UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

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	**68-0623433**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

17150 South Margay Avenue, Carson, CA 90746
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (310) 735-0085

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	**The NASDAQ Stock Market LLC (NASDAQ Global Market)**

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 ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ 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 a 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. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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 Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 29, 2007 was approximately $101,502,167 (based on the closing sales price of the registrant's common stock on that date). For the purposes of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 25, 2008, there were 29,846,757 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement for the 2008 Annual Meeting of Stockholders (the "Proxy Statement").

U.S. AUTO PARTS NETWORK, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

TABLE OF CONTENTS

Unless the context requires otherwise, as used in this report, the terms “U.S. Auto Parts,” “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™, U.S. Auto Parts Network®, PartsTrain®, 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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. 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" 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, capital needs, product offerings, competition and the status of our facilities. Forward-looking statements 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 this report in greater detail under the heading "Risk Factors" in 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.

PART I

ITEM 1. BUSINESS

Overview

We are a leading online provider of aftermarket auto parts, including body parts, engine parts, performance parts and accessories. We principally sell our products, identified as stock keeping units ("SKUs"), to individual consumers through our network of websites and online marketplaces. Our user-friendly websites provide customers with a comprehensive selection of approximately 750,000 SKUs with detailed product descriptions and photographs. We have developed a proprietary product database that maps our SKUs to product applications based on vehicle makes, models and years.

Our online sales channel and relationships with suppliers enable us to eliminate several intermediaries in the traditional auto parts supply chain and offer a broad selection of SKUs. Additionally, as an online retailer, we believe greater economies of scale can be achieved than brick and mortar stores.

We were incorporated in 1995 as a distributor of aftermarket auto parts and launched our first website in 2000. Since then, we have continued to expand our online operations, increasing the number of SKUs sold through our e-commerce network, adding additional websites, improving our Internet marketing proficiency, and commencing sales on online marketplaces. In May 2006, we acquired Partsbin, an online retailer focused on selling engine parts and performance parts and accessories. This acquisition significantly expanded our product offerings and enhanced our ability to reach more customers. Our flagship websites are located at *www.partstrain.com* and *www.autopartswarehouse.com*, and our corporate website is located at *www.usautoparts.net*.

Our Products

We offer a broad selection of aftermarket auto parts. We frequently refine our product offering by introducing new merchandise lines and updating the existing product selection to offer a more complete and relevant product line and to remove low-selling or obsolete SKUs. We broadly classify our products into three categories — body parts, engine parts and accessories.

Body Parts. 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. Body parts products are sold either primed or raw, which require additional steps such as priming and painting in order to create a finished product.

Engine 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.

Accessories. The accessories category generally consists of parts designed to increase comfort, improve the physical appearance of the automobile's interior or exterior or enhance a non-essential functionality. Our accessories are often used by our customers to make upgrades to the look and comfort of their automobiles.

Performance Parts. We offer performance versions of many parts sold in each of the above categories. Performance parts generally consist of parts that enhance the performance of the automobile, upgrade existing functionality of a specific part or improve the physical appearance of the automobile.

Our Sales Channels

Our sales channels include the online channel and the wholesale channel.

Online Sales Channel. Our online sales channel consists of our e-commerce channel and online marketplaces. Our e-commerce channel includes a network of e-commerce websites, supported by our call-center sales agents. Our e-commerce channel generated approximately 1.2 million placed orders for the year ended December 31, 2007. We also sell our products through our online marketplaces that provide us with access to additional consumer segments. The majority of our online sales are to individual consumers.

Wholesale Sales Channel. We sell to auto body shops and collision repair shops throughout Southern California via our wholesale sales channel. We also market our Kool-Vue products nationwide to auto parts wholesale distributors.

Our Fulfillment Operations

We fulfill customer orders using two primary methods: (i) stock-and-ship, where we take physical delivery of merchandise and store it in one of our distribution centers until it is shipped to a customer, and (ii) drop-ship, where merchandise is shipped directly to customers from our drop-ship suppliers. We believe that the flexibility of fulfilling orders using two different fulfillment methods allows us to offer a broader product selection, helps optimize product inventory and enhances our overall business profitability.

The selection of fulfillment methodology occurs at the time of order submission. When a customer submits an order, an invoice with an order number is created. Our fulfillment system then performs a check on the ordered item to determine if it is in stock at any of our distribution centers. Fulfillment teams in our distribution centers then process orders for in-stock products. Orders for non-stocked products are sent to our suppliers and processed via drop-ship. In most cases, our proprietary order processing technology allows us to monitor customer orders at each stage of the fulfillment process, from the time the customer places an order until the product is shipped.

Stock-and-Ship Fulfillment. Our stock-and-ship products are sourced primarily from manufacturers and other suppliers located in Asia and in the U.S. and are stored in one of our distribution centers in Carson, California or Clarksville, Tennessee. All products received into our distribution centers are entered into our inventory management systems, allowing us to closely monitor inventory availability. We consider a number of factors in determining which items to stock in our distribution centers, including which products can be purchased at a meaningful discount to domestic prices for similar items, which products have historically sold in high volumes, and which products may be out of stock when we attempt to fulfill via drop-ship.

Drop-Ship Fulfillment. We have developed relationships with several U.S.-based automobile parts distributors that operate their own distribution centers and will deliver products directly to our customers. We have internally developed a proprietary distributor selection system, Auto-Vend™, which allows us to electronically select multiple vendors for a given order. Auto-Vend™ will attempt to first vend an order to one of our warehouses. If the product is not in stock, the Auto-Vend™ will process the order to the next appropriate vendor based on contractual agreements and then service level history.

Suppliers

We source our products from foreign manufacturers and importers located in Taiwan and China, and from U.S. manufacturers and distributors. We typically order stock-and-ship products from our Asian manufacturers and importers, and utilize our U.S. based manufacturers and distributors for our drop-ship orders. We generally place large-volume orders with these suppliers and, as a result, may receive volume discounts on certain ordered products. Our domestic suppliers offer direct-to-customer shipping, allowing us to save on fulfillment costs and offer a broader selection of products. We have developed application programming interfaces with several of these suppliers that allow us to electronically transmit orders and check inventory availability. We are a significant customer for many of our drop-ship vendors and have long standing relationships with many of these suppliers. As a result, we generally enjoy favorable pricing as well as volume rebates, which we believe many of our competitors do not receive.

We have a contract with one of our major suppliers, WORLDPAC, Inc., which has an initial term of two years, and renews automatically, thereafter.

Marketing

Our online marketing efforts are designed to attract visitors to our websites, convert visitors into purchasing customers and encourage repeat purchases among our existing customer base. We use a variety of online marketing methods to attract visitors, including paid search advertising, search engine optimization, affiliate programs, e-mail marketing and inclusion in online shopping engines. To convert visitors into paying customers, we periodically run in-site promotions for discounted purchases. We seek to create cross-selling opportunities by displaying complementary and related products available for sale throughout the purchasing process. We utilize several marketing techniques, including targeted e-mails about specific vehicle promotions, to increase customer awareness of our products.

International Operations

We have established offshore operations in the Philippines and outsourced operations in India. Our offshore and outsourced operations allow us to access a workforce with the necessary technical skills at a significantly lower cost than comparably experienced U.S.-based professionals. Our offshore and outsourced operations are responsible for a majority of our website development, database management, customer service, phone sales, catalog management, and search engine marketing technologies. We currently use a single provider for our outsourced call center operations in India.

In addition to our operations in the Philippines and India, we also have a Canadian subsidiary to facilitate sales of our products in Canada.

Competition

The auto parts industry is competitive and highly fragmented, with products distributed through multi-tiered and overlapping channels. We compete with both online and offline retailers who offer original equipment manufacturer (“OEM”) and aftermarket parts to either the do-it-yourself (“DIY”) or do-it-for-me (“DIFM”) customer segments. Current or potential competitors include the following:

- national auto parts retailers such as Advance Auto Parts, AutoZone, CSK Auto, Napa Auto Parts, O’Reilly Automotive and Pep Boys;
- large online marketplaces such as Amazon.com and sellers on eBay;
- other online retailers;
- local independent retailers or niche auto parts retailers; and
- wholesale auto parts distributors such as LKQ Corporation.

We believe the principal competitive factors in our market are maintaining a proprietary product catalog that maps individual parts to relevant auto applications, broad product selection and availability, price, knowledgeable customer service, and rapid order fulfillment and delivery. We believe we compete favorably on the basis of these factors. However, some of our competitors may be larger, have stronger brand recognition or may have access to greater financial, technical and marketing resources or have been operating longer than we have.

Government Regulation

We are subject to federal and state consumer protection laws, including laws protecting the privacy of customer non-public information and the handling of customer complaints and regulations prohibiting unfair and deceptive trade practices. In addition, since 1998, most states have passed laws that prohibit or limit the use of aftermarket auto parts in collision repair work and/or require enhanced disclosure or vehicle owner consent before using aftermarket auto parts in such repair work. Additional legislation of this kind may be introduced in the future, and the growth and demand for online commerce has and may continue to result in more stringent consumer protection laws that impose additional compliance burdens on online companies. These laws may cover issues such as user privacy, spyware and the tracking of consumer activities, marketing e-mails and communications, other advertising and promotional practices, money transfers, pricing, content and quality of products and services, taxation, electronic contracts and other communications and information security.

There is also great uncertainty over whether or how existing laws governing issues such as property ownership, sales and other taxes, auctions, libel and personal privacy apply to the Internet and commercial online services. These issues may take years to resolve. For example, tax authorities in a number of states, as well as a Congressional advisory commission, are currently reviewing the appropriate tax treatment of companies engaged in online commerce, and new state tax regulations may subject us to additional state sales and income taxes. New legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business or the application of existing laws and regulations to the Internet and commercial online services could result in significant additional taxes or regulatory restrictions on our business. These taxes or restrictions could have an adverse effect on our cash flows and results of operations. Furthermore, there is a possibility that we may be subject to significant fines or other payments for any past failures to comply with these requirements.

Employees

As of December 31, 2007, we had 258 employees in the United States and 490 employees in the Philippines for a total of 748 employees. In addition, we also have approximately 29 people providing call center services to us in India through an outsourced relationship. None of our employees are represented by a labor union, and we have never experienced a work stoppage.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports are available free of charge on the Investor Relations section of our corporate website located at *www.usautoparts.net* as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). The inclusion of our website address in this report does not include or incorporate by reference into this report any information on our website.

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report and in the information incorporated by reference into this report. You should consider carefully the following risks in addition to the other information contained in this report and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K, and amendments thereto, before deciding to buy, sell or hold our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently believe are not important may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected, the value of our common stock could decline and you may lose all or part of your investment.

Purchasers of aftermarket auto parts may not choose to shop online, which would prevent us from acquiring new customers who are necessary to the growth of our business.

The online market for aftermarket auto parts is less developed than the online market for many other business and consumer products. Our success will depend in part on our ability to attract new customers and customers who have historically purchased auto parts through traditional retail and wholesale operations. Furthermore, we may have to incur significantly higher and more sustained advertising and marketing expenditures or may need to price our products more competitively than we currently anticipate in order to attract additional online consumers and convert them into purchasing customers. Specific factors that could prevent prospective customers from purchasing from us include:

- concerns about buying auto parts without face-to-face interaction with sales personnel;
- the inability to physically handle, examine and compare products;
- delivery time associated with Internet orders;
- concerns about the security of online transactions and the privacy of personal information;
- delayed shipments or shipments of incorrect or damaged products;
- increased shipping costs; and
- the inconvenience associated with returning or exchanging items purchased online.

If the online market for auto parts does not gain widespread acceptance, our sales may decline and our business and financial results may suffer.

We depend on search engines and other online sources to attract visitors to our websites, and if we are unable to attract these visitors and convert them into customers in a cost-effective manner, our business and results of operations will be harmed.

