

U.S. Auto Parts Network, Inc.
Form 10-Q
August 10, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 4, 2009

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: 001-33264

U.S. AUTO PARTS NETWORK, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: U.S. Auto Parts Network, Inc. - Form 10-Q

Delaware
*(State or other jurisdiction of
incorporation or organization)*

68-0623433
*(I.R.S. Employer
Identification No.)*

17150 South Margay Avenue

Carson, CA 90746

(Address of Principal Executive Office) (Zip Code)

(310) 735-0085

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 5, 2009, the registrant had 29,846,757 shares of common stock, \$0.001 par value, outstanding.

Table of Contents

U.S. AUTO PARTS NETWORK, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THIRTEEN AND TWENTY-SIX WEEK PERIOD ENDED JULY 4, 2009

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
ITEM 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets at July 4, 2009 (unaudited) and December 31, 2008</u>	4
<u>Unaudited Condensed Consolidated Statements of Operations for the Thirteen and Twenty-Six Weeks Ended July 4, 2009 and the Three and Six Months Ended June 30, 2008</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Twenty-Six Weeks Ended July 4, 2009 and Six Months Ended June 30, 2008</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
ITEM 3T. <u>Controls and Procedures</u>	23

PART II. OTHER INFORMATION

ITEM 1. <u>Legal Proceedings</u>	24
ITEM 1A. <u>Risk Factors</u>	24
ITEM 2. <u>Unregistered Sales of Equity Securities</u>	36
ITEM 3. <u>Defaults upon Senior Securities</u>	36
ITEM 4. <u>Submission of Matters to a Vote of Security Holders</u>	36
ITEM 5. <u>Other Information</u>	37
ITEM 6. <u>Exhibits</u>	37

Unless the context requires otherwise, as used in this report, the terms "U.S. Auto Parts," the "Company," "we," "us" and "our" refer to U.S. Auto Parts Network, Inc. and its subsidiaries, and the term "Partsbin" refers to All OEM Parts, Inc., ThePartsBin.com, Inc. and their affiliated companies, which we acquired in May 2006.

U.S. Auto Parts®, and PartsTrain® are our United States registered marks. U.S. Auto Parts Network, Partsbin, Kool-Vue and Auto-Vend are our United States common law trademarks. All other trademarks and trade names appearing in this report are the property of their respective owners.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements that do not relate strictly to historical or current facts, and anticipate results based on management's beliefs and assumptions and on information currently available to management. These statements are forward looking statements for the purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 27A of the Securities Act of 1933 (the Securities Act). In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, may, plans, potential, predicts, projects, should, will, would, will likely continue, will likely result and similar expressions intended to identify forward-looking statements. These forward-looking statements include but are not limited to statements regarding our anticipated sales, revenue, expenses, profits and losses, capital needs, capital deployment, liquidity, contracts, litigation, product offerings, customers, acquisitions, competition and the status of our facilities. Forward-looking statements, no matter where they occur in this document or in other statements attributable to the Company involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in greater detail under the heading Risk Factors in Part II, Item 1A of this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report and the documents that we reference in this report and have filed as exhibits to the report completely and with the understanding that our actual future results may be materially different from what we expect. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****U.S. AUTO PARTS NETWORK, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts and par value)

	July 4, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 32,597	\$ 32,473
Short-term investments	4,096	
Accounts receivable, net	1,864	1,353
Inventory, net	12,185	10,910
Deferred income taxes	2,095	2,095
Other current assets	3,133	2,090
Total current assets	55,970	48,921
Property and equipment, net	9,927	8,203
Intangible assets, net	2,508	3,028
Goodwill	9,772	9,772
Deferred income taxes	12,329	14,061
Investments	5,876	6,351
Other non-current assets	93	94
Total assets	\$ 96,475	\$ 90,430
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 6,090	\$ 5,702
Accrued expenses	8,466	5,663
Capital leases payable, current portion	8	47
Other current liabilities	2,421	1,496
Total current liabilities	16,985	12,908
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized at July 4, 2009 and December 31, 2008; 29,846,757 shares issued and outstanding at July 4, 2009 and December 31, 2008	30	30
Additional paid-in capital	148,366	146,408
Accumulated other comprehensive loss	(28)	(88)
Accumulated deficit	(68,878)	(68,828)
Total stockholders' equity	79,490	77,522

