and the interest rates payable on the borrowings, including credit card debt, on which consumers generally rely to finance their purchases of and the costs of using RVs, and (iv) the availability and prices of gasoline, which affect the ability and cost of using their RVs. As a result, our sales and earnings in the past have been, and our future sales and earnings can be, adversely affected by the following conditions:

- Economic downturns and recessions and high rates of unemployment, which result in declines in discretionary income available to consumers and a loss of confidence among consumers about economic conditions and their own economic well-being and security, which cause them to reduce their purchases and usage of RVs;

- A tightening in the availability and increases in the costs of borrowings and consumer credit on which consumers rely to supplement their own funds when purchasing new and used RVs and paying to maintain and purchase supplies and accessories for their RVs; and

- Increases in the prices and shortages in the supply of gasoline, which increase the costs and sometimes even the ability and, therefore, the willingness of consumers to purchase and use RVs.

The recent economic recession and credit crisis could have longer term adverse consequences for our business and future financial performance.

The recent economic recession and credit crisis led to closures and bankruptcies of many RV dealers, as well as a number of well-known RV manufacturers, which has resulted in reductions in the number of RV dealers and supply stores and in the overall size of the RV market. Also, owners of RVs have been increasing their purchases of RV parts, supplies and accessories from lower-cost sellers, such as mass merchandisers and web-based retailers, resulting in reductions in sales by independent dealers, supply stores and service centers that comprise our Aftermarket

Customers, causing them to reduce their purchases of the products we sell. We do not know and cannot predict whether or the extent to which consumers will increase their discretionary spending after economic conditions improve and, therefore, whether or not sales and usage of RVs will recover to their pre-recession levels. If they do not, our market share, sales revenue and product pricing and, therefore, our future financial performance could be adversely affected.

***Volatility of gasoline prices could affect our sales and future financial performance*.**

Increases in the costs of and shortages in supplies of gasoline can lead consumers to reduce their usage of, and may discourage some consumers from purchasing, RVs which, in turn, would result in decreases in their purchases of the products we sell. In particular, during the last few years there has been increased volatility in the prices of gasoline due to concerns about the supplies available to or within the United States, due to (i) the growth in demand and competition for oil and gasoline from emerging and high growth economies, such as China and India, (ii) conflicts and political unrest in the middle east and elsewhere that could adversely affect the supply of oil to the United States, and (iii) natural and human-made disasters, such as the gulf oil spill. It is also difficult to predict whether uncertainties regarding and increases in gasoline prices will have short or longer term effects on the purchases and usage by consumers of RVs. In addition, these conditions and uncertainties may increase cyclical swings in and make it more difficult to predict our future operating results.

Our business is seasonal and our financial performance can be adversely affected by unusual weather conditions.

Our business is seasonal, because consumers generally increase their purchases and usage of RVs and, therefore, increase their purchases of the products we sell, primarily in the spring and summer months, which coincide with our second and third fiscal quarters; whereas, such purchases and usage decline in the late fall and in the winter months, which coincide with the fourth and first quarters of our fiscal year. As a result, as a general rule our sales are higher and our financial performance is better in our second and third fiscal quarters than in our fourth and first fiscal quarters during which we often incur losses.

However, the occurrence of unusually severe or extended winter weather conditions can adversely affect our operating results in our second and third fiscal quarters, and can lead to more severe swings in our sales and financial performance, because such conditions can have the effect of reducing the usage of RV for periods extending beyond the ordinary winter months or to regions that ordinarily encounter milder winter weather conditions. Additionally, extended periods of unusually severe weather conditions sometimes also occur during the winter months, which can cause year-over-year declines in our sales in the first or fourth quarters of the year.

We rely heavily on bank borrowings to fund our business, which makes us more vulnerable to adverse changes in economic conditions and creates liquidity risks for us.

We rely heavily on bank borrowings, under a revolving credit line, to fund our working capital requirements and capital expenditures. Our bank borrowings create additional risks for our business. Among other things, we may find it more difficult to obtain additional financing to fund expansion or take advantage of other business opportunities, and we use a substantial portion of our cash flow from operations to pay principal and interest on our debt. Our existing debt also makes us more vulnerable to general economic downturns and competitive pressures, which could cause us to fail to meet financial covenants in our bank loan agreement or result in a reduction in the amount of the borrowings that will be available to us under our credit line. Either of those events would reduce our liquidity and, therefore, require us to reduce the size and scope of our business, which could hurt our financial condition and reduce our sales and, therefore, adversely affect our operating results.

Our ability to manage our inventory in a volatile market could adversely affect our profitability.

Our operating results also depend upon our ability to successfully manage our inventory and to anticipate and respond to changes in purchasing trends and customer demands in a timely manner. The use, and therefore the purchases, by consumers of the products we sell can be volatile and uncertain because they can be affected by a number of factors, including general economic and market conditions, gasoline prices, weather conditions, competition and consumer preferences, none of which are within our control. We usually must order inventory in advance of each year s selling season. Moreover, the lead times for many of our purchases (particularly of foreign sourced products) may make it difficult for us to respond rapidly to new or changing product trends, increases or decreases in customer demand or changes in prices. If we misjudge the demand for our products or our customers purchasing habits (i) we may have insufficient quantities of products to satisfy customer demand, resulting in a decline in our revenues, or (ii) we may accumulate and have to write down excess inventory, which would increase our costs of sales. Also, the level of product inventory we maintain will affect our need for borrowings and, as a result, we may have to curtail our purchases of inventories, which could adversely affected our sales, in order keep our borrowings at an acceptable level.

Our financial performance is subject to risks arising out of our proprietary products strategy.

