

U.S. Auto Parts Network, Inc.
Form 10-Q
August 06, 2013
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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 June 29, 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: 001-33264

U.S. AUTO PARTS NETWORK, INC.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

16941 Keegan 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.

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 1, 2013, the registrant had 33,218,657 shares of common stock outstanding, \$0.001 par value.

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**U.S. AUTO PARTS NETWORK, INC.
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE THIRTEEN WEEKS ENDED JUNE 29, 2013**

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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, PartsTraffic, Partsbin, Kool-Vue, Auto-Vend, JC Whitney and Stylintrucks, 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

The statements included in this report, other than statements or characterizations of historical or current fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and we intend that such forward-looking statements be subject to the safe harbors created thereby. Any forward-looking statements included herein are based on management s beliefs and assumptions and on information currently available to management. We have attempted to 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 variations of these words or similar expressions. These forward-looking statements include, but are not limited to, statements regarding future events, our future operating and financial results, financial expectations, expected growth and strategies, current business indicators, capital needs, financing plans, 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. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(Unaudited, In Thousands, Except Par and Per Share Liquidation Value)*

| | June 29, 2013 | December 29, 2012 |
|--|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 851 | \$ 1,030 |
| Short-term investments | 118 | 110 |
| Accounts receivable, net of allowances of \$215 and \$221 at June 29, 2013 and December 29, 2012, respectively | 5,344 | 7,431 |
| Inventory | 34,181 | 42,727 |
| Deferred income taxes | 51 | 39 |
| Other current assets | 4,481 | 4,176 |
| Total current assets | 45,026 | 55,513 |
| Property and equipment, net | 21,009 | 28,559 |
| Intangible assets, net | 1,769 | 3,227 |
| Other non-current assets | 1,492 | 1,578 |
| Total assets | \$ 69,296 | \$ 88,877 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 19,611 | \$ 28,025 |
| Accrued expenses | 7,450 | 10,485 |
| Revolving loan payable | 3,269 | 16,222 |
| Current portion of capital leases payable | 148 | 70 |
| Other current liabilities | 3,967 | 4,738 |
| Total current liabilities | 34,445 | 59,540 |
| Capital leases payable, net of current portion | 9,437 | 70 |
| Deferred income taxes | 416 | 314 |
| Other non-current liabilities | 2,152 | 1,309 |
| Total liabilities | 46,450 | 61,233 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Series A convertible preferred stock, \$0.001 par value; \$1.45 per share liquidation value or aggregate of \$6,017; 4,150 shares authorized; 4,150 and 0 shares issued and outstanding at June 29, 2013 and December 29, 2012, respectively | 4 | |
| Common stock, \$0.001 par value; 100,000 shares authorized; 33,209 and 31,128 shares issued and outstanding at June 29, 2013 and December 29, 2012, respectively | 33 | 31 |
| Additional paid-in-capital | 167,924 | 159,781 |

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| | | |
|--|-----------|-----------|
| Accumulated other comprehensive income | 411 | 384 |
| Accumulated deficit | (145,526) | (132,552) |
| Total stockholders' equity | 22,846 | 27,644 |
| Total liabilities and stockholders' equity | \$ 69,296 | \$ 88,877 |

See accompanying notes to consolidated financial statements.

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U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS

(Unaudited, in Thousands, Except Per Share Data)

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|--|----------------------|------------------|------------------------|------------------|
| | June 29, 2013 | June 30, 2012 | June 29, 2013 | June 30, 2012 |
| Net sales | \$ 67,889 | \$ 80,719 | \$ 133,294 | \$ 168,155 |
| Cost of sales ⁽¹⁾ | 48,876 | 56,378 | 94,543 | 117,186 |
| Gross profit | 19,013 | 24,341 | 38,751 | 50,969 |
| Operating expenses: | | | | |
| Marketing | 11,186 | 12,978 | 22,377 | 26,428 |
| General and administrative | 4,678 | 4,714 | 9,365 | 10,584 |
| Fulfillment | 4,991 | 5,639 | 10,372 | 11,557 |
| Technology | 1,316 | 1,700 | 2,831 | 3,236 |
| Amortization of intangible assets | 107 | 341 | 213 | 681 |
| Impairment loss on property and equipment | 4,832 | | 4,832 | |
| Impairment loss on intangible assets | 1,245 | | 1,245 | |
| Total operating expenses | 28,355 | 25,372 | 51,235 | 52,486 |
| Loss from operations | (9,342) | (1,031) | (12,484) | (1,517) |
| Other income (expense): | | | | |
| Other income, net | 72 | 4 | 79 | 35 |
| Interest expense | (228) | (181) | (415) | (390) |
| Loss on debt extinguishment | | (360) | | (360) |
| Total other expense, net | (156) | (537) | (336) | (715) |
| Loss before income taxes | (9,498) | (1,568) | (12,820) | (2,232) |
| Income tax provision | 69 | 128 | 90 | 252 |
| Net loss | (9,567) | (1,696) | (12,910) | (2,484) |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 31 | (3) | 25 | 24 |
| Unrealized gains on investments | 2 | 4 | 2 | 29 |
| Total other comprehensive income | 33 | 1 | 27 | 53 |
| Comprehensive loss | \$ (9,534) | \$ (1,695) | \$ (12,883) | \$ (2,431) |
| Basic and diluted net loss per share | \$ (0.29) | \$ (0.06) | \$ (0.40) | \$ (0.08) |
| Shares used in computation of basic and diluted net loss per share | 33,119 | 30,651 | 32,130 | 30,644 |

(1)

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Excludes depreciation and amortization expense which is included in marketing, general and administrative and fulfillment expense as described in *Note 1 Summary of Significant Accounting Policies and Nature of Operations* below.

See accompanying notes to consolidated financial statements.

Table of Contents**U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Unaudited, In Thousands)*

| | Twenty-Six Weeks Ended | |
|---|-------------------------------|--------------------------|
| | June 29, 2013 | June 30, 2012 |
| Operating activities | | |
| Net loss | \$ (12,910) | \$ (2,484) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 7,264 | 7,748 |
| Amortization of intangible assets | 213 | 681 |
| Impairment loss on property and equipment | 4,832 | |
| Impairment loss on intangible assets | 1,245 | |
| Deferred income taxes | 90 | 253 |
| Share-based compensation expense | 750 | |