

U.S. Auto Parts Network, Inc.
Form 10-Q
November 04, 2014
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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 September 27, 2014

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)

Delaware
(State or other jurisdiction of incorporation or organization)
16941 Keegan Avenue, Carson, CA 90746
(Address of Principal Executive Office) (Zip Code)
(310) 735-0085
(Registrant's telephone number, including area code)

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

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

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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 November 3, 2014, the registrant had 33,564,338 shares of common stock outstanding, \$0.001 par value.

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 QUARTERLY REPORT ON FORM 10-Q
 FOR THE THIRTEEN WEEKS ENDED SEPTEMBER 27, 2014
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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®, AutoMD®, AutoMD Insta-Quotes! ®, Kool-Vue™, 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 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.

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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 Liquidation Value)

	September 27, 2014	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,255	\$818
Short-term investments	39	47
Accounts receivable, net of allowances of \$258 and \$213 at September 27, 2014 and December 28, 2013, respectively	3,958	5,029
Inventory	44,816	36,986
Other current assets	3,052	3,234
Total current assets	53,120	46,114
Property and equipment, net	17,321	19,663
Intangible assets, net	1,822	1,601
Other non-current assets	1,421	1,804
Total assets	\$73,684	\$69,182
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$21,715	\$19,669
Accrued expenses	6,902	5,959
Revolving loan payable	10,869	6,774
Current portion of capital leases payable	209	269
Other current liabilities	3,982	3,682
Total current liabilities	43,677	36,353
Capital leases payable, net of current portion	9,392	9,502
Deferred income taxes	321	335
Other non-current liabilities	1,854	2,126
Total liabilities	55,244	48,316
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 shares issued and outstanding at September 27, 2014 and December 28, 2013	4	4
Common stock, \$0.001 par value; 100,000 shares authorized; 33,542 and 33,352 shares issued and outstanding at September 27, 2014 and December 28, 2013, respectively	34	33
Additional paid-in-capital	170,969	168,693
Common stock dividend distributable	61	60
Accumulated other comprehensive income	395	446
Accumulated deficit	(153,023)	(148,370)
Total stockholders' equity	18,440	20,866
Total liabilities and stockholders' equity	\$73,684	\$69,182

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		Thirty-Nine Weeks Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$67,965	\$61,724	\$212,940	\$195,018
Cost of sales (1)	49,551	43,817	153,405	138,360
Gross profit	18,414	17,907	59,535	56,658
Operating expenses:				
Marketing	10,278	9,385	31,356	31,762
General and administrative	3,762	4,261	12,532	13,626
Fulfillment	5,256	4,217	15,351	14,589
Technology	1,228	1,204	3,640	4,035
Amortization of intangible assets	106	86	316	299
Impairment loss on property and equipment	—	—	—	4,832
Impairment loss on intangible assets	—	—	—	1,245
Total operating expenses	20,630	19,153	63,195	70,388
Loss from operations	(2,216	) (1,246	) (3,660	) (13,730
Other income (expense):				
Other income, net	24	135	39	214
Interest expense	(287	) (287	) (784	) (702
Total other expense, net	(263	) (152	) (745	) (488
Loss before income taxes	(2,479	) (1,398	) (4,405	) (14,218
Income tax provision	15	1	68	91
Net loss	(2,494	) (1,399	) (4,473	) (14,309
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	23	6	19	31
Net unrecognized losses on derivative instruments	(48	) —	(70) —
Unrealized gains on investments	—	2	—	4
Total other comprehensive income (loss)	(25	) 8	(51	) 35
Comprehensive loss	\$(2,519	) \$(1,391	) \$(4,524	) \$(14,274
Basic and diluted net loss per share	\$(0.08	) \$(0.04	) \$(0.14	) \$(0.44
Shares used in computation of basic and diluted net loss per share	33,532	33,218	33,459	32,493

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

See accompanying notes to consolidated financial statements.