Our success depends on our ability to attract online consumers to our websites and convert them into customers in a cost-effective manner. We are significantly dependent upon search engines, shopping comparison sites and other online sources for our website traffic. We are included in search results as a result of both paid search listings, where we purchase specific search terms that will result in the inclusion of our listing, and algorithmic searches that depend upon the searchable content on our sites. Algorithmic listings cannot be purchased and instead are determined and displayed solely by a set of formulas utilized by the search engine. We rely on both algorithmic and purchased listings to attract and direct consumers to our websites. Search engines, shopping comparison sites and other online sources revise their algorithms from time to time in an attempt to optimize their search results. If one or more of the search engines, shopping comparison sites or other online sources on which we rely for website traffic were to modify its general methodology for how it displays or selects our websites, resulting in fewer consumers clicking through to our websites, our financial results could be adversely affected. We operate a multiple website platform that generally allows us to provide multiple search results for a particular algorithmic search. If the search engines were to limit our display results to a single result or entirely eliminate our results from the algorithmic search, our website traffic would significantly decrease and our business would be materially harmed. If any free search engine or shopping comparison site on which we rely begins charging fees for listing or placement, or if one or more of the search engines, shopping comparison sites and other online sources on which we rely for purchased listings, modifies or terminates its relationship with us, our expenses could rise, we could lose customers and traffic to our websites could decrease. In addition, our success in attracting visitors who convert to customers will depend in part upon our ability to identify and purchase relevant search terms, provide relevant content on our sites, and effectively target our other marketing programs such as e-mail campaigns and affiliate programs. If we are unable to attract visitors to our websites and convert them to customers in a cost-effective manner, then our sales may decline and our business and financial results may be harmed.

If we are unable to manage the challenges associated with our international operations, the growth of our business could be limited and our business could suffer.

We maintain business operations in the United States and the Philippines and an outsourced call center in India. These international operations include development and maintenance of our websites, Internet marketing personnel, and sales and customer support services. We also operate a Canadian subsidiary to facilitate sales in Canada. We are subject to a number of risks and challenges that specifically relate to our international operations. Our international operations may not be successful if we are unable to meet and overcome these challenges, which could limit the growth of our business and may have an adverse effect on our business and operating results. These risks and challenges include:

- difficulties and costs of staffing and managing foreign operations;
- restrictions imposed by local labor practices and laws on our business and operations;
- exposure to different business practices and legal standards;
- unexpected changes in regulatory requirements;
- the imposition of government controls and restrictions;
- political, social and economic instability and the risk of war, terrorist activities or other international incidents;
- the failure of telecommunications and connectivity infrastructure;
- natural disasters and public health emergencies;
- potentially adverse tax consequences;
- the failure of local laws to provide a sufficient degree of protection against infringement of our intellectual property; and
- fluctuations in foreign currency exchange rates.

Negative conditions in the global credit markets may impair the liquidity of a portion of our investments portfolio.

Our investment securities consist of high-grade auction rate securities. As of December 31, 2007, our short-term marketable securities were comprised of $22.7 million of high-grade (AAA rated) auction rate securities issued primarily by close end funds that primarily hold debt obligations from municipalities. The recent negative conditions in the global credit markets have prevented some investors from liquidating their holdings, including their holdings of auction rate securities. As of January 31, 2008, we held $24.9 million in auction rate securities. In response to the credit situation, on February 8, 2008, we instructed our investment advisor to liquidate all our investments in close end funds and move these funds into money market investments. Our investment manager successfully liquidated $17.1 million over the next three days in auctions. On February 13, 2008, we were informed that there was insufficient demand at auction for our remaining four of our high-grade auction rate securities, representing approximately $7.8 million. As a result, these affected securities currently are not liquid, and we do not know when we will have access to the capital in these investments. In the event we need to access the funds that are in an illiquid state, we will not be able to do so without a loss of principal or until a future auction on these investments is successful, the securities are redeemed by the issuer or a secondary market emerges. If we cannot readily access these funds, we may be required to borrow funds or issue additional debt or equity securities to meet our capital requirements. At this time, management has not obtained sufficient evidence to conclude that these investments are impaired or that they will not be settled in the short term, although the market for these investments is presently uncertain. If the credit ratings of the security issuers deteriorate and any decline in market value is determined to be other-than-temporary, we would be required to adjust the carrying value of the investment through an impairment charge.

Challenges by OEMs to the validity of aftermarket auto parts industry and claims of intellectual property infringement could adversely affect our business and the viability of the aftermarket auto parts industry.

OEMs have attempted to use claims of intellectual property infringement against manufacturers and distributors of aftermarket auto parts to restrict or eliminate the sale of aftermarket auto parts that are the subject of the claims. We have received in the past, and we anticipate we may in the future receive, communications alleging that certain products we sell infringe third-party patents, copyrights, trademarks and trade names or other intellectual property rights. For example, in December 2005, Ford Global Technologies, LLC filed a complaint with the United States International Trade Commission ("USITC" or the "Commission"), against us and five other named respondents, including four Taiwan-based manufacturers. Ford alleged in this action that we and the other respondents infringed 14 design patents, or the Ford Design Patents (four of which were subsequently dropped from the investigation at Ford's request) that Ford claims cover eight parts for the 2004-2005 Ford F-150 truck. Ford asked the USITC to issue a permanent general exclusion order excluding from entry into the United States all auto parts that infringe the ten Ford design patents and that are imported into the United States, sold for importation in the United States, or sold within the United States after importation. Ford also sought a permanent order directing us and the other respondents to cease and desist from, among other things, selling, marketing, advertising, distributing and offering for sale imported auto parts that infringe the design patents. The administrative law judge issued an initial determination on December 4, 2006 finding three of the ten Ford Design Patents invalid, but upholding the validity and enforceability of the other seven Ford Design Patents. The judge further ruled that the importation of automotive parts allegedly covered by these seven patents violates Section 337 of the Tariff Act of 1930, as amended. This initial determination was subject to review by the USITC but became final upon notice by the USITC in March 2007 of its decision not to review the determination made by the administrative law judge.

On May 1, 2007, we and other respondents petitioned the USITC to reconsider its March 2007 ruling not to review the determination made by the ALJ regarding the seven Ford Design Patents found valid and infringed, in light of the U.S.Supreme Court's April 30, 2007 decision in *KSR International, Inc. v. Teleflex, Inc.* The USITC issued a "Notice of Commission Determination To Waive Reconsideration Rule Deadline And To Extend Target Date" on May 4, 2007. In this Notice, the USITC indicated that it would consider the petition and extended the target date for issuing a final order to June 6, 2007. On June 6, 2007, the USITC denied the petition for reconsideration, terminated its investigation and issued a general exclusion order. The USITC denied Ford's request for a cease and desist order. The general exclusion order prohibits the importation, sale for importation, or sale in the United Stated after importation of aftermarket collision parts that infringe any of Ford's seven design patents previously determined to be valid. The final determination by the USITC was subject to review by the President of the United States, who is authorized to disapprove Commission orders for policy considerations. The mandatory 60-day Presidential review period ended on August 6, 2007 without the President taking any action.

While the portion of the Commission's March 20, 2007 ruling finding a violation of Section 337 did not become final appealable order until the end of the Presidential review period, the Commission's finding of no violation of Section 337 as to the three of Ford's Design Patents held invalid was not subject to Presidential review, and became a final appealable order as of March 20, 2007. Accordingly, on May 18, 2007, Ford filed a Petition For Review at the United States Court of Appeals for the Federal Circuit seeking review and reversal of the portion of the USITC's March 20, 2007 final determination that concluded three of the Ford Design Patents were invalid.

On August 23, 2007, we also appealed to the United States Court of Appeals for the Federal Circuit, seeking a review and reversal of the portion of the USITC's March 20, 2007 final determination finding a violation of Section 337. Ford's Petition for Review and our appeal have been consolidated and are currently pending before the United States Court of Appeals for the Federal Circuit.

To date, our sales of these parts have been minimal, but as the design for the 2004 model is incorporated into later year models of the F-150 and these trucks have been on the road longer, sales of aftermarket replacement parts for these trucks may increase substantially. Furthermore, if Ford continues to pursue, expands or escalates its claims against us, if there is an unfavorable outcome of the pending appeal, or if other OEMs commence similar actions, and any of them are successful in these actions, we could be restricted or prohibited from selling certain aftermarket products and the aftermarket auto parts industry could decline significantly, which could have a material adverse effect on our business, financial condition and results of operations.

Future infringement claims could also result in increased costs of doing business arising from increased legal expenses, adverse judgments or settlements or changes to our business practices required to settle such claims or satisfy any judgments. Litigation could result in interpretations of the law that require us to change our business practices or otherwise increase our costs and harm our business. We do not maintain insurance coverage to cover the types of claims that could be asserted. If a successful claim were brought against us, it could expose us to significant liability.

Our future operating results may fluctuate and may fail to meet market expectations, which could adversely affect the market price of our common stock.

We expect that our revenue and operating results will continue to fluctuate from quarter to quarter due to various factors, many of which are beyond our control. If our quarterly revenue or operating results fall below the expectations of investors or securities analysts, the price of our common stock could significantly decline. In March 2007, our stock price decreased by approximately 45% following our announcement that our financial results for the quarter ended December 31, 2006 did not meet analysts' expectations. Since our initial public offering in February 2007, the sales price per share of our common stock has fluctuated between a high of $12.61 and a low of $2.13. The factors that could cause our operating results to continue to fluctuate include, but are not limited to:

- fluctuations in the demand for aftermarket auto parts;
- price competition on the Internet or among offline retailers for auto parts;
- our ability to attract visitors to our websites and convert those visitors into customers;
- our ability to maintain and expand our supplier and distribution relationships;
- the effects of seasonality on the demand for our products;
- our ability to accurately forecast demand for our products, price our products at market rates and maintain appropriate inventory levels;
- our ability to build and maintain customer loyalty;
- infringement actions that could impact the viability of the auto parts aftermarket, or portions thereof;
- the success of our brand-building and marketing campaigns;
- our ability to accurately project our future revenues, earnings, and results of operations;
- government regulations related to use of the Internet for commerce, including the application of existing tax regulations to Internet commerce and changes in tax regulations;
- technical difficulties, system downtime or Internet brownouts; and
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure.

We are dependent upon relationships with suppliers in Taiwan, China and the United States for the vast majority of our products.

We acquire substantially all of our products from manufacturers and distributors located in Taiwan, China and the United States. Our top ten suppliers represented approximately 59% of our total product purchases during the year ended December 31, 2007. We do not have any long-term contracts or exclusive agreements with our foreign suppliers that would ensure our ability to acquire the types and quantities of products we desire at acceptable prices and in a timely manner. We continue to enter into supply agreements with our U.S. based suppliers and our primary drop-ship vendors. In addition, our ability to acquire products from our suppliers in amounts and on terms acceptable to us is dependent upon a number of factors that could affect our suppliers and which are beyond our control. For example, financial or operational difficulties that some of our suppliers may face could result in an increase in the cost of the products we purchase from them. In addition, the increasing consolidation among auto parts suppliers may disrupt or end our relationship with some suppliers, result in product shortages and/or could lead to less competition and, consequently, higher prices.

In addition, because many of our suppliers are outside of the United States, additional factors could interrupt our relationships or affect our ability to acquire the necessary products on acceptable terms, including:

- political, social and economical instability and the risk of war or other international incidents in Asia or abroad;
- fluctuations in foreign currency exchange rates that may increase our cost of products;
- tariffs and protectionist laws and business practices that favor local businesses;
- difficulties in complying with import and export laws, regulatory requirements and restrictions; and
- natural disasters and public health emergencies.

If we do not maintain our relationships with our existing suppliers or develop relationships with new suppliers on acceptable commercial terms, we may not be able to continue to offer a broad selection of merchandise at competitive prices and, as a result, we could lose customers and our sales could decline.

Two class action lawsuits have been filed against us and certain of our officers and directors and there is an SEC informal inquiry into this matter, which has resulted and may continue to result in significant costs and a diversion of our management's efforts.