In order to increase our sales and reduce our costs of sales and, thereby increase our profitability, we have introduced into the RV market an increasing number of products that have been designed by or for us and which are manufactured and sold to us, generally on an exclusive basis, by a number of different manufacturers. More recently, we have begun sourcing and purchasing, from overseas suppliers, and marketing and selling a number of new products, such as portable generators, into new markets such as the outdoor power equipment market. We have only limited experience in marketing and selling such products, and there is no assurance that these products will gain acceptance among customers in those markets. We also encounter considerable competition from companies that manufacture or sell competing products in those same markets. Many of those companies are larger, more established and better known and have greater financial and marketing resources than we have. Also, we have greater responsibilities for quality control and in marketing and providing warranty protection and service for these products, as compared to the products we source from traditional suppliers for resale in the RV or boating markets. There is no assurance that we will be successful in marketing and selling our proprietary products, and the costs we incur in doing so may reduce our earnings or possibly even cause us to incur losses and we could encounter liabilities for possible warranty claims or patent infringement claims as a result of our sales of such products.

Moreover, we may experience unexpected engineering or design flaws in connection with new proprietary products that we may introduce into the market, which could lead to a recall of the products, in which event we could incur substantial expenses that could adversely affect our results of operations.

Risks of our reliance on sole sources of supply for certain of our products.

We sometimes choose to carry only a single manufacturer s products for certain of the brand-name product lines that we sell. In addition, we obtain each of our proprietary products from a single source manufacturer. Dependence on a single manufacturer for any product or line of related products, however, presents some risks, including the risk that we will be unable to readily obtain alternative product supply sources in the event that a single source supplier (i) encounters quality or other manufacturing problems, or (ii) decides to enter into an exclusive supply arrangement or alliance with one of our competitors, or to vertically integrate its operations to include not only manufacturing, but also distribution, of its products or (iii) for any other reason decides to terminate the supply arrangement it has with us. If any of our single source suppliers were to encounter any manufacturing problems or disruptions or terminate our supply relationship, our sales and earnings could decline, possibly to a significant extent.

Our financial results can be and sometimes have been adversely affected by changes in supply relationships in our markets.

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

Our financial performance and cash flows can be adversely affected by currency fluctuations associated with our operations in Canada and our increased reliance on foreign product suppliers.

Currency Risks Associated with our Canadian Operations. Our wholly-owned Canadian subsidiary accounted for more than 23% of our net sales in 2013. That subsidiary purchases a substantial portion of the products it sells from manufacturers in the United States and pays for those products in U.S. dollars, but sells those products to its customers in Canadian dollars. In the event the Canadian dollar weakens in relation to the U.S. dollar, the costs of those products to our Canadian subsidiary would increase, thereby reducing its gross margin, unless it is able to pass the higher costs on to its customers by raising its prices without adversely affecting its sales volume. If our Canadian subsidiary is unable to pass the higher costs on to its customers, our gross profits, operating income and cash flows would decline during any periods when there are declines in the value of the Canadian dollar in relation to the U.S. dollar.

Currency and other Risks Associated with our Purchases of Foreign Sourced Products. As we increase our purchases of products from foreign suppliers, we may become increasingly vulnerable to the effects of political instability and adverse economic conditions in the countries in which those suppliers are located. Additionally, purchases of products in foreign countries create currency risks for us. In those

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instances when we pay for foreign sourced products in U.S. dollars, a weakening U.S. dollar may lead foreign suppliers to increase the prices they charge us for their products in order to mitigate their currency exchange risks. In those countries where we buy products in the local currency, to the extent it becomes necessary for us to convert U.S. dollars into the local currency in order to pay for those products, a weakening U.S. dollar would make the local currency more expensive for us, thereby increasing the costs to us of purchasing those products. Moreover, a devaluation of local currencies may lead foreign suppliers to increase the prices they charge us for their products. Any of these events or circumstances could reduce the margin advantage that we could otherwise realize on our sales of foreign sourced products in North America, unless we are able to pass along the higher costs to our customers without adversely affecting our sales volume. If we are unable to pass such higher costs on to our customers, our gross profits and operating income and our cash flows would decline.

We may attempt to limit our exposure to exchange rate fluctuations by entering into currency exchange contracts when we conclude that it is appropriate to do so. There is no assurance that we will be successful in hedging such foreign currency exchange risk and any currency exchange gains or losses (net of hedges) may materially and adversely impact our cash flows and earnings.

We are subject to risks related to taxation in multiple jurisdictions. We are subject to income taxes in both the United States and other foreign jurisdictions. Significant judgments based on interpretations of existing tax laws or regulations are required in determining the provision we need to make for income taxes. Our effective income tax rate could be adversely affected by various factors, including, but not limited to, changes in the mix of earnings in tax jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in existing tax laws or tax rates, changes in the level of non-deductible expenses, or the result of examinations by various tax authorities. Although we believe our tax estimates are reasonable, if the U.S. Internal Revenue Service or other taxing authority disagrees with the positions taken by us on our tax returns, we could incur additional tax liability, including interest and penalties. If material, payment of such additional tax, interest or penalties upon final adjudication of any disputes could have a material adverse impact on our results of operations and financial position.

We are subject to product liability risks and warranty claims.

Product Liability Risks. Although we do not manufacture any of the products we sell, it is not uncommon for us to be named as an additional defendant in product liability lawsuits brought against manufacturers of those products. To protect ourselves from liability, we have been able in many instances to obtain indemnification agreements from these manufacturers or to be named as additional insureds under their product liability insurance policies. Nevertheless, we also maintain our own product liability insurance. We also conduct quality control testing, at our own product testing laboratories in the United States, of many of the proprietary products that we sell. However, although we have never incurred any material product liabilities in excess of the insurance coverages that we have obtained under policies of insurance maintained either by product manufacturers or by us, there is no assurance that we will not incur, in the future, product liabilities in amounts that materially exceed the insurance coverage and indemnification protections that we have and which, as a result, could adversely affect our results of operations or financial condition. Moreover, the risks of incurring liabilities for product defects has increased as a result of our proprietary products strategy, because many of the suppliers of those products are located overseas, making us a more attractive target for product liability claims.