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

	Thirty-Nine Weeks Ended	
	September 27, 2014	September 28, 2013
Operating activities		
Net loss	\$(4,473	) \$(14,309
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	6,833	9,736
Amortization of intangible assets	316	299
Impairment loss on property and equipment	—	4,832
Impairment loss on intangible assets	—	1,245
Deferred income taxes	60	109
Share-based compensation expense	1,691	1,065
Stock awards issued for non-employee director service	—	31
Amortization of deferred financing costs	61	61
Gain from disposition of assets	(21	) (39
Changes in operating assets and liabilities:		
Accounts receivable	1,071	2,536
Inventory	(7,830	) 2,550
Other current assets	106	475
Other non-current assets	(9	) 142
Accounts payable and accrued expenses	2,869	(10,303
Other current liabilities	227	(864
Other non-current liabilities	(191	) 515
Net cash provided by (used in) operating activities	710	(1,919
Investing activities		
Additions to property and equipment	(4,292	) (6,679
Proceeds from sale of property and equipment	27	42
Cash paid for intangible assets	(200) —
Purchases of marketable securities and investments	(746	) (4
Proceeds from the sale of marketable securities and investments	745	—
Purchases of company-owned life insurance	—	(106
Net cash used in investing activities	(4,466	) (6,747
Financing activities		
Borrowings from revolving loan payable	14,233	16,667
Payments made on revolving loan payable	(10,138	) (24,590
Proceeds from sale leaseback transaction	—	9,584
Proceeds from issuance of Series A convertible preferred stock	—	6,017
Payment of issuance costs from Series A convertible preferred stock	—	(847
Proceeds from issuance of common stock	—	2,235
Payment of issuance costs from common stock	—	(223
Payments on capital leases	(170	) (126
Proceeds from exercise of stock options	265	22
Net cash provided by financing activities	4,190	8,739
Effect of exchange rate changes on cash	3	(4

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Net change in cash and cash equivalents	437	69
Cash and cash equivalents, beginning of period	818	1,030
Cash and cash equivalents, end of period	\$1,255	\$1,099
Supplemental disclosure of non-cash investing and financing activities:		
Accrued asset purchases	\$801	\$848
Property acquired under capital lease	—	322
Unrealized gain on investments	70	4
Supplemental disclosure of cash flow information:		
Cash received during the period for income taxes	\$34	\$32
Cash paid during the period for interest	(744) (628
See accompanying notes to consolidated financial statements.		

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U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(In Thousands, Except Per Share Data)

Note 1 – Summary of Significant Accounting Policies and Nature of Operations

U.S. Auto Parts Network, Inc. (including its subsidiaries) is a distributor of aftermarket auto parts and accessories and was established in 1995. The Company entered the e-commerce sector by launching its first website in 2000 and currently derives the majority of its revenues from online sales channels. The Company sells its products to individual consumers through a network of websites and online marketplaces. Our flagship websites are located at www.autopartswarehouse.com, www.jcwhitney.com, www.AutoMD.com and our corporate website is located at www.usautoparts.net. References to the “Company,” “we,” “us,” or “our” refer to U.S. Auto Parts Network, Inc. and its consolidated subsidiaries.

The Company’s products consist of body parts, engine parts, performance parts and accessories. The body parts category is primarily comprised of parts for the exterior of an automobile. Our parts in this category are typically replacement parts for original body parts that have been damaged as a result of a collision or through general wear and tear. The majority of these products are sold through our websites. In addition, we sell an extensive line of mirror products, including our own private-label brand called Kool-Vue™, which are marketed and sold as aftermarket replacement parts and as upgrades to existing parts. The engine parts category is comprised of engine components and other mechanical and electrical parts, which are often referred to as hard parts. These parts serve as replacement parts for existing engine parts and are generally used by professionals and do-it-yourselfers for engine and mechanical maintenance and repair. We offer performance versions of many parts sold in each of the above categories.

Performance parts and accessories generally consist of parts that enhance the performance of the automobile, upgrade existing functionality of a specific part or improve the physical appearance or comfort of the automobile.

The Company is a Delaware C corporation and is headquartered in Carson, California. The Company has employees located in the United States of America (or the “United States”), and in the Philippines.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to U.S. Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company as of September 27, 2014 and the consolidated results of operations for the thirteen and thirty-nine weeks ended September 27, 2014 and September 28, 2013, and cash flows for the thirty-nine weeks ended September 27, 2014 and September 28, 2013. The Company’s results of operations for the thirteen and thirty-nine weeks ended September 27, 2014 are not necessarily indicative of those to be expected for the entire fiscal year. The accompanying consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 28, 2013, which was filed with the SEC on March 12, 2014. We refer to our fiscal year ending January 3, 2015 as fiscal year 2014 and our fiscal year ended December 28, 2013 as fiscal year 2013.

During the thirteen and thirty-nine weeks ended September 27, 2014, the Company incurred a net loss of \$2,494 and \$4,473, respectively, compared to a net loss of \$1,399 and \$14,309 during the thirteen and thirty-nine weeks ended September 28, 2013. The Company believes that the increase in net revenues to \$67,965 in the third quarter of 2014 from \$61,724 in the