We and certain of our officers, directors and underwriters were served with two complaints associated with class action lawsuits alleging violations of federal securities law in connection with our initial public offering. In January 2008, we and the lead plaintiff's counsel reached a non-binding proposed settlement agreement under a memorandum of understanding ("MOU"), which outlines the general terms to be included in the binding agreement. Under the MOU, a settlement payment of $10.0 million will be paid to the lead plaintiff's counsel within thirty days of a court-approved settlement. We will be responsible for $3.8 million of the settlement payment and have included a reserve for this expense in our financial results for the year ended December 31, 2007. We cannot assure you that a court-approved settlement will be obtained, and therefore we could be subject to incur additional significant costs and/or result in the further diversion of the attention of management and other key employees. In August 2007, we also received a letter from the SEC indicating that the SEC had commenced an informal inquiry into the events leading up to our announcement on March 20, 2007 of our financial results for the fourth quarter and year ended December 31, 2006. We intend to fully cooperate with the SEC in this matter and prepared and submitted a response to the SEC in September 2007. The preparation of additional responses in connection with the SEC inquiry and any unfavorable outcome could result in significant costs that could have a material adverse effect on our business.

We face intense competition and operate in an industry with limited barriers to entry, and some of our competitors may have greater resources than us and may be better positioned to capitalize on the growing e-commerce auto parts market.

The auto parts industry is competitive and highly fragmented, with products distributed through multi-tiered and overlapping channels. We compete with both online and offline retailers who offer OEM and aftermarket auto parts to either the DIY or DIFM customer segments. Current or potential competitors include the following:

- national auto parts retailers such as Advance Auto Parts, AutoZone, CSK Auto, Napa Auto Parts, O'Reilly Automotive and Pep Boys;
- large online marketplaces such as Amazon.com and eBay;
- online competitors;

- local independent retailers or niche auto parts online retailers; and
- wholesale auto parts distributors such as LKQ Corporation.

Barriers to entry are low, and current and new competitors can launch websites at a relatively low cost. Many of our current and potential offline competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing, technical, management and other resources than we do. In addition, some of our competitors have used and may continue to use aggressive pricing tactics and devote substantially more financial resources to website and system development than we do. We expect that competition will further intensify in the future as Internet use and online commerce continue to grow worldwide. Increased competition may result in reduced operating margins, reduced profitability, loss of market share and diminished brand recognition.

We would also experience significant competitive pressure if any of our suppliers were to sell their products directly to customers. Since our suppliers have access to merchandise at very low costs, they could sell products at lower prices and maintain higher gross margins on their product sales than we can. In this event, our current and potential customers may decide to purchase directly from these suppliers. Increased competition from any supplier capable of maintaining high sales volumes and acquiring products at lower prices than us could significantly reduce our market share and adversely impact our financial results.

Our integration of Partsbin has been time consuming and expensive, and may not be successful in the long run, if at all.

In May 2006, we completed the acquisition of Partsbin, an online retailer of aftermarket auto parts. As a result of the acquisition, we added 47 employees, and our available SKUs and net sales increased significantly. The acquisition of Partsbin has involved significant costs, has resulted in challenges integrating the diverse technologies used by each company and has placed, and may continue to place, pressures on our operational and financial infrastructure. We cannot assure you that our current cost structure or infrastructure will be adequate for the combined companies. To successfully integrate Partsbin, we need to continue to improve our operational and financial systems, procedures and controls and maintain our cost structure at appropriate levels.

The Partsbin acquisition also expanded our product offerings, particularly in the area of engine parts and performance parts and accessories, and significantly increased our use of drop-ship as a method of fulfillment. We cannot assure you that we can effectively manage this new fulfillment model or address the market for these additional auto parts.

The integration of Partsbin has, and may continue to, involve the consolidation of diverse business cultures and technology infrastructures, require substantial time and expenses, and distract management from other business matters. In addition, this acquisition includes significant intangible assets that are subject to periodic impairment testing which could result in substantial accounting charges. In early 2007, we discovered some integration issues related to the Partsbin acquisition that were largely related to lower than expected order fill rates from drop-ship vendors in the fourth quarter of 2006 and lower pricing levels on our performance parts and accessories product category in the first quarter of 2007, which negatively impacted our gross margins during the second half of 2007. We cannot assure you that we will be able to adequately address these or other integration issues related to this acquisition.

Economic conditions may have an adverse effect on the demand for aftermarket auto parts and could adversely affect our sales and operating results.

We sell aftermarket auto parts consisting of body and engine parts used for repair and maintenance, performance parts used to enhance performance or improve aesthetics and accessories that increase functionality or enhance a vehicle's features. Demand for our products may be adversely affected by general economic conditions. In declining economies, consumers often defer regular vehicle maintenance and may forego purchases of nonessential performance and accessories products, which can result in a decrease in demand for auto parts in general. In expanding economies, consumers may be more likely to purchase new vehicles instead of repairing existing vehicles or they may be less price sensitive, leading to an increase in OEM parts sales at dealerships, either of which could also result in a decline in our sales. If such decreases in demand for our products are not offset by other factors, such as the deferral of new car purchases in declining economies, which may result in more required repairs for older vehicles, or the purchase of performance parts and accessories in expanding economies, our financial condition and results of operations would suffer.

If our product catalog database is stolen, misappropriated or damaged, or if a competitor is able to create a substantially similar catalog without infringing our rights, then we may lose an important competitive advantage.

We have invested significant resources and time to build and maintain our product catalog, which is maintained in the form of an electronic database, and maps SKUs to relevant product applications based on vehicle makes, models and years. We believe that our product catalog provides us with an important competitive advantage in both driving traffic to our websites and converting that traffic to revenue by enabling customers to quickly locate the products they require. We cannot assure you that we will be able to protect our product catalog from unauthorized copying or theft by a third party or that our product catalog will continue to operate adequately, without any technological challenges. In addition, it is possible that a competitor could develop a catalog or database that is similar to or more comprehensive than ours, without infringing our rights. In the event our product catalog is damaged or is stolen, copied or otherwise replicated by a competitor, whether lawfully or not, we may lose an important competitive advantage and our business could be harmed.

We rely on key personnel and may need additional personnel for the success and growth of our business.

Our business is largely dependent on the personal efforts and abilities of key personnel including Shane Evangelist, our Chief Executive Officer and Michael McClane, our Chief Financial Officer, Executive Vice President of Finance, Treasurer and Secretary. Messrs. Evangelist and McClane, as well as any of our other key employees, can terminate their employment relationship with us at any time. We do not maintain key person life insurance on any officer or employee. Our performance also depends on our ability to identify, attract, retain and motivate highly skilled technical, managerial, merchandising, marketing and call center personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such personnel. The loss of any key employee or our inability to attract or retain other qualified employees could harm our business and results of operations.

If our fulfillment operations are interrupted for any significant period of time or are not sufficient to accommodate increased demand, our sales would decline and our reputation could be harmed.

Our success depends on our ability to successfully receive and fulfill orders and to promptly deliver our products to our customers. The majority of orders for our auto body parts products are filled from our inventory in our distribution centers, where all our inventory management, packaging, labeling and product return processes are performed. Increased demand and other considerations may require us to expand our distribution centers or transfer our fulfillment operations to larger facilities in the future.

Our distribution centers are susceptible to damage or interruption from human error, fire, flood, power loss, telecommunications failures, terrorist attacks, acts of war, break-ins, earthquakes and similar events. We do not currently maintain back-up power systems at our fulfillment centers. We do not presently have a formal disaster recovery plan and our business interruption insurance may be insufficient to compensate us for losses that may occur in the event operations at our fulfillment center are interrupted. Any interruptions in our fulfillment operations for any significant period of time, including interruptions resulting from the expansion of our existing facilities or the transfer of operations to a new facility, could damage our reputation and brand and substantially harm our business and results of operations. In addition, if we do not successfully expand our fulfillment capabilities in response to increases in demand, we may not be able to substantially increase our net sales.

We are dependent upon third parties for distribution and fulfillment operations with respect to many of our products.

For a number of the products that we sell, we outsource the distribution and fulfillment operation and are dependent on our distributors to manage inventory, process orders and distribute those products to our customers in a timely manner. For the year ended December 31, 2007, our product purchases from a single supplier represented 10% or more of our total product purchases. If we do not maintain our existing relationships with our distributors on acceptable commercial terms, we will need to obtain other suppliers and may not be able to continue to offer a broad selection of merchandise at competitive prices, and our sales may decrease.

In addition, because we outsource to distributors a number of these traditional retail functions relating to those products, we have limited control over how and when orders are fulfilled. We also have limited control over the products that our distributors purchase or keep in stock. Our distributors may not accurately forecast the products that will be in high demand or they may allocate popular products to other resellers, resulting in the unavailability of certain products for delivery to our customers. Any inability to offer a broad array of products at competitive prices and any failure to deliver those products to our customers in a timely and accurate manner may damage our reputation and brand and could cause us to lose customers.

Our ability to sustain or increase our profitability will suffer if we fail to manage our growth effectively.

In recent years, we have experienced rapid growth that has placed, and may continue to place, pressures on our operational and financial infrastructure. Our workforce has increased from 114 employees as of December 31, 2003 to 748 employees as of December 31, 2007. Our net sales have increased from $31.7 million in 2003 to $161.0 million in 2007. Our recent expansion and planned growth have placed, and are expected to continue to place, a strain on our infrastructure, operations and managerial resources. We intend to further increase the size of our operations, and we expect our operating expenses to increase, as we, among other things:

- expand our domestic and international operations;
- add additional distribution facilities;
- increase our technology and development efforts to enhance and maintain our websites and technology infrastructure;
- hire additional personnel, including customer service specialists, sales and marketing professionals and financial professionals;
- upgrade our operational and financial systems, procedures and controls; and
- address the responsibilities and costs of being a public company, including costs of complying with the Sarbanes-Oxley Act of 2002.

Our success depends upon our ability to manage our operations and our growth effectively. To be successful, we will need to improve our operational and financial systems, procedures and controls, maintain our cost structure at appropriate levels, manage international operations, and hire additional personnel. We cannot assure you that our efforts will be successful or that we can improve our systems, procedures and controls in a timely manner. Delays or problems associated with any improvements or expansion of our systems, procedures and controls could harm our business and operating results. In addition, we may fail to accurately estimate and assess our increased operating expenses as we grow. As our operating expenses increase, we will need to grow our revenue in order to maintain our profitability.

If we fail to offer a broad selection of products at competitive prices to meet our customers' demands, our revenue could decline.

In order to expand our business, we must successfully offer, on a continuous basis, a broad selection of auto parts that meet the needs of our customers. Our auto parts are used by consumers for a variety of purposes, including repair, performance, improved aesthetics and functionality. In addition, to be successful, our product offerings must be broad and deep in scope, competitively priced, well-made, innovative and attractive to a wide range of consumers. We cannot predict with certainty that we will be successful in offering products that meet all of these requirements. If our product offerings fail to satisfy our customers' requirements or respond to changes in customer preferences, our revenue could decline.

Future acquisitions could disrupt our business and harm our financial condition.

As part of our growth strategy, we expect that we will selectively pursue acquisitions of businesses, technologies or services in order to expand our capabilities, enter new markets or increase our market share. Integrating any newly acquired businesses' websites, technologies or services is likely to be expensive and time consuming. For example, our acquisition of Partsbin has resulted in significant costs and a number of challenges, including retaining employees of the acquired company, integrating our order processing and credit processing, integrating our product pricing strategy, and integrating the diverse technologies and differing e-commerce platforms and accounting systems used by each company. If we are unable to successfully complete this integration, we may not realize the synergies from the acquisition, and our business and results of operations could suffer. To finance any future acquisitions, it may also be necessary for us to raise additional capital through public or private financings. Additional funds may not be available on terms that are favorable to us, and, in the case of equity financings, would result in dilution to our stockholders. Future acquisitions by us could also result in large and immediate write-offs, assumption of debt and unforeseen liabilities and significant adverse accounting charges, any of which could substantially harm our business, financial condition and results of operations.