Warranty Claims Risks. In certain instances, we have assumed the responsibility for dealing with and resolving product warranty claims from customers. As a result, we have had to establish reserves for potential product warranty claims which has increased our costs of sales. In addition, the amounts of those reserves are determined based not only on historical warranty claims experience, but also on estimates of the number and costs to us of future warranty claims. If the actual number or the costs of warranty claims were to exceed our estimates, it could become necessary for us to increase those reserves, which would result in an increase in our costs of sales that could adversely affect our profit margins and our results of operations. See MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *Critical Accounting Policies* *Warranty Costs* below in this Annual Report.

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Risks of patent infringement claims.

We design, or have independent product design firms or manufacturers, design and engineer a number of the proprietary products that we introduce into the marketplace. From time to time manufacturers of competing products have threatened and on occasion have brought suits against us claiming that some of our proprietary or foreign sourced products infringe their patents. We retain a patent law firm to review all new products that we plan to introduce into the market for potential patent infringements and that firm works in concert with our product design engineers and independent design firms or manufacturers to determine if the product as designed infringes, or if changes need to be made to a product to prevent infringements, on patents or other proprietary rights held by competitors. To date we have not incurred any material liability as a result of any patent infringement claims that have been threatened or asserted against us. However, there can be no assurance that we will not incur liability for patent infringement in the future, which could adversely affect our financial condition or results of operations. Additionally, in response to the filing of a patent infringement suit, it may become necessary for us to halt sales or to redesign newly introduced products to avoid patent infringement liability, which could reduce our sales and increase our costs and, thereby, adversely affect our results of operations.

We face substantial competition that could lead to declines in net sales or reductions in our gross profits.

We face significant competition in each of our markets which can adversely affect our sales, profit margins and operating results. In our RV products market we face competition not only from other wholesale distributors, but also from mass merchandisers, web retailers, catalog houses and national and regional retail chains that sell RV parts, supplies and accessories. Moreover, due to their size and financial resources, some of those mass merchandisers and national or regional chains are able to purchase such products directly from manufacturers at prices comparable to the prices at which we are able to purchase such products from those same or competing manufacturers and pass some of the resulting cost savings to their customers by reducing the prices at which they sell such products. The mass merchandisers, web retailers, and national and regional chains compete directly with the RV and boating dealers, supply stores and service centers that purchase products from us and, therefore, their pricing decisions and the breadth of the products they sell can affect both the volume of our sales and the prices we are able to charge our customers for the same or competing products. Additionally, price competition, particularly from mass merchandisers and national chains, has been increasing as they seek to increase their market shares. As a result, in order to remain competitive it could become necessary for us to reduce our prices, including the prices at which we sell our proprietary and Coast branded products to our Aftermarket Customers, in which event we could lose the price and margin advantages that we have gained from the sale of those products. In addition, if we match price reductions by mass merchandisers and national and regional chain stores, our gross profits and gross margin could be adversely affected. Additionally, we face stiff competition in the sale of portable power generators and other products in the outdoor power equipment market from manufacturers and suppliers of competing products, many of which are larger, have greater marketing and capital resources and are better-known in that market. Such competition could require us to reduce our prices for or could prevent us from increasing our sales of those products and could cause us to incur losses as a result of our efforts to sell products in markets other than the RV market.

Risk that our deferred tax asset may not be fully realized.

We have recorded, on our balance sheet, a deferred tax asset which consists of tax credit and tax loss carryforwards and tax deductions (tax benefits) that are available to reduce income taxes that we would otherwise have to pay on the taxable income that we generate in future periods. Under applicable federal and state income tax laws and regulations, such tax benefits will expire at various dates in the future if not used to offset income taxes by such dates. Accordingly, our ability to fully use this deferred tax asset to reduce our taxes in the future depends on the amount of taxable income that we are able to generate prior to such expiration dates. If we determine that it is no longer more likely, than not, that we will be able to fully utilize the deferred tax asset, we would be required to establish (or increase any existing) valuation allowance to reduce the recorded amount of the deferred tax asset on our balance sheet to the amount of the tax benefits we believe we will be able to use prior to their expiration dates. Such an allowance is established or increased by a non-cash operating charge that would increase the provision for income taxes or reduce any income tax benefit in the fiscal period in which that valuation allowance is established or increased. At December 31, 2013, we had a valuation allowance in the amount of nearly $1.4 million which reduced the carrying value of our net deferred tax asset to $3.1 million at December 31, 2013. There is no assurance, however, that we will be able to fully utilize this deferred tax asset as that will depend on our future operating results.

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Moreover, if we are not able to generate taxable income in the future that will enable us to fully utilize this deferred tax asset, it could become necessary for us to increase the valuation allowance in future periods, which would have the effect of increasing our income tax provision or reducing any income tax benefit that we would otherwise record in our statements of operations, thereby adversely affecting our results of operations. See MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *Critical Accounting Policies* below in this Annual Report.

Loss of key management.

Our future performance is substantially dependent upon the continued services of certain members of our senior management. The loss of the services of any key members of senior management could have a material adverse effect upon us. In addition, our continued growth depends on our ability to attract and retain skilled executives. There can be no assurance that we will be able to retain our existing key personnel or attract additional qualified executives in the future.

Risk of fluctuations in our share price.

The market price of our common stock may be subject to significant fluctuations in response to our operating results, our ability to meet market expectations and other factors. Fluctuations in the market price of our common stock may also result from changes in the trading characteristics that prevail in the market for our common stock, including low trading volumes, trading volume fluctuations and other similar factors. These market fluctuations, as well as downturns in the economy or in consumer confidence or increases in unemployment may adversely affect the market prices and the liquidity of our common stock. As a result, we cannot assure that the market prices of our common stock will not fluctuate or decline significantly in the future or that there will be sufficient liquidity in the market for our shares that would enable shareholders to sell shares at the times or in the quantities they desire.

We do not plan to pay dividends at least for the foreseeable future.

In 2008 our Board of Directors adopted a policy to retain cash for our business and, as a result, we have not paid any cash dividends since 2008 and do not expect to pay cash dividends in the foreseeable future. Additionally, subject to certain limited exceptions, our bank line of credit agreement requires us to obtain the bank s consent prior to declaring or paying cash dividends and there is no assurance we would be able to get that consent if we were to decide to pay any cash dividends in the future.