Edgar Filing: U.S. Auto Parts Network, Inc. - Form 10-Q

Total liabilities and stockholders' equity	\$ 96,475	\$ 90,430
--	-----------	-----------

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**U.S. AUTO PARTS NETWORK, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share and per share amounts)

	Thirteen Weeks Ended July 4, 2009	Three Months Ended June 30, 2008	Twenty-Six Weeks Ended July 4, 2009	Six Months Ended June 30, 2008
Net sales	\$ 43,805	\$ 43,105	\$ 83,469	\$ 83,114
Cost of sales	27,937	28,518	52,961	54,777
Gross profit	15,868	14,587	30,508	28,337
Operating expenses:				
Marketing ⁽¹⁾	5,680	6,635	11,015	12,602
General and administrative ⁽¹⁾	4,811	4,588	9,576	9,211
Fulfillment ⁽¹⁾	2,809	2,377	5,461	4,465
Technology ⁽¹⁾	1,343	787	2,271	1,471
Amortization of intangibles and impairment loss	153	20,541	520	22,640
Total operating expenses	14,796	34,928	28,843	50,389
Income (loss) from operations	1,072	(20,341)	1,665	(22,052)
Other income (expense):				
Other income (expense)	(23)	2	(23)	6
Interest income, net	49	234	140	502
Total other income (expense), net	26	236	117	508
Income (loss) before income taxes	1,098	(20,105)	1,782	(21,544)
Income tax provision (benefit)	469	(8,042)	1,832	(8,606)
Net income (loss)	\$ 629	\$ (12,063)	\$ (50)	\$ (12,938)
Basic net income (loss) per share	\$ 0.02	\$ (0.40)	\$ (0.00)	\$ (0.43)
Diluted net income (loss) per share	\$ 0.02	\$ (0.40)	\$ (0.00)	\$ (0.43)
Shares used in computation of basic net income (loss) per share	29,846,757	29,846,757	29,846,757	29,846,757
Shares used in computation of diluted net income (loss) per share	30,395,189	29,846,757	29,846,757	29,846,757

⁽¹⁾ Includes share-based compensation expense as follows:

	Thirteen Weeks Ended July 4, 2009	Three Months Ended June 30, 2008	Twenty-Six Weeks Ended July 4, 2009	Six Months Ended June 30, 2008
Marketing	\$ 110	\$ 112	\$ 216	\$ 196
General and administrative	495	500	1,317	1,003
Fulfillment	57	30	104	63
Technology	158	44	210	56
Total share-based compensation expense	\$ 820	\$ 686	\$ 1,847	\$ 1,318

Edgar Filing: U.S. Auto Parts Network, Inc. - Form 10-Q

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**U.S. AUTO PARTS NETWORK, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Twenty-Six Weeks Ended July 4, 2009	Six Months Ended June 30, 2008
Operating activities		
Net loss	\$ (50)	\$ (12,938)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,153	1,758
Amortization of intangibles	520	4,195
Impairment loss on intangibles		18,445
Share-based compensation expense	1,847	1,318
Deferred income taxes	1,731	(8,452)
Changes in operating assets and liabilities:		
Accounts receivable, net	(511)	472
Inventory, net	(1,274)	(2,651)
Prepaid expense and other current assets	(1,044)	(1,532)
Other non-current assets		(8)
Accounts payable and accrued expenses	3,267	1,321
Other current liabilities	925	19
Net cash provided by operating activities	7,564	1,947
Investing activities		
Additions to property and equipment	(3,862)	(1,975)
Proceeds from sale of marketable securities	475	21,275
Purchases of marketable securities	(4,096)	(5,500)
Net cash (used in) provided by investing activities	(7,483)	13,800
Financing activities		
Payments on notes payable		(1,000)
Payments of short-term financing	(39)	(31)
Net cash used in financing activities	(39)	(1,031)
Effect cash of changes in foreign currencies	82	5
Net increase in cash and cash equivalents	124	14,721
Cash and cash equivalents at beginning of period	32,473	19,399
Cash and cash equivalents at end of period	\$ 32,597	\$ 34,120
Supplemental disclosure of non-cash investing activities:		
Accrued asset purchases	\$ 75	

See accompanying notes to unaudited condensed consolidated financial statements.