We may be subject to liability for sales and other taxes and penalties, which could have an adverse effect on our business.

We currently collect sales or other similar taxes only on the shipment of goods to the states of California, New Jersey and Tennessee. The U.S. Supreme Court has ruled that vendors whose only connection with customers in a state is by common carrier or the U.S. mail are free from state-imposed duties to collect sales and use taxes in that state. However, states could seek to impose additional income tax obligations or sales tax collection obligations on out-of-state companies such as ours, which engage in or facilitate online commerce, based on their interpretation of existing laws, including the Supreme Court ruling, or specific facts relating to us. If sales tax obligations are successfully imposed upon us by a state or other jurisdiction, we could be exposed to substantial tax liabilities for past sales and penalties and fines for failure to collect sales taxes. We could also suffer decreased sales in that state or jurisdiction as the effective cost of purchasing goods from us increases for those residing in that state or jurisdiction.

In addition, a number of states, as well as the U.S. Congress, have been considering various initiatives that could limit or supersede the Supreme Court's apparent position regarding sales and use taxes on Internet sales. If any of these initiatives are enacted, we could be required to collect sales and use taxes in additional states and our revenue could be adversely affected. Furthermore, the U.S. Congress has not yet extended a moratorium, which was first imposed in 1998 but has since expired, on state and local governments' ability to impose new taxes on Internet access and Internet transactions. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us as well as substantially impair the growth of e-commerce and adversely affect our revenue and profitability. Since our service is available over the Internet in multiple states, these jurisdictions may require us to qualify to do business in these states. If we fail to qualify in a jurisdiction that requires us to do so, we could face liabilities for taxes and penalties.

We could be liable for breaches of security on our websites.

A fundamental requirement for e-commerce is the secure transmission of confidential information over public networks. Anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to mitigate such fraud or breaches may adversely affect our operating results. We may be required to expend significant capital and other resources to protect against potential security breaches or to alleviate problems caused by any breach. We rely on licensed encryption and authentication technology to provide the security and authentication necessary for secure transmission of confidential information, including credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments may result in a compromise or breach of the algorithms that we use to protect customer transaction data. In the event someone circumvents our security measures, it could seriously harm our business and reputation and we could lose customers. Security breaches could also expose us to a risk of loss or litigation and possible liability for failing to secure confidential customer information.

If we do not respond to technological change, our websites could become obsolete and our financial results and conditions could be adversely affected.

We maintain a network of websites which requires substantial development and maintenance efforts, and entails significant technical and business risks. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our websites. The Internet and the e-commerce industry are characterized by rapid technological change, the emergence of new industry standards and practices and changes in customer requirements and preferences. Therefore, we may be required to license emerging technologies, enhance our existing websites, develop new services and technology that address the increasingly sophisticated and varied needs of our current and prospective customers, and adapt to technological advances and emerging industry and regulatory standards and practices in a cost-effective and timely manner. Our ability to remain technologically competitive may require substantial expenditures and lead time and our failure to do so may harm our business and results of operations.

The success of our business depends on the continued growth of the Internet as a retail marketplace and the related expansion of the Internet infrastructure.

Our future success depends upon the continued and widespread acceptance and adoption of the Internet as a vehicle to purchase products. If customers or manufacturers are unwilling to use the Internet to conduct business and exchange information, our business will fail. The commercial acceptance and use of the Internet may not continue to develop at historical rates, or may not develop as quickly as we expect. The growth of the Internet, and in turn the growth of our business, may be inhibited by concerns over privacy and security, including concerns regarding “viruses” and “worms,” reliability issues arising from outages or damage to Internet infrastructure, delays in development or adoption of new standards and protocols to handle the demands of increased Internet activity, decreased accessibility, increased government regulation, and taxation of Internet activity. In addition, our business growth may be adversely affected if the Internet infrastructure does not keep pace with the growing Internet activity and is unable to support the demands placed upon it, or if there is any delay in the development of enabling technologies and performance improvements.

System failures, including failures due to natural disasters or other catastrophic events, could prevent access to our websites, which could reduce our net sales and harm our reputation.

Our sales would decline and we could lose existing or potential customers if they are not able to access our websites or if our websites, transaction processing systems or network infrastructure do not perform to our customers’ satisfaction. Any Internet network interruptions or problems with our websites could:

- prevent customers from accessing our websites;
- reduce our ability to fulfill orders or bill customers;
- reduce the number of products that we sell;
- cause customer dissatisfaction; or
- damage our brand and reputation.

We have experienced brief computer system interruptions in the past, and we believe they will continue to occur from time to time in the future. Our systems and operations are also vulnerable to damage or interruption from a number of sources, including a natural disaster or other catastrophic event such as an earthquake, typhoon, volcanic eruption, fire, flood, terrorist attack, computer viruses, power loss, telecommunications failure, physical and electronic break-ins and other similar events. For example, our headquarters and the majority of our infrastructure, including some of our servers, are located in Southern California, a seismically active region. We also maintain offshore and outsourced operations in the Philippines, an area that has been subjected to a typhoon and a volcanic eruption in the past. In addition, California has in the past experienced power outages as a result of limited electrical power supplies and due to recent fires in the southern part of the state. Such outages, natural disasters and similar events may recur in the future and could disrupt the operation of our business. Our technology infrastructure is also vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. Although the critical portions of our systems are redundant and backup copies are maintained offsite, not all of our systems and data are fully redundant. We do not presently have a formal disaster recovery plan in effect and may not have sufficient insurance for losses that may occur from natural disasters or catastrophic events. Any substantial disruption of our technology infrastructure could cause interruptions or delays in our business and loss of data or render us unable to accept and fulfill customer orders or operate our websites in a timely manner, or at all.

Capacity constraints on our technology infrastructure would harm our business, prospects, results of operations and financial condition.

If the volume of traffic on our websites or the number of purchases made by customers increases substantially, we may need to further expand and upgrade our technology, transaction processing systems and network infrastructure. Capacity constraints can cause unanticipated system disruptions, slower response times, degradation in levels of customer service, impaired quality and delays in reporting accurate financial information.

We may be unable to project accurately the rate or timing of traffic increases or successfully and cost-effectively upgrade our systems and infrastructure in time to accommodate future traffic levels on our websites. Any such upgrades to our systems and infrastructure will require substantial expenditures. In addition, we may be unable to upgrade and expand our transaction processing systems in an effective and timely manner or to integrate any newly developed or purchased functionality with our existing systems. Any inability to efficiently upgrade our systems and infrastructure in a timely manner to account for such growth and integrations may cause unanticipated system disruptions, slower response times, degradation in levels of customer service, impaired quality, delayed order fulfillment, any of which could result in a decline in our sales and harm our reputation.

We depend on third-party delivery services to deliver our products to our customers on a timely and consistent basis, and any deterioration in our relationship with any one of these third parties or increases in the fees that they charge could adversely affect our business and financial condition.

We rely on third parties for the shipment of our products and we cannot be sure that these relationships will continue on terms favorable to us, or at all. Shipping costs have increased from time to time, and may continue to increase, which could harm our business, prospects, financial condition and results of operations by increasing our costs of doing business and resulting in reduced gross margins. In addition, if our relationships with these third parties are terminated or impaired, or if these third parties are unable to deliver products for us, whether through labor shortage, slow down or stoppage, deteriorating financial or business condition, responses to terrorist attacks or for any other reason, we would be required to use alternative carriers for the shipment of products to our customers. Changing carriers could have a negative effect on our business and operating results due to reduced visibility of order status and package tracking and delays in order processing and product delivery, and we may be unable to engage alternative carriers on a timely basis, upon terms favorable to us, or at all.

We face exposure to product liability lawsuits.

The automotive industry in general has been subject to a large number of product liability claims due to the nature of personal injuries that result from car accidents or malfunctions. As a distributor of auto parts, we could be held liable for the injury or damage caused if the products we sell are defective or malfunction. While we carry insurance against product liability claims, if the damages in any given action were high or we were subject to multiple lawsuits, the damages and costs could exceed the limits of our insurance coverage. If we were required to pay substantial damages as a result of these lawsuits, it may seriously harm our business and financial condition. Even defending against unsuccessful claims could cause us to incur significant expenses and result in a diversion of management's attention. In addition, even if the money damages themselves did not cause substantial harm to our business, the damage to our reputation and the brands offered on our websites could adversely affect our future reputation and our brand, and could result in a decline in our net sales and profitability.

If we fail to develop and maintain an effective system of internal control over financial reporting or are not able to adequately address certain identified material weaknesses in our system of internal controls or comply with Section 404 of the Sarbanes-Oxley Act of 2002, we may not be able to accurately report our financial results or prevent fraud, and our stock price could decline.

Management has identified a material weakness in our financial statement close process and contributing deficiencies in our information technology general controls and has concluded that our internal control over financial reporting were not effective as of December 31, 2007. If we fail to adequately address this material weakness, we may not be able to improve our system of internal control over financial reporting to comply with the reporting requirements applicable to public companies in the United States. Furthermore, because we have not completed the testing of the operation of our internal controls, it is possible that we or our auditors will identify additional material weaknesses or significant deficiencies in the future in our system of internal control over financial reporting. Our failure to address any deficiencies or weaknesses in our internal control over financial reporting or to properly maintain an effective system of internal control over financial reporting could impact our ability to prevent fraud or to issue our financial statements in a timely manner that presents fairly our financial condition and results of operations. The existence of any such deficiencies or weaknesses, even if cured, may also lead to the loss of investor confidence in the reliability of our financial statements, could harm our business and negatively impact the trading price of our common stock. Such deficiencies or material weaknesses may also subject us to lawsuits, investigations and other penalties.

In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting beginning with this Annual Report on Form 10-K for the year ended December 31, 2007, and have our independent auditors attest to our evaluation, beginning with our Annual Report on Form 10-K for the year ending December 31, 2008. While we have prepared an internal plan of action for compliance with Section 404 and for strengthening and testing our system of internal control to provide the basis for our report and the attestation report by our independent auditing firm, we cannot assure you that this plan of action will be sufficient to meet the rigorous requirements of Section 404, and our independent auditors may issue an adverse opinion regarding management's assessment of Section 404 compliance. Our failure to comply with Section 404 or our reporting requirements would reduce investors' confidence in our financial statements and harm our stock price and could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from the NASDAQ Global Market and the inability of registered broker/dealers to make a market in our common stock, which could also cause our stock price to decline.

Existing or future government regulation could expose us to liabilities and costly changes in our business operations and could reduce customer demand for our products and services.

We are subject to federal and state consumer protection laws and regulations, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices, as well as laws and regulations governing businesses in general and the Internet and e-commerce. Additional laws and regulations may be adopted with respect to the Internet, the effect of which on e-commerce is uncertain. These laws may cover issues such as user privacy, spyware and the tracking of consumer activities, marketing e-mails and communications, other advertising and promotional practices, money transfers, pricing, content and quality of products and services, taxation, electronic contracts and other communications, intellectual property rights, and information security. Furthermore, it is not clear how existing laws such as those governing issues such as property ownership, sales and other taxes, trespass, data mining and collection, and personal privacy apply to the Internet and e-commerce. To the extent we expand into international markets, we will be faced with complying with local laws and regulations, some of which may be materially different than U.S. laws and regulations. Any such foreign law or regulation, any new U.S. law or regulation, or the interpretation or application of existing laws and regulations to the Internet or other online services, may have a material adverse effect on our business, prospects, financial condition and results of operations by, among other things, impeding the growth of the Internet, subjecting us to fines, penalties, damages or other liabilities, requiring costly changes in our business operations and practices, and reducing customer demand for our products and services. We do not maintain insurance coverage to cover the types of claims or liabilities that could arise as a result of such regulation.

If we are unable to protect our intellectual property rights, our reputation and brand could be impaired and we could lose customers.