Reliance on our information technology systems exposes us to potential risks.

Reliance on our information technology systems exposes us to potential risks such as interruptions due to natural disasters, such as earthquakes or fire, cyber-attacks, unplanned data center and system outages, hacking or fraud perpetrated by malicious individuals and other causes. Our information technology systems are hosted in two locations: our headquarters in Morgan Hill, California and at a co-location managed by a third-party provider.

Additionally, in the ordinary course of our business, we collect, use and hold data concerning our customers. Threats to data security, including unauthorized access and cyber-attacks, rapidly emerge and change, exposing us to additional costs for protection or remediation and competing time constraints to secure our data in accordance with customer expectations and statutory requirements. However, it is difficult or impossible to defend against every risk being posed by changing technologies, as well as against criminals who are intent on committing cyber-crime. A breach of our security that results in unauthorized access to our or our customers data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have a material adverse effect on our business and results of operations.

Failure of our internal control over financial reporting could harm our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with principles generally accepted in the United States (GAAP). Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. The identification of a material weakness could indicate a lack of controls adequate to general accurate financial statements that, in turn, could cause a loss of investor confidence and decline in the market price of our common stock.

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Other risks and uncertainties.

Our business and financial performance could be materially and adversely affected in the future by other risks or developments that either are not known to us at the present time or are currently immaterial to our business and results of operations. Such risks could include, but are not limited to, the commencement of litigation against us and unexpected adverse changes in local, national or global economic or market conditions.

Due to these and other possible uncertainties and risks, readers are cautioned not to place undue reliance on forward-looking statements contained in this Report, which speak only as of the date of this Annual Report. We also disclaim any obligation to update forward-looking information contained in this Report, whether as a result of new information, future events or otherwise, except as may otherwise be required by applicable law or the rules of the American Stock Exchange.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We operate 13 regional warehouse and distribution centers in 12 states in the United States and 4 regional warehouse and distribution centers, each located in a different Province, in Canada. All of these facilities are leased under triple net leases which require us to pay, in addition to rent, real property taxes, insurance and maintenance costs. The following table sets forth certain information regarding those facilities.

	Square Footage	Lease Expiation Dates
United States:		
Wilsonville, Oregon	46,700	December 31, 2016
Visalia, California	230,300	December 31, 2016
Fort Worth, Texas	42,500	October 31, 2016
San Antonio, Texas	27,300	October 31, 2015
Denver, Colorado	50,000	January 31, 2016
Elkhart, Indiana	109,700	January 31, 2017
Lancaster, Pennsylvania	35,500	December 31, 2016
Atlanta, Georgia	65,800	August 31, 2014
Tampa, Florida	22,300	June 30, 2018
Mesa, Arizona	20,700	October 31, 2017
Salt Lake City, Utah	30,400	October 31, 2016
Johnstown, New York	26,800	December 31, 2017
Eau Claire, Wisconsin	17,300	January 31, 2015
Canada:		
St. Bruno, Quebec	59,600	December 31, 2021
Orillia, Ontario	36,500	November 30, 2016
Calgary, Alberta	41,200	January 31, 2016

Langley, British Columbia	22,800	December 31, 2016

As indicated in the above table, two of the warehouse and distribution center leases are scheduled to expire within the next 12 to 18 months. While we currently expect to renew those leases, we could decide, instead, either to relocate or close one or both 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.

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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 business and we have our own product liability insurance policies and, in many instances, we have indemnities from the manufacturers from which we obtain our products, to protect us from liabilities that could arise from such claims. On occasion, we are 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 that exceed our product liability coverage or liabilities based on patent infringement claims in the future that could adversely affect our operating results. See RISK FACTORS *We are subject to product liability risks and warranty claims* and *Risks of patent infringement claim*s above.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

EXECUTIVE OFFICERS OF REGISTRANT

Name	Age	Positions with Company
James Musbach	63	President, Chief Executive Officer and a Director
Thomas R. McGuire	70	Chairman of the Board of Directors
Sandra A. Knell	56	Executive Vice President, Chief Financial Officer and Secretary
David A. Berger	59	Executive Vice President Operations
Dennis A. Castagnola	66	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 1977 until April 2008, when he relinquished that position upon Mr. Musbach s promotion to Chief Executive Officer. Mr. McGuire 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.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER 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
2013:		
First Quarter	$ 2.80	$ 1.90
Second Quarter	3.70	2.07
Third Quarter	4.37	3.05
Fourth Quarter	3.78	3.14
2012		
First Quarter	$ 2.61	$ 2.11
Second Quarter	2.40	2.02
Third Quarter	2.20	1.80
Fourth Quarter	2.10	1.65

On March 5, 2014 the closing per share price of our common stock on the American Stock Exchange was $3.56 and there were approximately 530 holders of record of the Company s shares.

Dividend Policy

In November 2008, our Board of Directors decided to discontinue 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 have not paid cash dividends since before November 2008 and we do not expect to pay cash dividends at least for the foreseeable future.

Equity Compensation Plans

Certain information, as of December 31, 2013, 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.

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ITEM 6. SELECTED FINANCIAL DATA

The selected operating data set forth below for the fiscal years ended December 31, 2013, 2012, and 2011, and the selected balance sheet data at December 31, 2013 and 2012, 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 the notes thereto 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, 2010 and 2009, and the selected balance sheet data at December 31, 2011, 2010 and 2009, are derived from the Company s audited consolidated financial statements which are not included in this Report.

