

U.S. Auto Parts Network, Inc.  
Form 10-Q  
August 17, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 3, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33264

**U.S. AUTO PARTS NETWORK, INC.**

(Exact name of registrant as specified in its charter)

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**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 16, 2010, the registrant had 30,357,478 shares of common stock, \$0.001 par value, outstanding.

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**U.S. AUTO PARTS NETWORK, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED JULY 3, 2010**

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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.

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

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**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 or 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 (Unaudited)****U.S. AUTO PARTS NETWORK, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts and par value)

	July 3, 2010	January 2, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,197	\$ 26,251
Short-term investments	24,983	11,071
Accounts receivable, net	2,581	3,383
Inventory	26,536	18,610
Deferred income taxes	1,513	1,513
Other current assets	4,013	3,148
Total current assets	74,823	63,976
Property and equipment, net	14,920	12,405
Intangible assets, net	3,870	3,114
Goodwill	9,772	9,772
Deferred income taxes	10,065	10,985
Investments	4,165	4,264
Other non-current assets	435	98
Total assets	\$ 118,050	\$ 104,614
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 17,173	\$ 11,371
Accrued expenses	9,623	8,038
Other current liabilities	3,736	2,518
Total current liabilities	30,532	21,927
Other non-current liabilities	317	
Total liabilities	30,849	21,927
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized at July 3, 2010 and January 2, 2010; 30,336,020 and 29,893,631 shares issued and outstanding at July 3, 2010 and January 2, 2010, respectively	30	30
Additional paid-in capital	152,510	150,084
Accumulated other comprehensive income	163	84
Accumulated deficit	(65,502)	(67,511)
Total stockholders' equity	87,201	82,687

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Total liabilities and stockholders' equity	\$ 118,050	\$ 104,614
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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 3, 2010	Thirteen Weeks Ended July 4, 2009	Twenty-Six Weeks Ended July 3, 2010	Twenty-Six Weeks Ended July 4, 2009
Net sales	\$ 53,188	\$ 43,805	\$ 109,479	\$ 83,469
Cost of sales	34,791	27,937	71,275	52,961
Gross profit	18,397	15,868	38,204	30,508
Operating expenses:				
Marketing <sup>(1)</sup>	7,138	5,680	14,351	11,015
General and administrative <sup>(1)</sup>	6,395	4,811	12,132	9,576
Fulfillment <sup>(1)</sup>	2,924	2,809	6,167	5,461
Technology <sup>(1)</sup>	1,158	1,343	2,176	2,271
Amortization of intangibles	124	153	245	520
Total operating expenses	17,739	14,796	35,071	28,843
Income from operations	658	1,072	3,133	1,665
Other income (expense):				
Other expense	(5)	(23)	(4)	(23)
Interest income, net	34	49	55	140
Total other income, net	29	26	51	117
Income before income taxes	687	1,098	3,184	1,782
Income tax provision	225	469	1,175	1,832
Net income (loss)	\$ 462	\$ 629	\$ 2,009	\$ (50)
Basic net income (loss) per share	\$ 0.02	\$ 0.02	\$ 0.07	\$ (0.00)
Diluted net income (loss) per share	\$ 0.01	\$ 0.02	\$ 0.06	\$ (0.00)
Shares used in computation of basic net income (loss) per share	30,314,478	29,846,757	30,158,797	29,846,757
Shares used in computation of diluted net income (loss) per share	31,994,447	30,395,189	31,723,316	29,846,757

<sup>(1)</sup> Includes share-based compensation expense as follows :

Thirteen Weeks Ended July 3, 2010	Thirteen Weeks Ended July 4, 2009	Twenty-Six Weeks Ended July 3, 2010	Twenty-Six Weeks Ended July 4, 2009
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Marketing	\$	72	\$	110	\$	192	\$	216
General and administrative		452		495		1,000		1,317
Fulfillment		64		57		189		104
Technology		24		158		91		210
Total share-based compensation expense	\$	612	\$	820	\$	1,472	\$	1,847

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)

	<b>Twenty-Six Weeks Ended July 3, 2010</b>	<b>Twenty-Six Weeks Ended July 4, 2009</b>
<b>Operating activities</b>		
Net income (loss)	\$ 2,009	\$ (50)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,934	2,153
Amortization of intangibles	245	520
Share-based compensation expense	1,472	1,847
Excess tax benefits from share-based payment arrangements	(237)	
Deferred taxes	790	1,731
Changes in operating assets and liabilities:		
Accounts receivable, net	802	(511)
Inventory	(7,926)	(1,274)
Other current assets	(865)	(1,044)
Other non-current assets	(81)	
Accounts payable and accrued expenses	7,639	3,267
Other current liabilities	1,218	925
Other non-current liabilities	317	
<b>Net cash provided by operating activities</b>	<b>9,317</b>	<b>7,564</b>