We regard our trademarks, trade secrets and similar intellectual property as important to our success. We rely on trademark and copyright law, and trade secret protection, and confidentiality and/or license agreements with employees, customers, partners and others to protect our proprietary rights. We cannot be certain that we have taken adequate steps to protect our proprietary rights, especially in countries where the laws may not protect our rights as fully as in the United States. In addition, third parties may infringe or misappropriate our proprietary rights, and we could be required to incur significant expenses to preserve them. We have common law trademarks, as well as pending federal trademark registrations for several marks and one registered mark. Even if we obtain approval of such pending registrations, the resulting registrations may not adequately cover our inventions or protect us against infringement by others. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our products and services may be made available online. We also currently own or control a number of Internet domain names, including *www.usautoparts.net*, *www.partstrain.com* and *www.autopartswarehouse.com*. We may be unable to protect these domain names or acquire or maintain relevant domain names in the United States and in other countries. If we are not able to protect our trademarks, domain names or other intellectual property, we may experience difficulties in achieving and maintaining brand recognition and customer loyalty.

Our e-commerce system is dependent on open-source software, which exposes us to uncertainty and potential liability.

We utilize open-source software such as Linux, Apache, MySQL, PHP, Fedora and Perl throughout our web properties and supporting infrastructure. Open-source software is maintained and upgraded by a general community of software developers under various open-source licenses, including the GNU General Public License (“GPL”). These developers are under no obligation to maintain, enhance or provide any fixes or updates to this software in the future. Additionally, under the terms of the GPL and other open-source licenses, we may be forced to release to the public source-code internally developed by us pursuant to such licenses. Furthermore, if any of these developers contribute any code of others to any of the software that we use, we may be exposed to claims and liability for intellectual property infringement. A number of lawsuits are currently pending against third parties over the ownership rights to the various components within some open-source software that we use. If the outcome of these lawsuits is unfavorable, we may be held liable for intellectual property infringement based on our use of these open-source software components. We may also be forced to implement changes to the code-base for this software or replace this software with internally developed or commercially licensed software.

We rely on bandwidth and data center providers and other third parties to provide products to our customers, and any failure or interruption in the services provided by these third parties could disrupt our business and cause us to lose customers.

We rely on third-party vendors, including data center and bandwidth providers. Any disruption in the network access or co-location services, which are the services that house and provide Internet access to our servers, provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business, the nature and extent of which we cannot predict. We exercise little control over these third-party vendors, which increases our vulnerability to problems with the services they provide. We also license technology and related databases from third parties to facilitate elements of our e-commerce platform. We have experienced and expect to continue to experience interruptions and delays in service and availability for these elements. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies could negatively impact our relationship with our customers and adversely affect our business.

Our systems also heavily depend on the availability of electricity, which also comes from third-party providers. If we were to experience a major power outage, we would have to rely on back-up generators. These back-up generators may not operate properly through a major power outage, and their fuel supply could also be inadequate during a major power outage. Information systems such as ours may be disrupted by even brief power outages, or by the fluctuations in power resulting from switches to and from backup generators. This could disrupt our business and cause us to lose customers.

The United States government may substantially increase border controls and impose restrictions on cross-border commerce that may substantially harm our business.

We purchase a substantial portion of our products from foreign manufacturers and other suppliers who source products internationally. Restrictions on shipping goods into the United States from other countries pose a substantial risk to our business. Particularly since the terrorist attacks on September 11, 2001, the United States government has substantially increased border surveillance and controls. If the United States were to impose further border controls and restrictions, impose quotas, tariffs or import duties, increase the documentation requirements applicable to cross border shipments or take other actions that have the effect of restricting the flow of goods from other countries to the United States, we may have greater difficulty acquiring our inventory in a timely manner, experience shipping delays, or incur increased costs and expenses, all of which would substantially harm our business and results of operations.

Our stock price has been and may continue to be volatile, which may result in losses to our stockholders.

The market prices of technology and e-commerce companies generally have been extremely volatile and have recently experienced sharp share price and trading volume changes. The trading price of our common stock is likely to be volatile and could fluctuate widely in response to, among other things, the risk factors described in this report and other factors beyond our control such as fluctuations in the operations or valuations of companies perceived by investors to be comparable to us, our ability to meet analysts' expectations, or conditions or trends in the Internet or auto parts industries.

Since the completion of our initial public offering in February 2007, the trading price of our common stock has been volatile, declining from a high of $12.61 per share to a low per share of $2.13. We have also experienced significant fluctuations in the trading volume of our common stock. General economic and political conditions unrelated to our performance may also adversely affect the price of our common stock. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been initiated. In March 2007, we and certain of our officers, directors and the underwriters for our initial public offering were served with two putative class action complaints alleging violations of federal securities law in connection with our initial public offering. These complaints were subsequently consolidated. In January 2008, the parties to the litigation reached an agreement to settle in principle, subject to confirmatory discovery, finalization of settlement document and Court approval. If the settlement is not consummated, the litigation would continue. Due to the inherent uncertainties of litigation, we cannot predict the ultimate outcome of the litigation if it were to continue. An unfavorable result could have a material adverse effect on our financial condition and results of operation.

The SEC's informal inquiry in this regard is still pending and any negative development in that inquire may adversely impact our stock price in the future.

Our executive officers and directors own a significant percentage of our stock.

As of December 31, 2007, our executive officers and directors and entities that are affiliated with them beneficially owned approximately 51.5% of our outstanding shares of common stock. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, these stockholders, acting together, will be able to control our management and affairs and matters requiring stockholder approval including the election of our entire board of directors and certain significant corporate actions such as mergers, consolidations or the sale of substantially all of our assets. As a result, this concentration of ownership could delay, defer or prevent others from initiating a potential merger, takeover or other change in our control, even if these actions would benefit our other stockholders and us.

A large number of additional shares may be sold into the public market in the near future, which may cause the market price of our common stock to decline significantly, even if our business is doing well.

Sales of a substantial amount of common stock in the public market, or the perception that these sales may occur, could adversely affect the market price of our common stock. Approximately 18 million shares of our common stock that were outstanding as of March 24, 2008 may be resold in the public market immediately. The remaining shares of our outstanding common stock are subject to lock-up agreements with us but will also become available for resale in the public market in August 2008. We can waive the lock-up restriction and allow these stockholders to sell their shares at any time, subject to applicable securities law and other limitations. As restrictions on resale end, the market price could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them.

We will incur increased costs and compliance risks as a result of being a public company.

We completed our initial public offering in February 2007. As a public company, we have and expect to continue to incur significant legal, accounting and other expenses that we did not incur as a private company. These expenses are associated with our public company reporting requirements and certain corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and the new rules implemented by the SEC and the NASDAQ Stock Market. Compliance with these rules and regulations, in particular Section 404 of the Sarbanes-Oxley Act of 2002, has increased, and is expected to continue to substantially increase our legal and financial compliance costs and will likely require us to hire additional personnel and/or consultants. Like many smaller public companies, we expect to face a significant impact from required compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The process of strengthening our internal control and complying with Section 404 is expected to be expensive and time consuming, and will require significant time and attention from our management team. We continue to evaluate and monitor developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

We also expect these new rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

We do not intend to pay dividends on our common stock.

We currently intend to retain any future earnings and do not expect to pay any cash dividends on our capital stock for the foreseeable future.

Our charter documents could deter a takeover effort, which could inhibit your ability to receive an acquisition premium for your shares.

Provisions in our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. Such provisions include the following:

- our board of directors are authorized, without prior stockholder approval, to create and issue preferred stock which could be used to implement anti-takeover devices;
- advance notice is required for director nominations or for proposals that can be acted upon at stockholder meetings;
- our board of directors is classified such that not all members of our board are elected at one time, which may make it more difficult for a person who acquires control of a majority of our outstanding voting stock to replace all or a majority of our directors;

- stockholder action by written consent is prohibited except with regards to an action that has been approved by the board;
- special meetings of the stockholders are permitted to be called only by the chairman of our board of directors, our chief executive officer or by a majority of our board of directors;
- stockholders are not be permitted to cumulate their votes for the election of directors; and
- stockholders are permitted to amend certain provisions of our bylaws only upon receiving at least 66 2/3% of the votes entitled to be cast by holders of all outstanding shares then entitled to vote generally in the election of directors, voting together as a single class.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and primary distribution centers are located in Carson, California in approximately 153,000 square feet of office and warehouse space. We have a 6,000 square foot Trenton, New Jersey office and another 10,000 square foot distribution center in Nashville, Tennessee. We lease approximately 31,000 square feet of office space in the Philippines for our employees located in that country. We lease all of our facilities under leases which expire between August 31, 2008 and September 18, 2010. For additional information regarding our obligations under property leases, see Note 11 of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the caption "Legal Matters" in Note 11 and under the caption "Securities Litigation Settlement in Principle" in Note 15 of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see the section entitled "Risk Factors" in Item 1A of this report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock commenced trading on the NASDAQ Global Market on February 9, 2007 under the symbol "PRTS." Prior to such time, there was no public market for our common stock. The table below sets forth the high and low sales prices of our common stock for the periods indicated:

	High	Low
Quarter ended March 31, 2007 (commencing at IPO on February 9, 2007)	$12.61	$5.07
Quarter ended June 30, 2007	$ 9.62	$5.34
Quarter ended September 30, 2007	$ 9.93	$7.02
Quarter ended December 31, 2007	$ 9.36	$6.75

On March 25, 2008, the last reported sale price of our common stock on the NASDAQ Global Market was $3.06 per share.

[Table of Contents](#)

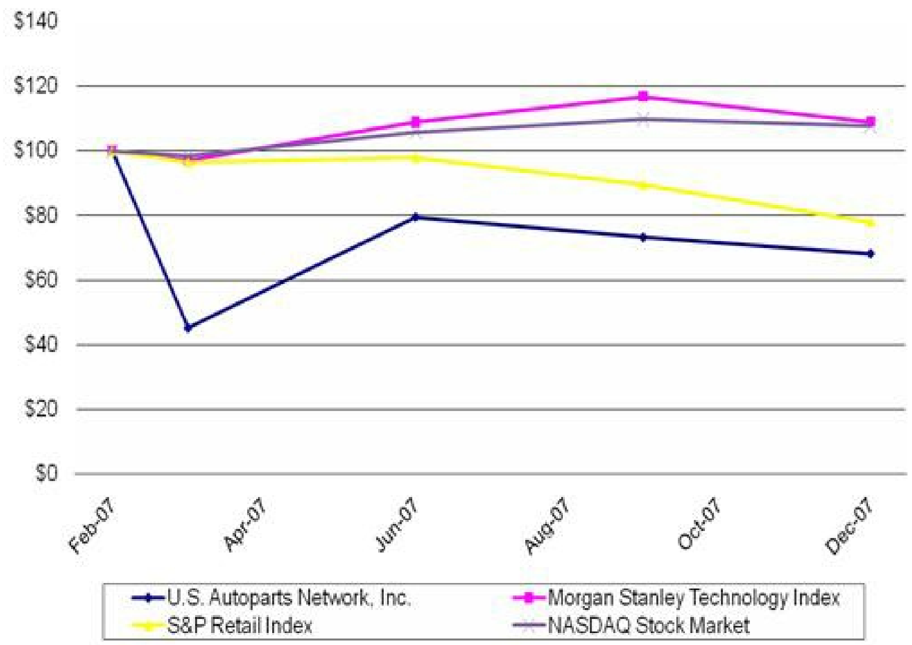
Holders

As of March 25, 2008, there were approximately 584 holders of record of our common stock. This figure does not reflect persons or entities that hold their stock in nominee or "street" name through various brokerage firms.

Stock Performance Graph

The material in this section is not "soliciting material," is not deemed "filed" with the SEC, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The following graph shows a comparison of the total cumulative returns of an investment of $100 in cash on February 9, 2007, the first trading day following our initial public offering in (i) our common stock, (ii) the S&P 500 Retail Index, (iii) Morgan Stanley Technology Index and (iv) NASDAQ Composite Index, in each case through December 31, 2007. The comparisons in the graph are required by the SEC and are not intended to forecast or be indicative of the possible future performance of our common stock. The graph assumes that all dividends have been reinvested (to date, we have not declared dividends).