	Year Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
	(In thousands, except per share data)				
Operating Data:					
Net sales	$ 113,938	$ 113,521	$ 108,195	$ 108,600	$ 103,201
Cost of sales (including distribution costs)(1)	93,796	96,219	90,166	88,985	83,754
Gross profit	20,142	17,302	18,029	19,615	19,447
Selling, general and administrative expenses	20,080	19,435	18,573	18,330	18,552
Operating income (loss)	62	(2,133)	(544)	1,285	895
Equity in net earnings of unconsolidated affiliates	65	160	35	57	201
Other expense					
Interest expense	(567)	(552)	(540)	(579)	(624)
Other	(54)	(70)	(92)	(194)	(268)
	(621)	(622)	(632)	(773)	(892)
Earnings (loss) before income taxes	(494)	(2,595)	(1,141)	569	204
Income tax provision (benefit)	143	(581)	(255)	417	105
Net earnings (loss)	$ (637)	$ (2,014)	$ (886)	$ 152	$ 99
Net earnings (loss) per diluted share(2)	$ (0.14)	$ (0.44)	$ (0.20)	$ 0.03	$ 0.02
Shares used in computation of net earnings (loss) per share	4,691	4,597	4,535	4,574	4,494

	At December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
	(In thousands, except per share data)				
Balance Sheet Data:					
Working Capital	$ 33,144	$ 35,718	$ 37,044	$ 36,757	$ 34,524
Total assets	46,244	49,659	47,736	47,782	45,472

Long-term obligations(3)	9,299	10,933	10,895	10,113	9,637
Stockholders equity	28,040	29,073	30,224	31,038	29,632
Book value per share(4)	$ 5.98	$ 6.32	$ 6.66	$ 6.79	$ 6.59
Dividends per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

(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 included in Item 8 of this report.

(3) Exclusive of the current portion of long-term obligations. For additional information regarding our long-term obligations, see Note C to the Company s consolidated financial statements included in Item 8 of this report.

(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 included in Item 8 of this report.

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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) in North America. We supply more than 11,000 products and serve more than 13,000 customers throughout the United States and Canada, from 13 regional distribution centers in the United States and 4 regional distribution centers in Canada. Our sales are made primarily to retail parts and supplies stores, service and repair establishments and new and used RV dealers (collectively, Aftermarket Customers).

Factors Generally Affecting Sales of RV and Boating Products

Our sales are affected primarily by:

- The usage of RVs 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 by consumers, because they often accessorize their RVs at or shortly after the time of purchase.

The usage and the purchase, by consumers, of RVs 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, on which many of them rely to finance their purchases of RVs and RV accessories. 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. Additionally, increases in the prices and shortages in the supply of gasoline can lead to declines in the usage and purchases of RVs. Finally, the usage by consumers of RVs and, therefore, their need for and purchases of the products we sell are affected by weather conditions.

Overview of Fiscal 2013 Operating Results

The following table provides information comparing our fiscal 2013 results of operations to our fiscal 2012 results of operations. Dollars are in thousands, except per share data.

	Year Ended December 31,		Increase/(Decrease) 2013 vs. 2012	
	2013 Amount	**2012 Amount**	**Amount**	**Percent**
Net sales	$ 113,938	$ 113,521	$ 417	0.4%
Cost of sales(1)	93,796	96,219	(2,423)	(2.5)%
Gross profit	20,142	17,302	2,840	16.4%
SG&A expenses	20,080	19,435	645	3.3%
Operating income (loss)	62	(2,133)	2,195	102.9%

Interest expense		567		552	15	2.7%
Loss before income taxes		(494)		(2,595)	2,101	81.0%
Income tax provision (benefit)		143		(581)	724	124.6%
Net loss		(637)		(2,014)	1,377	68.4%
Net loss per share-diluted	$	(0.14)	$	(0.44)	$ 0.30	68.2%

(1) Inclusive of distribution costs.

Even though sales remained relatively unchanged in 2013 at $113,938,000, as compared to $113,521,000 in 2012, in 2013 we generated operating income of $62,000 as compared to a loss from operations of $2,133,000 in 2012. That positive swing in our operating profit in 2013 was primarily attributable to an increase in gross profits of $2,840,000, or 16.4%, as compared to 2012, which was partially offset by a $645,000, or 3.3%, increase in SG&A expenses.

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The increase in gross profits in 2013 was primarily due to (i) a change in the mix of products sold to a higher proportion of our proprietary products on which we realize higher margins than on sales of other products, and (ii) selected price increases which we implemented in the first half of 2013.

Outlook for 2014

We believe that demand for recreational vehicles will continue to improve and, in that event, we would expect that our sales would also improve in the year ending December 31, 2014. The Recreational Vehicle Industry Association (RVIA) has forecast a 6% increase in shipments to RV dealers of towable and motorized RVs for 2014. Notwithstanding the unusually severe winter weather in the Northeast and Midwest, attendance and sales during the 2014 winter RV retail shows have been moderately higher than in the corresponding period of 2013 and consumer confidence and fuel prices appear to have stabilized. We also believe that there may be increased demand from consumers who deferred purchasing recreational vehicles over the past few years due to economic recession and credit crisis and uncertainties about the strength of the economic recovery. In addition, a positive longer-term outlook for the RV business is supported by favorable demographics as more people reach the age that historically has accounted for the majority of RV sales.

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 our deferred tax asset (which consists of available tax loss and credit carryforwards and tax deductions) that we will be able to use to reduce our taxes in the future. 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 adjust those carrying values downward for financial reporting purposes. Such 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 which we believe we are likely to be able to use to reduce our taxes in the future. 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 are expected to 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 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. In the case of product distribution businesses, which customarily grant to their 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 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 values of those assets and to establish adequate reserves or allowances for downward adjustments that we may have to make to those values 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.

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 cost 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 products 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 whether or not 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 were to be an economic downturn or a decline in sales, causing inventories of some products to accumulate, it could 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 for us. Increases in this allowance also will cause a decline in operating results as such increases are effectuated by charges against income. Our reserves or excess and obsolete inventory increased to $1,454,000, and 5.2% of total inventories at December 31, 2013, from $1,439,000 and 4.5%, respectively, at December 31, 2012.