Dividend Policy

Concurrently with our recapitalization and termination of our S corporation status in March 2006, we paid a cash distribution to our stockholders in an aggregate amount of $51.7 million, which included our final S corporation distribution in the amount of $1.7 million. We currently intend to retain any future earnings to finance the growth and development of our business, and we do not anticipate that we will declare or pay any cash dividends on our common stock in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements, restrictions under any existing indebtedness and other factors the board of directors deems relevant. Our bank loan documents also prohibit us from paying any cash dividends on our common stock without the prior written consent of our lender.

Sales of Unregistered Securities

In October 2007, we granted options to purchase an aggregate of 1,000,000 shares of our common stock to our new Chief Executive Officer under our 2007 New Employee Incentive Plan at an exercise price of $8.65 per share, prior to the registration of such shares on a registration statement on Form S-8. The issuance of these securities were effected without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on Section 4(2) thereof, or Rule 506 of Regulation D thereunder based on the status of the recipient of the securities as an accredited investor as defined under the Securities Act.

Use of Proceeds from Sales of Registered Securities

On February 14, 2007, we completed the initial public offering of our common stock, pursuant to which we sold 8,000,000 shares of our common stock and the selling stockholders sold an aggregate of 3,500,000 shares of our common stock (which included 1,500,000 shares sold by the selling stockholders pursuant to the exercise of the underwriters' over-allotment option) at the initial public offering price of $10.00 per share. The shares of common stock sold in the offering were registered under the Securities Act on a registration statement on Form S-1 (File. No. 333-138379) that was declared effective by the SEC on February 8, 2007. RBC Capital Markets Corporation, Thomas Weisel Partners LLC, Piper Jaffray & Co. and JMP Securities LLC were the co-managing underwriters for the offering.

The aggregate purchase price of the shares sold by us in the offering was $80.0 million. The aggregate purchase price of the shares sold by the selling stockholders was $35.0 million. We and the selling stockholders paid to the underwriters underwriting discounts and commissions totaling $5.6 million and $2.5 million, respectively, in connection with the offering. In addition, we incurred additional expenses of approximately $2.9 million in connection with the offering. After deducting the underwriting discounts and commissions and offering expenses, we received net proceeds from the offering of approximately $71.5 million. We did not receive any proceeds from the sale of shares by the selling stockholders.

Approximately $28.0 million of the net proceeds from the offering was used to repay our outstanding indebtedness under two term loans for approximately $18.0 million and $10.0 million, payable to our commercial lender. In addition, $4.0 million of the net proceeds from the offering has been paid on the notes payable to the former stockholders of Partsbin. Except for the payment of such debt, none of the net proceeds from the offering were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliate, other than in the form of wages or salaries and bonuses paid out in the ordinary course of business. The remaining net proceeds from the offering have been invested in investment-grade securities and cash equivalents. We will retain broad discretion over the use of the net proceeds received from our initial public offering. The amount and timing of our actual expenditures may vary significantly depending on a number of factors, including the growth of our sales and customer base, the type of efforts we make to build our brand and invest in our business.

Purchases of Equity Securities by the Issuer and Affiliated Purchaser

We did not repurchase any of our outstanding equity securities during the most recent quarter covered by this report.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial information as of and for the dates and periods indicated have been derived from our audited consolidated financial statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this report and our consolidated financial statements and related notes included elsewhere in this report.

	Years Ended December 31,				
	2003	2004	2005	2006(1)	2007
	(in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Net sales	$ 31,657	$ 40,658	$ 59,698	$ 120,060	$ 160,957
Cost of sales	17,814	21,334	34,829	78,573	107,132
Gross profit	13,843	19,324	24,869	41,487	53,825
Operating expenses:					
General and administrative	2,284	3,599	7,254	9,594	18,587(2)
Marketing	3,617	4,526	5,802	15,102	21,551
Fulfillment	3,246	2,990	4,357	4,963	7,557
Technology	405	776	868	1,332	1,987
Amortization of intangibles	—	8	17	5,092	8,350
Total operating expenses	9,552	11,899	18,298	36,083	58,032
Income (loss) from operations	4,291	7,425	6,571	5,404	(4,207)
Other income (expense), net	(42)	36	85	(1,358)	1,148
Income (loss) before income taxes	4,249	7,461	6,656	4,046	(3,059)
Income tax provision (benefit)	478	328	(163)	550	538
Net income (loss)	$ 3,771	$ 7,133	$ 6,819	$ 3,496	$ (3,597)
Basic net income (loss) per share	$ 0.33	$ 0.54	$ 0.52	$ 0.24	$ (0.13)
Diluted net income (loss) per share	$ 0.33	$ 0.54	$ 0.52	$ 0.17	$ (0.13)
Shares used in computation of basic net income (loss) per share	11,276,876	13,200,000	13,200,000	14,437,657	28,274,022
Shares used in computation of diluted net income (loss) per share	11,276,876	13,200,000	13,200,000	19,990,431	28,274,022

(1) 2006 includes the results of Partsbin, which was acquired in May 2006, and is not reflected in prior periods.

(2) Includes a reserve of $4.5 million for the securities litigation settlement fee and associated expenses.

	December 31,				
	2003	2004	2005	2006	2007
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$2,117	$ 2,130	$ 1,353	$ 2,381	$ 19,399
Working capital (deficit)	3,391	1,662	3,273	(11,213)	40,421
Total assets	8,289	13,111	14,484	69,910	110,056
Notes payable to stockholders	—	—	—	5,000	1,000
Long-term debt (excluding notes payable to stockholders and current portion)	80	83	357	20,786	48
Stockholders' equity	4,543	5,960	5,239	20,612	91,643

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in Part IV, Item 15 of this report. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under the section entitled "Risk Factors" in Item 1A and elsewhere in this report, our actual results may differ materially from those anticipated in these forward-looking statements.

We are a leading online provider of aftermarket auto parts, including body parts, engine parts and performance parts and accessories. Our user-friendly websites provide customers with a broad selection of SKUs, with detailed product descriptions and photographs. Our proprietary product database maps our SKUs to product applications based on vehicle makes, models and years. We principally sell our products to individual consumers through our network of websites and online marketplaces. Our flagship websites are located at *www.partstrain.com* and *www.autopartswarehouse.com*. We believe our strategy of disintermediating the traditional auto parts supply chain and selling products directly to customers over the Internet allows us to more efficiently deliver products to our customers while generating higher margins.

Our History. We were formed in 1995 as a distributor of aftermarket auto parts and launched our first website in 2000. We rapidly expanded our online operations, increasing the number of SKUs sold through our e-commerce network, adding additional websites, improving our Internet marketing proficiency and commencing sales in online marketplaces. As a result, our business has grown since 2000, generating net sales of $161.0 million for the year ended December 31, 2007.

Partsbin Acquisition. In May 2006, we completed the acquisition of Partsbin. As a result of this acquisition, we expanded our product offering and product catalog to include performance parts and accessories and additional engine parts, enhanced our ability to reach more customers, significantly increased our net sales and added a complementary, drop-ship order fulfillment method. Partsbin also expanded our international operations by adding a call center in the Philippines and an outsourced call center in India, as well as a Canadian subsidiary to facilitate sales in Canada. We also augmented our technology platform and expanded our management team. The purchase price for Partsbin consisted of $25.0 million in cash, promissory notes in the aggregate principal amount of $5.0 million payable to the former stockholders of Partsbin and 1,983,315 shares of our common stock. We continue to integrate Partsbin, and we may pursue additional acquisition opportunities in the future to increase our share of the aftermarket auto parts market or expand our product offerings.

International Operations. In April 2007, we entered into a purchase agreement to bring in-house certain sales and customer service employees based in the Philippines who were providing support to us through our outsourced call center provider, Access Worldwide. Under the terms of this purchase agreement, approximately 182 employees of Access Worldwide were given the opportunity to become employees of our Philippines subsidiary and join our existing direct employees in the Philippines. As of the closing of this transaction, approximately 171 of the Access employees had agreed to transition over to direct employment by our Philippines subsidiary. The purchase price for the right to acquire this assembled workforce was approximately $1.7 million. In addition to our Philippines operations, we have outsourced call center operations in India and own a Canadian subsidiary to facilitate sales of our products in Canada. We believe that the cost advantages of our offshore operations provide us with the ability to grow our business in a cost-effective manner, and we expect to continue to add headcount and infrastructure to our offshore operations.

New Chief Executive Officer. Shane Evangelist succeeds Mehran Nia, who served as our President and Chief Executive Officer since founding U.S. Auto Parts in 1995 until October 2007. Mr. Nia continues to serve on our Board of Directors and is working with Mr. Evangelist to facilitate an orderly transition of his responsibilities. Prior to joining us, Mr. Evangelist served as Senior Vice President and General Manager of BLOCKBUSTER Online where he was responsible for leading the creation, development and launch of Blockbuster Inc.'s online movie rental service.

Basis of Presentation

Net Sales. E-commerce, online marketplaces and wholesale sales represent different sales channels for our products. We generate net sales primarily through the sale of auto parts to individual consumers through our network of e-commerce websites and online marketplaces. E-commerce sales are derived from our network of websites, which are company owned and operated. E-commerce and online marketplace sales also include inbound telephone sales through our call center that supports these sales channels. Online marketplaces consist primarily of sales of our products on online auction websites, where we sell through auctions as well as through storefronts that we maintain on these third-party owned websites. Our wholesale channel represents our distribution of products directly to commercial customers by selling auto parts to auto body shops and collision repair shops located in Southern California. Our wholesale channel also includes the distribution of our Kool-Vue mirror line to auto parts distributors nationwide. To understand revenue generation through our network of e-commerce websites, we monitor several key business metrics, including the following:

- *Unique Visitors.* A unique visitor to a particular website represents a user with a distinct IP address that visits that particular website. We define the total number of unique visitors in a given month as the sum of unique visitors to each of our websites during that month. We measure unique visitors to understand the volume of traffic to our websites and to track the effectiveness of our online marketing efforts. The number of unique visitors has historically varied based on a number of factors, including our marketing activities and seasonality. We believe an increase in unique visitors to our websites will result in an increase in the number of orders. We seek to increase the number of unique visitors to our websites by attracting repeat customers and improving search engine marketing and other Internet marketing activities.
- *Total Number of Orders.* We closely monitor the total number of orders as an indicator of revenue trends. We recognize revenue associated with an order when the products have been shipped, consistent with our revenue recognition policy discussed in "Critical Accounting Policies" below.
- *Average Order Value.* Average order value represents our gross sales on a placed orders basis for a given period of time divided by the total number of orders recorded during the same period of time. We seek to increase the average order value as a means of increasing net sales. Average order values vary depending upon a number of factors, including the components of our product offering, the order volume in certain online sales channels and the general level of competition online.

Cost of Sales. Cost of sales consists of the direct costs associated with procuring parts from suppliers and delivering products to customers. These costs include product costs offset by purchase discounts, freight and shipping costs and warehouse supplies.

General and Administrative Expense. General and administrative expense consists primarily of administrative payroll and related expenses, payment processing fees, legal and professional fees, amortization of software and other administrative costs.

Marketing Expense. Marketing expense consists of online advertising spend, Internet commerce facilitator fees and other advertising costs, as well as payroll and related expenses associated with our marketing catalog customer service, and sales personnel. These costs are generally variable and are typically a function of net sales.

Fulfillment Expense. Fulfillment expense consists primarily of payroll and related costs associated with our warehouse employees and our purchasing group, facility rent, building maintenance, depreciation and other costs associated with inventory management and our wholesale operations.

Technology Expense. Technology expense consists primarily of payroll and related expenses of our information technology personnel, the cost of hosting our servers, communications expenses and Internet connectivity costs, computer support and software development.

Amortization of Intangibles. Amortization of intangibles consists primarily of the amortization expense associated with certain intangibles recorded as a result of the Partsbin acquisition, in addition to the amortization expense of our capitalized domain names.

Other Income (Expense), Net. Other income (expense), net consists primarily of interest expense on our outstanding loan balances and capital leases.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales, costs and expenses, as well as the disclosure of contingent assets and liabilities and other related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of our assets and liabilities that are not readily apparent from other sources. In many instances, we could have reasonably used different accounting estimates. Actual results could differ from those estimates, and we include any revisions to our estimates in our results for the period in which the actual amounts become known.

We believe the critical accounting policies described below affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our historical consolidated financial condition and results of operations:

Revenue Recognition. We recognize revenue from product sales when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred (to the common carrier), the selling price is fixed or determinable and collectability is reasonably assured.

We evaluate the criteria of EITF 99-19, "*Reporting Revenue Gross as a Principal Versus Net as an Agent* ," in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When we are the primary party obligated in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers or have several but not all of these indicators, revenue is recorded gross.

Product sales and shipping revenues, net of promotional discounts and return allowances, are recorded when the products are shipped and title passes to customers. Retail items sold to customers are made pursuant to terms and conditions that provide for transfer of both title and risk of loss upon our delivery to the carrier. Return allowances, which reduce product revenue by our best estimate of expected product returns, are estimated using historical experience. We generally require payment by credit card at the point of sale. Amounts received prior to when we ship goods to customers are recorded as deferred revenue.

We periodically provide incentive offers to our customers to encourage purchases. Such offers include current discount offers, such as percentage discounts off of current purchases and other similar offers. Current discount offers, when accepted by our customers, are treated as a reduction to the purchase price of the related transaction. Current discount offers and inducement offers are classified as an offsetting amount in net sales.

Inventory. Inventory consists of finished goods available-for-sale and is stated at the lower of cost or market value, determined using the first in, first out ("FIFO") method. We purchase inventory from suppliers both domestically and internationally, primarily in Taiwan and China. We believe that our products are generally available from more than one supplier, and we maintain multiple sources for many of our products, both internationally and domestically. We offer a broad line of auto parts for automobiles from model years 1965 to 2008. Because of the continued demand for our products, we primarily purchase products in bulk quantities to take advantage of quantity discounts and to ensure inventory availability. Inventory is reported net of inventory reserves for slow moving, obsolete or scrap product, which are established based on specific identification of slow moving items and the evaluation of overstock considering anticipated sales levels. If actual market conditions are less favorable than those anticipated by management, additional reserves may be required. Historically, our recorded reserve for returns has been adequate to provide for actual returns.

Website and Software Development Costs. We capitalize certain costs associated with software developed for internal use according to EITF No. 00-2, "*Accounting for Website Development Costs*" ("EITF 00-2") and Statement of Position 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*" ("SOP 98-1"). Under the provisions of EITF 00-2 and SOP 98-1, we capitalize costs associated with website development and software developed for internal use when both the preliminary project design and testing stage are completed and management has authorized further funding for the project, which it deems probable of completion and to be used for the function intended. Capitalized costs include amounts directly related to website development and software development such as payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the internal-use software project. Capitalization of these costs ceases when the project is substantially complete and ready for its intended use.

Long-Lived Assets and Intangibles. We have adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "*Goodwill and Other Intangible Asset*" ("SFAS No. 142"). Under SFAS No. 142, intangible assets with indefinite useful lives are subject to reduction only when their carrying amounts exceed their estimated fair values based on impairment tests established by SFAS No. 142 that must be made at least annually. Capitalized amounts are amortized on a straight-line basis over their estimated useful lives. In May 2006, we acquired approximately $52.6 million of intangibles related to the acquisition of Partsbin. We preliminarily allocated $29.0 million of the purchase price to websites, $2.3 million to domain names, $4.1 million to software assets, $3.0 million to long-term, favorable supplier relationships and $14.2 million to goodwill. Domain names are generally not amortized, capitalized websites are amortized over five years, and software assets and supplier relationships are amortized over three years.

In accordance with SFAS No. 142 and SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets,* " we assess long-lived assets, including intangibles subject to amortization, and indefinite lived intangibles, including goodwill, for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable based on the undiscounted estimated future cash flows (or discounted cash flows in the case of goodwill and indefinite lived intangibles) expected to result from its use and eventual disposition. We recognize impairment in our operating results to the extent that the carrying value exceeds the discounted cash flows of future operations. We did not recognize any impairment losses for the years ended December 31, 2005, 2006 or 2007. If our key assumptions used to determine estimated discounted cash flows change in the future, we may be required to record impairment charges.

Income Taxes. In 1996, we elected to be taxed as an S corporation for income tax purposes under provisions of the Internal Revenue and California Taxation Codes, which required that our income or loss be reported on the individual income tax returns of our stockholders. In addition, we were subject to income taxes from the States of California and Tennessee at reduced rates. However, MBS Marketing, Inc., a former consolidated entity, was subject to federal income taxes and franchise taxes in California at normal rates. In connection with our recapitalization, our S corporation status was terminated in March 2006, and we became a Delaware C corporation. MBS Marketing, Inc. was merged into us in June 2005 and consolidated with us for all periods presented for financial reporting purposes.

We account for income taxes for MBS Marketing, Inc., incorporated as a C corporation, and after March 3, 2006, for U.S. Auto Parts, in accordance with SFAS No. 109, "*Accounting for Income Taxes*" ("SFAS No. 109"). Under SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When appropriate, we establish a valuation reserve to reduce deferred tax assets, which includes tax credits and loss carry forwards, to the amount that is more likely than not to be realized. Should future income be less than anticipated by management, we may be required to record a valuation allowance against our deferred tax assets.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes-an Interpretation of SFAS 109"* ("FIN 48"), which became effective for us on January 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that has greater than 50 percent likelihood of being realized upon ultimate settlement. As a result of the implementation of FIN 48, we did not recognize any material adjustment in the liability for unrecognized income tax benefits and no corresponding interest or penalties. The tax years 2004 through 2006 remain open to examination by the major taxing jurisdictions to which we are subject.

Share-Based Compensation. We did not issue any stock options prior to March 2006. Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), "*Share-Based Payment*" ("SFAS No. 123(R)"). SFAS No. 123(R) requires that all share-based compensation to employees, including grants of employee stock options, be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based payment awards, with the exception of options granted containing market conditions, which we estimate the fair value using a Monte Carlo model. The Black-Scholes and Monte Carlo valuation models require extensive use of accounting judgment and financial estimates, including estimates of the expected term participants will retain their vested stock options before exercising them, the estimated volatility of our common stock price over the expected term and the number of options that will be forfeited prior to the completion of their vesting requirements. Application of alternative assumptions could produce significantly different estimates of the fair value of share-based compensation and, consequently, the related amount of share-based compensation expense recognized in the Consolidated Statement of Operations could have been significantly different than the amounts recorded. Prior to our initial public offering in February 2007, we did not have a history of market prices of our common stock, and as such we estimate volatility in accordance with SEC Staff Accounting Bulletin No. 107 ("SAB No. 107") using historical volatilities of similar public entities. The expected life of the awards is based on a simplified method that defines the life as the average of the contractual term of the options and the weighted average vesting period for all open tranches. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our history and expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation expense recognized in our financial statements in 2006 and thereafter is based on awards that are ultimately expected to vest. If factors change and we employ different assumptions, share-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that we grant additional equity awards to employees or we assume unvested equity awards in connection with acquisitions.

Valuation at the Time of Grant. We have granted to our employees options to purchase common stock at exercise prices equal to the fair market value of the underlying common stock at the time of each grant, which is the closing market price of our common stock. Prior to our initial public offering in February 2007, the common stock price was determined by our board of directors.

Under provisions of SFAS No. 123(R), we recognized $2.2 million and $856,000 of share-based compensation expense for the years ended December 31, 2007 and 2006, respectively. At December 31, 2007, the total compensation cost related to unvested stock-based awards granted to employees and non-employee directors under our equity incentive plans but not yet recognized was approximately $4.6 million, net of estimated forfeitures of approximately $227,000. This cost will be amortized over a weighted-average period of approximately 2.8 years and will be adjusted for subsequent changes in estimated forfeitures.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements"* ("SFAS No. 157"). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was scheduled to be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We are currently evaluating the impact of this statement on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"* ("SFAS No. 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of any fiscal year beginning after November 15, 2007. We are currently evaluating the impact of this statement on our consolidated financial statements.

Table of Contents

Results of Operations

The following table sets forth selected statement of operations data for the periods indicated, expressed as a percentage of net sales:

	Years Ended December 31,		
	2005	2006	2007
Net sales	100.0%	100.0%	100.0%
Cost of sales	58.3	65.4	66.6
Gross profit	41.7	34.6	33.4
Operating expenses:			
General and administrative	12.2	8.0	11.5
Marketing	9.7	12.6	13.4
Fulfillment	7.3	4.1	4.7
Technology	1.5	1.1	1.2
Amortization of intangibles	0.0	4.3	5.2
Total operating expenses	30.7	30.1	36.0
Income (loss) from operations	11.0	4.5	(2.6)
Other income (expense):			
Other income	0.3	0.1	—
Interest income (expense), net	(0.2)	(1.2)	0.7
Other income (expense), net	0.1	(1.1)	0.7
Income (loss) before income taxes	11.1	3.4	(1.9)
Income tax provision (benefit)	(0.3)	0.5	0.3
Net income (loss)	11.4%	2.9%	(2.2)%

Year Ended December 31, 2006 Compared to Year Ended December 31, 2007

Net Sales and Gross Margin

	Year Ended December 31,			
	2006	2007	$ Change	% Change
	(in thousands)			
Net sales	$120,060	$160,957	$40,897	34.1%
Cost of sales	78,573	107,132	28,559	36.3%
Gross profit	$ 41,487	$ 53,825	$12,338	29.7%
Gross margin	34.6%	33.4%		(1.2)%

Net sales increased $40.9 million, or 34.1%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. This increase was primarily the result of the acquisition of Partsbin in May 2006, which added a significant number of SKUs for performance parts, accessories and engine parts to our product offering.

E-commerce sales increased $33.1 million, or 37.0%, to $122.6 million in the year ended December 31, 2007 compared to $89.5 million in the year ended December 31, 2006. The total number of our e-commerce orders increased to 1.2 million placed orders in 2007, with an average placed order value of $128 for the year ended December 31, 2007. Online marketplace sales increased $4.7 million, or 29.6%, to $20.6 million for the year ended December 31, 2007 compared to $15.9 million for the year ended December 31, 2006. The increase in both e-commerce and online marketplace sales was primarily due to the contribution from Partsbin sales since its acquisition in May 2006 and increased monthly unique visitors to our websites. We anticipate that sales in 2008 will not increase as much as they have in the past due to the impact of the full inclusion of the Partsbin sales in 2007and 2008.

Net sales of our Kool-Vue product line increased $1.8 million, or 22.7%, to $9.8 million for the year ended December 31, 2007 compared to $7.9 million for the year ended December 31, 2006, but declined as a percentage of net sales. There was no significant change in wholesale sales for 2007 compared to 2006. We anticipate that sales through our Kool-Vue product line and wholesale channel will continue to decline as a percentage of net sales in the future due to our primary focus on our online business, declining profit margins related to this line and the reliance of the Kool-Vue product line on one significant customer, which is expected to terminate its business relationship with us during the first half of 2008.

We have historically experienced seasonality in our business. We expect seasonality to continue in future years as automobile collisions during inclement weather create increased demand for body parts, in winter months and consumers often undertake projects to maintain and enhance the performance of their automobiles in the summer months. We anticipate that seasonality will continue to have a material impact on our financial condition and results of operations for the foreseeable future.