Deferred Tax Assets and Valuation Allowance. We record as deferred tax assets 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 our income taxes in future periods. Under applicable federal and state income tax laws and regulations, in most cases, such tax benefits will expire if not used within specified periods of time. Accordingly, the ability to fully use our deferred tax assets 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 assets in full on our balance sheet. If, on the other hand, we conclude that it has become more likely, than not, that we will be unable to utilize those tax benefits in their entirety to reduce future taxes prior to their expiration, then we would establish (or increase any existing) valuation allowance to reduce the deferred tax assets on our balance sheet to the amount that we believe we are likely to be able to utilize. Such a 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. The aggregate amount of our net deferred tax assets was approximately $3.1 million at both December 31, 2013 and December 31, 2012.

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 Expense. We account for stock-based compensation expense in accordance with ASC 718, *Stock Compensation*, which requires us to recognize the fair value of the compensation paid in stock or other equity awards as an expense in the calculation of our net earnings or loss. We recognize stock-based compensation expense over the period in which the employee is required to provide service, which is generally over the vesting period of the individual equity award. However, if the vesting of any equity award is conditioned on the achievement of a financial performance goal, we do not recognize stock-based compensation expense unless, and until the fiscal period during which, we have concluded that achievement of the performance goal has become probable. If, however, due to subsequent events or circumstances, the performance goal is not ultimately achieved, then the previously recognized stock-based compensation expense would be reversed. Stock options issued in lieu of cash to non-employees, such as directors, for services performed for us 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, 2013 and 2012 totaled $302,000 and $456,000, 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 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 retail sale of these products to the consumer. We established reserves for warranty claims with respect to these products of $737,000 and $690,000 at December 31, 2013 and 2012, respectively. Those amounts were determined on the basis of a number of factors, including the volume of our sales of those products 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

For a discussion of Recently Issued Accounting Pronouncements, see Note A, Summary of Significant Accounting Policies Recently Issued Accounting Pronouncements to our consolidated financial statements.

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Results of Operations

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

	Year Ended December 31,		
	2013	**2012**	**2011**
Net sales	100.0%	100.0%	100.0%
Cost of sales	82.3	84.8	83.3
Gross profit	17.7	15.2	16.7
SG&A expenses	17.6	17.1	17.2
Operating income (loss)	0.1	(1.9)	(0.5)
Interest expense	(0.5)	(0.5)	(0.5)
Loss before taxes	(0.4)	(2.3)	(1.1)
Income tax provision (benefit)	0.1	(0.5)	(0.2)
Net loss	(0.6)%	(1.8)%	(0.8)%

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 2013 and 2012, in each case as compared to the immediately preceding year. Dollars in the table are in thousands.

		% Change		% Change
2013	**2012**	**2013 vs. 2012**	**2011**	**2012 vs. 2011**
$113,938	$113,521	0.4%	$108,195	4.9%

2013 vs. 2012. Although our consolidated sales were relatively unchanged in 2013, as compared to 2012, our sales in the United States increased by $2,130,000, or 2.5%, while our sales in Canada declined by $1,713,000, or 6.1%, in 2013 as compared to 2012. The sales decrease in Canada was primarily attributable to additional competition from U.S. distributors selling into Canada. Our sales, both in the United States and Canada, in 2013 also were negatively impacted by unusually cold spring and summer weather in the Midwest, Northeast and Southeast of the United States and throughout most of Canada.

2012 vs. 2011. We believe that the increase in net sales in 2012, as compared to 2011, was due primarily to: (i) a strengthening of economic conditions and an increase in consumer confidence which led to modest increases in purchases and the usage of RVs and, therefore, in the products we sell, (ii) new marketing programs that we initiated in 2012, and (iii) an increase in sales of generators and other proprietary products to specialty retailers and mass merchandisers, which represents a new distribution channel for us.

Gross Profit

Gross profit is calculated by subtracting cost of sales from net sales. Cost 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 profit stated as a percentage of net sales.

	Year Ended December 31,		
	2013	**2012**	**2011**
	(Dollars in thousands)		
Gross profit	$ 20,142	$ 17,302	$ 18,029
Gross margin	17.7%	15.2%	16.7%

2013 vs. 2012. The increase in our gross profit and our gross margin in the year ended December 31, 2013, as compared to 2012, was primarily due to (i) a change in the mix of products sold to a greater proportion of our products on which we realize higher margins, including proprietary products, and (ii) selected price increases that we implemented in the first half of 2013.

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2012 vs. 2011. The declines in our gross profit and our gross margin in 2012, as compared to 2011, were primarily due to (i) selected price reductions we made in response to aggressive price competition by competitors seeking to increase their sales in the face of weak consumer demand in the RV markets, (ii) a weakening of the Canadian dollar, as compared to the U.S. dollar, in the first half of 2012, which increased the costs to our Canadian subsidiary of purchasing products from suppliers in the United States, (iii) increases in shipping costs, (iv) an increase in costs associated with quality control testing of new models of portable generators and trailer hitches and other towing products that we introduced and began selling in 2012, and (v) an increase in reserves that we had established for possible warranty claims with respect to the generators we sell, due primarily to increases in our sales of those products.

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

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
SG&A expenses	$ 20,080	$ 19,435	$ 18,573
As a percentage of net sales	17.6%	17.1%	17.2%

2013 vs. 2012. SG&A expenses increased by $645,000, and, as a percentage of net sales, to 17.6%, as compared to 17.1% in 2012. These increases, were due primarily to our implementation of new marketing initiatives and the hiring of additional sales personnel in order to grow our sales in our core RV channel and to increase our penetration in the specialty retail channel in which we sell standby generators and other proprietary products.

2012 vs. 2011. In 2012, SG&A expenses increased by $862,000, in absolute dollars, but decreased as a percentage of net sales from 17.2% in 2011, to 17.1% in 2012. The increase in SG&A expenses in 2012 was due primarily to new marketing programs that we implemented and the hiring of additional field sales people in 2012, in order to increase sales and gain market share.

Operating Income (Loss)

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Operating income (loss)	$ 62	$ (2,133)	$ (544)
As a percentage of net sales	0.1%	(1.9)%	(0.5)%

2013 vs. 2012. The $2.2 million swing to $62,000 of operating income in 2013 from an operating loss of $2.1 million in 2012, was the result of the increase, described above, in our gross profits in 2013.

2012 vs. 2011. The $1,589,000, or 292.1%, increase in the loss from operations in 2012, as compared to 2011, was primarily the result of the decline in gross profits and the increase in SG&A expenses in 2012.

Other Expense

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Other Expense			
Interest expense	$ 567	$ 552	$ 540
Other expense	54	70	92
Total	$ 621	$ 622	$ 632
As a percentage of net sales	0.5%	0.5%	0.6%

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

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Income Tax Provision (Benefit)

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Income tax provision (benefit)	$ 143	$ (581)	$ (255)
Effective tax rate	N/A	22.4%	22.3%

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, state franchise and other taxes can lead to increases in our overall tax rate (or decreases in our tax benefit).

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.

Due to the nature of our business, our primary needs for working capital are 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 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 second quarters of each year than during other periods of the year.

Our revolving bank line of credit agreement permits us to borrow up to the lesser of (i) $25,000,000, or (ii) an amount equal to the sum of 85% of the value of our eligible accounts receivable and 55% of the value of our eligible inventory. Our borrowing base under our revolving credit line was $13,800,000 at December 31, 2013 as compared to $16,800,000 at December 31, 2012, primarily due to a $2.8 million reduction in inventories at December 31, 2013 as compared to December 31, 2012. Interest on our credit line borrowings in 2013 was paid at a rate equal to the bank s prime rate (3.25% at December 31, 2013) plus 1.75% or at our option but subject to certain limitations, the bank s LIBOR rate (0.165% at December 31, 2013) plus 3.25%. At March 6, 2014, outstanding borrowings under the revolving credit facility totaled $14,905,000.

As of December 31, 2013, we were in compliance with all of our financial and other covenants under our bank line of credit agreement. Also, the bank has extended the measurement date of a fixed charge coverage covenant to March 31, 2014. That covenant will require 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, commencing with the quarter that will end on March 31, 2014. The bank also has reduced the maximum amount of credit line borrowings that is available to us by $1 million until we meet that covenant.

Our bank borrowings are collateralized by substantially all of our consolidated assets and rank senior in priority to any other indebtedness that we may be permitted to incur by the bank. The maturity date of this revolving bank line of credit is July 10, 2017. See RISK FACTORS ***We rely heavily on bank borrowings to fund our business, which makes us more vulnerable to adverse changes in economic conditions and creates liquidity risks for us*** in Item 1A above in this report.

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 Provided by (Used in) Operations in 2013 and 2012. In 2013, our operations generated cash of $3.0 million, comprised of a $2.8 million reduction in inventory, a $0.9 million reduction in prepaids and an income tax receivable and $0.9 million in non-cash expenses, partially offset by the use of $0.9 million of cash to reduce accounts payable.

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In 2012, we used cash of $2.1 million in our operations, primarily to fund our net loss of $2.0 million and a $4.4 million increase in inventory, partially offset by increases of (i) non-cash expenses comprised of $2.7 million in accounts payable, $0.7 million in depreciation and amortization expense, $0.5 million in stock-based compensation expense, and $0.3 million in accrued liabilities, and (ii) $1.0 million in cash generated by an increase in payments of accounts receivable.

Cash Flows Used in Investing Activities in 2013 and 2012. We used $0.5 million of cash in both 2013 and 2012 in investing activities, principally to fund purchases of other assets and capital expenditures, primarily for warehouse, office, and computer equipment.

Cash (Used in) Provided by Financing Activities in 2013 and 2012. Cash provided by financing activities consists primarily of cash from our revolving credit line borrowings and cash used in financing activities consists primarily of repayments of such borrowings. In 2013, we used cash to repay credit line borrowings in an amount that exceeded our credit line borrowings by $1.6 million. During 2012, our borrowings and repayments of long-term debt under our revolving bank line of credit substantially offset each other and as a result, financing activities provided cash of $28,000 in 2012.

Contractual Obligations

Lease Obligations. We lease our facilities and certain of our equipment under non-cancelable operating leases. In 2013, rent expense under all operating leases totaled approximately $3.8 million. The following table sets forth our future operating lease commitments (in thousands of dollars), as of December 31, 2013:

2014	$ 3,714
2015	3,543
2016	2,971
2017	619
2018	372
Thereafter	1,006
	$ 12,225

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, 2013:

Contractual Obligations at December 31, 2013:	Total of Contractual Obligations	Less than One Year	More than One and less than Four Years	Four to Five Years	More than Five Years
Long-term debt obligations[1]	$ 9,299	$	$ 9,299	$	$
Operating lease obligations	12,225	3,714	6,514	991	1,006
	$ 21,524	$ 3,714	$ 15,813	$ 991	$ 1,006

(1) Consists of borrowings under our revolving bank credit facility, which matures in July 2017.

Our long term debt obligations consist primarily of borrowings under our long term revolving bank credit agreement. 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 ***Liquidity and Capital Resources*** *Working Capital Liquidity and Cash Flows* are the formulas that applied to the determination of the interest rates on those borrowings during 2013.

Dividend Policy and Dividend Payments. Since November 2008, the dividend policy of our Board of Directors has been and continues to be to preserve cash for operations, rather than using cash to pay dividends. In addition, our bank credit line agreement contains restrictions on our payment of cash dividends. As a result, we have not paid cash dividends since before November 2008 and we do not anticipate paying cash dividends at least for the foreseeable future.

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Expected Uses and Sources of Funds

We expect to make capital expenditures in 2014 that we estimate will range from $300,000 to $500,000. 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 primarily with borrowings under our revolving bank line of credit and internally generated cash flow. However, see the discussion of the liquidity risks we face in Item 1A of this report under the caption RISK FACTORS ***We rely heavily on bank borrowings to fund our business, which makes us more vulnerable to adverse changes in economic conditions and creates liquidity risks for us***.

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 we believe will 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. 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 use 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 to a greater extent on borrowings to fund operating requirements, during the period from September through February when our sales and, therefore, our internally generated cash flows, are lower than in the spring and summer months.

The following tables present unaudited quarterly financial information for each of the fiscal years ended December 31, 2013 and 2012. 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.

	Quarter Ended			
	March 31, 2013	**June 30, 2013**	**September 30, 2013**	**December 31, 2013**
	(Unaudited)			
Net sales	$ 25,397	$ 35,565	$ 33,101	$ 19,875
Gross profit	4,202	7,138	6,099	2,703
Net earnings (loss)	(939)	1,097	487	(1,282)
Net earnings (loss) per share diluted	(0.20)	0.23	0.10	(0.27)

	Quarter Ended			
	March 31, 2012	**June 30, 2012**	**September 30, 2012**	**December 31, 2012**
			(Unaudited)	
Net sales	$ 24,248	$ 34,115	$ 34,484	$ 20,674
Gross profit	3,409	5,069	5,688	2,596
Net earnings (loss)	(1,345)	504	307	(1,480)
Net earnings (loss) per share diluted	(0.30)	0.11	0.07	(0.32)

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, 2013, we had outstanding borrowings under our revolving bank line of credit of $9.3 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, 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, 2013 we held no foreign currency derivatives. We do not use derivatives or other 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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, stockholders equity, and cash flows for the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in Item 15(a) (2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and the 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, 2013 and 2012 and the results of its operations and its cash flows in each of the years in the three year period ended December 31, 2013 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.
E. Palo Alto, California
March 31, 2014

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	As of December 31, 2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,140	$ 1,942
Accounts receivable (less allowance for doubtful accounts of $278 in 2013 and $311 in 2012)	10,070	9,933
Inventories, net	27,532	30,289
Deferred tax asset, net	1,849	1,849
Prepaid expenses	407	848
Income tax refunds receivable, net	51	510
Total current assets	42,049	45,371
Property and equipment, net	1,248	1,188
Other assets	2,947	3,100
	$ 46,244	$ 49,659
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 5,196	$ 6,135
Accrued liabilities	3,709	3,518
Total current liabilities	8,905	9,653
Long-term obligations		
Line of credit	9,299	10,933
Total liabilities	18,204	20,586
Commitments and contingencies		
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; 5,045,897 and 4,923,431 issued as of December 31, 2013 and 2012, respectively	18,047	17,766
Accumulated other comprehensive earnings	1,227	1,904
Retained earnings	8,766	9,403
Total stockholders equity	28,040	29,073
	$ 46,244	$ 49,659

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

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands, except per share data)		
Net sales	$ 113,938	$ 113,521	$ 108,195
Cost of sales (including distribution costs)	93,796	96,219	90,166
Gross profit	20,142	17,302	18,029
Selling, general and administrative expenses	20,080	19,435	18,573
Operating income (loss)	62	(2,133)	(544)
Equity in net earnings of unconsolidated affiliates	65	160	35
Other expense			
Interest expense	(567)	(552)	(540)
Other	(54)	(70)	(92)
Loss before income taxes	(494)	(2,595)	(1,141)
Income tax provision (benefit)	143	(581)	(255)
Net loss	$ (637)	$ (2,014)	$ (886)
Basic loss per share	$ (0.14)	$ (0.44)	$ (0.20)
Diluted loss per share	$ (0.14)	$ (0.44)	$ (0.20)

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

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Net loss	$ (637)	$ (2,014)	$ (886)
Other comprehensive (loss) earnings:			
Foreign currency translation adjustment	(677)	417	(387)
Comprehensive loss	$ (1,314)	$ (1,597)	$ (1,273)

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

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands)

	Common Stock		Accumulated Other Comprehensive	Retained	
	Number of Shares	Amounts	Earnings (Loss)	Earnings	Total
Balance at January 1, 2011	4,660,097	$ 16,861	$ 1,874	$ 12,303	$ 31,038
Net loss for the year				(886)	(886)
Foreign currency translation adjustments			(387)		(387)
Issuance of common stock under employee option plans	7,000	19			19
Issuance of restricted shares of common stock under equity incentive plan	114,500				
Stock-based compensation		440			440
Balance at December 31, 2011	4,781,597	17,320	1,487	11,417	30,224
Net loss for the year				(2,014)	(2,014)
Foreign currency translation adjustments			417		417
Issuance of common stock under employee option plans	3,334	3			3
Reduction in pool of windfall tax benefits		(13)			(13)
Issuance of restricted shares of common stock under equity incentive plan	147,500				
Cancellation of restricted shares of common stock	(9,000)				
Stock-based compensation		456			456
Balance at December 31, 2012	4,923,431	17,766	1,904	9,403	29,073
Net loss for the year				(637)	(637)
Foreign currency translation adjustments			(677)		(677)
Issuance of common stock under employee option plans	30,500	28			28
Issuance of restricted shares of common stock under equity incentive plan	167,500				
Cancellation of restricted shares of common stock	(55,837)				
Common stock cancelled in payment of payroll taxes due on vesting of restricted shares under employee stock incentive plans	(19,697)	(49)			(49)
Stock-based compensation		302			302
Balance at December 31, 2013	5,045,897	$ 18,047	$ 1,227	$ 8,766	$ 28,040

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

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THE COAST DISTRIBUTION SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Cash flows from operating activities:			
Net loss	$ (637)	$ (2,014)	$ (886)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	566	652	657
Amortization	62	59	161
Loss from sale of property and equipment	6	35	31
Equity in net earnings of unconsolidated affiliates, net of distributions	(65)	(160)	(35)
Stock-based compensation expense	302	456	440
Deferred income taxes	59	(220)	(166)
Change in assets and liabilities:			
Accounts receivable	(137)	967	(1,037)
Inventory	2,757	(4,437)	60
Prepaids and income tax refunds receivable, net	863	(449)	58
Accounts payable	(939)	2,741	19
Accrued liabilities	191	295	(33)
Net cash provided by (used in) operating activities	3,028	(2,075)	(731)
Cash flows from investing activities:			