While gross profit increased largely as a function of the increase in net sales, gross margin declined in 2007 primarily due to the full-year inclusion of Partsbin drop-ship products, which generally carry lower gross margins, and in part due to the expansion of sales in our online marketplaces to include additional lower gross margin drop-shipped products. In addition, during 2007, we successfully negotiated improved pricing with our suppliers which resulted in lower inventory costs than the previous year. We anticipate that these changes will have positive impacts on our gross margin in 2008. Cost of freight increased in absolute dollars as a result of the increase in net sales, however, freight expense as a percentage of sales remains consistent with 2006.

General and Administrative Expense

	Year Ended December 31,			
	2006	2007	$ Change	% Change
	(in thousands)			
General and administrative expense	$ 9,594	$ 18,587	$ 8,993	93.7%
Percent of net sales	8.0%	11.5%		3.5%

General and administrative expense increased $9.0 million, or 93.7%, for the year ended December 31, 2007 compared to the year ended December 31, 2006 primarily due to the $4.5 million incurred in settlement and legal fees associated with the preliminary settlement of the securities class action lawsuit; an increase of $2.9 million in personnel costs related to the hiring of additional personnel to support our growth and public company requirements, $1.1 million of which was derived from share-based compensation expense; an increase of $781,000 in accounting, legal and other professional fees primarily due to costs incurred for compliance related matters for operating as a public company, which were not incurred in the prior period; an increase of $723,000 in merchant fees due to higher online sales, although merchant fees remained relatively constant as a percentage of net sales; an increase of $524,000 in public company related expenses, such as insurance and non-employee director costs; and a $231,000 increase in bank and license fees and other expenses. The increase in general and administrative expense was partially offset by a decrease in software amortization of $882,000.

During the year ended December 31, 2007, share-based compensation expense increased by $1.3 million, primarily due to stock options granted to newly hired personnel. Share-based compensation expense was determined in accordance with SFAS No. 123(R). Based on options outstanding as of December 31, 2007, we expect to recognize $4.6 million in additional expense in the following periods:

Year ending December 31, 2008	$ 1,912
Year ending December 31, 2009	1,725
Year ending December 31, 2010	608
Year ending December 31, 2011	306
	$ 4,551

Excluding the charge related to the proposed settlement of the securities class action lawsuit, we anticipate that we will continue to incur increased general and administrative expenses in 2008 and future periods as we incur costs related to SOX compliance and other public company compliance requirements, such as accounting and legal fees, higher insurance premiums, and increased personnel and employee benefit costs and non-employee director costs. We expect that the costs of compliance associated with the operation as a public company, including the requirements relating to improving, documenting and testing our internal controls and procedures, will be significant.

Marketing Expense

	Year Ended December 31, 2006	2007	$ Change	% Change
	(in thousands)			
Marketing expense	$ 15,102	$ 21,551	$ 6,449	42.7%
Percent of net sales	12.6%	13.4%		0.8%

Marketing expense increased $6.5 million, or 42.7%, for the year ended December 31, 2007 compared to the year ended December 31, 2006 primarily due to a $3.2 million increase in personnel costs related to the expansion of our catalog, Internet marketing and call center teams, $188,000 of which was derived from share-based compensation expense; an increase of $2.1 million in advertising costs related to the expansion of our online marketing efforts, primarily in the area of paid search, as well as increased marketing services of $811,000; and an increase in operational expenses, such as rent, utilities and depreciation of $390,000. The increases in personnel and operating expenses were directly related to the completion of our acquisition of the Philippines sales force from our outsourced provider in April 2007 and included the transition of 171 employees to direct employment. The purchase price for this assembled workforce was approximately $1.7 million. Of this amount, approximately $400,000 was included in marketing expense during the first three months of 2007. The remaining $1.3 million was capitalized as an intangible asset in accordance with SFAS No. 142 and will be amortized over seven years.

We expect our personnel costs included in marketing expense will increase in 2008 as a result of hiring additional personnel to support our efforts to build category teams and expand our call center staff in the Philippines. We expect our search engine marketing costs to decrease as a percentage of sales in 2008, if we are able to increase the effectiveness of our paid search strategy, and continue to balance our paid and organic traffic through the implementation of web analytics, our email initiative, as well as other marketing initiatives. In addition, we anticipate that marketing services costs will increase as we expand our efforts in consumer research and branding initiatives.

Fulfillment Expense

	Year Ended December 31, 2006	2007	$ Change	% Change
	(in thousands)			
Fulfillment expense	$ 4,963	$ 7,557	$ 2,594	52.3%
Percent of net sales	4.1%	4.7%		0.6%

Fulfillment expense increased $2.6 million, or 52.3%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily due to a $1.9 million increase in personnel costs, $78,000 of which was derived from share-based compensation expense; an increase of $412,000 in operational expense such as rent and utilities and an increase of $306,000 in depreciation expense, primarily a result of our expansion of warehouse and purchasing personnel to support our increased direct distribution of performance parts and accessories. Our fulfillment costs may increase if we open a stand-alone distribution center on the East Coast to complement our existing facilities.

Technology Expense

	Year Ended December 31, 2006	2007	$ Change	% Change
	(in thousands)			
Technology expense	$ 1,332	$ 1,987	$ 655	49.2%
Percent of net sales	1.1%	1.2%		0.1 %

Technology expense increased $655,000, or 49.2%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily due to higher communication fees of $337,000 to support the expanded communications infrastructure; an increase of $163,000 in computer-related support expense; and an increase of $160,000 in personnel costs, offset by a $12,000 decrease in share-based compensation expense. During 2007, we hired additional programmers and increased investment in our overall technology platform to improve our internal controls, increase visibility of operating trends, improve our pricing process and warehouse management systems and complete the rollout of our Unified Catalog.

Amortization of Intangibles

	Year Ended December 31, 2006	2007	$ Change	% Change
	(in thousands)			
Amortization of intangibles	$ 5,092	$ 8,350	$ 3,258	64.0%
Percent of net sales	4.3%	5.2%		0.9%

Amortization of intangibles increased $3.3 million, or 64.0%, primarily due to the intangible assets acquired pursuant to the acquisition of Partsbin completed in May 2006 and the assembled workforce in April 2007. We preliminary estimate aggregate amortization expense related to these intangibles as follows:

Year ending December 31, 2008	$ 8,400
Year ending December 31, 2009	6,915
Year ending December 31, 2010	6,007
Year ending December 31, 2011	2,438
Thereafter	454
	$24,214

Other Income (Expense), Net

	Year Ended December 31, 2006	2007	$ Change	% Change
	(in thousands)			
Other income (expense), net	$ (1,358)	$ 1,148	$ 2,506	184.5%
Percent of net sales	(1.1)%	0.7%		1.8 %

Other income (expense), net increased $2.5 million, or 184.6% for the year ended December 31, 2007 compared to the year ended December 31, 2006 primarily due to a $1.6 million increase in interest income related to higher cash balances as a result of cash proceeds from our initial public offering in February 2007 and a $1.1 million decrease in interest expense primarily due to the repayment of approximately $28.0 million of our long-term indebtedness upon completion of our initial public offering. This increase was partially offset by a $146,000 decrease in other income. We anticipate that our interest income will decline in future periods in response to decreases in interest rates.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2006

Net Sales and Gross Margin

	Year Ended December 31, 2005	2006	$ Change	% Change
	(in thousands)			
Net sales	$59,698	$ 120,060	$60,362	101.1%
Cost of sales	34,829	78,573	43,744	125.6%
Gross profit	$24,869	$ 41,487	$16,618	66.8%
Gross margin	41.7%	34.6%		(7.1)%

Net sales increased due to a 132.2% increase in our online business, which consists of our e-commerce and online marketplace channels, that was principally driven by the acquisition of Partsbin in May 2006, which added a significant number of SKUs for performance parts, accessories and engine parts, as well as resulted in a substantial increase in our net sales. E-commerce sales increased $54.7 million, or 157.2%, from $34.8 million for 2005 to $89.5 million in 2006. The total number of our e-commerce orders increased from 288,000 orders in fiscal year 2005 to 748,000 orders in fiscal year 2006, and our average order value remained stable in fiscal year 2006 at approximately $120. The increase in net sales also reflected a $5.3 million, or 50.0%, increase in our online marketplace sales, which included the contribution of Partsbin sales through this channel. Online marketplace sales were $10.6 million in 2005 compared to $15.9 million in 2006. Net sales of our Kool-Vue product line and sales of other products through our wholesale channel remained relatively constant in absolute dollars for 2006 as compared to 2005 but declined as a percentage of net sales. There was no significant change in wholesale sales for 2006 compared to 2005.

While gross profit increased largely as a function of the increase in net sales, gross margin declined in 2006 primarily due to the introduction of lower gross margin products sold in our e-commerce channel through our drop-ship fulfillment method. This gross margin decline was partially offset by a favorable shipping margin increase. Cost of freight increased in absolute dollars as a result of the increase in net sales yet favorable shipping terms with our drop-ship suppliers caused freight expense as a percentage of sales to drop from 15.2% to 12.1%. Although we are able to determine gross profit at the SKU level within our sales channels, we do not currently track gross profit separately for each sales channel. The drop-ship fulfillment method commenced largely in connection with the Partsbin acquisition and has generated lower product margins than our stock-and-ship distribution method. We expect, however, that this new distribution method will allow us to offer a broader product selection and facilitate a more scalable business.

The decline in gross margin was also due in part to the expansion of sales in our online marketplaces to include additional lower gross margin products.

General and Administrative Expense

	Year Ended December 31,			
	2005	2006	$ Change	% Change
	(in thousands)			
General and administrative expense	$ 7,254	$ 9,594	2,340	32.3%
Percent of net sales	12.2%	8.0%		(4.2)%

The increase in general and administrative expense in 2006 was primarily due to an increase of $1.3 million in merchant fees related to higher online sales; however, merchant fees remained relatively constant as a percentage of net sales. The increase in general and administrative expense reflects higher payroll and related expenses in the amount of $1.0 million, which was largely due to the hiring of twelve additional administrative personnel, as well as higher compensation payable to such personnel. Additionally, Partsbin rent, insurance, utilities and depreciation contributed $207,000 of additional expense in the current year. This increase was partially offset by a $503,000 reduction in legal and accounting fees in the current period, which was primarily related to an aborted financing transaction in 2005, as well as a $394,000 reduction in software amortization. This increase also includes $582,000 of share-based compensation related to options granted in the current period.

Marketing Expense

	Year Ended December 31,			
	2005	2006	$ Change	% Change
	(in thousands)			
Marketing expense	$ 5,802	$ 15,102	$ 9,300	160.3%
Percent of net sales	9.7%	12.6%		2.9%

The increase in marketing expense for fiscal year 2006 was primarily due to a $5.8 million increase in advertising costs related to the expansion of our online marketing efforts, primarily in the area of paid search, as well as higher sales commissions related to the increase in net sales in 2006. In addition, marketing expense increased $2.6 million due to the addition of 161 employees during the year, share-based compensation of $171,000, as well as increased marketing services of $387,000.

Fulfillment Expense

	Year Ended December 31,			
	2005	2006	$ Change	% Change
	(in thousands)			
Fulfillment expense	$ 4,357	$ 4,963	$ 606	13.9%
Percent of net sales	7.3%	4.1%		(3.2)%

The increase in fulfillment expense in the current period was primarily due to a $432,000 increase in personnel costs related to the addition of 15 employees. In addition, depreciation expense increased by $148,000 as a result of the addition in depreciable warehouse equipment in the current year.

Technology Expense

	Year Ended December 31, 2005	2006	$ Change	% Change
	(in thousands)			
Technology expense	$ 868	$ 1,332	$ 464	53.5%
Percent of net sales	1.5%	1.1%		(0.4)%

The increase in technology expense was primarily due to higher communication fees of $330,000 to support the expanded communications infrastructure and the addition of $78,000 of share-based compensation expense.

Amortization of Intangibles

	Year Ended December 31, 2005	2006	$ Change	% Change
	(in thousands)			
Amortization of intangibles	$ 17	$ 5,092	$ 5,075	Not meaningful
Percent of net sales	0%	4.3%		4.3%

The increase in amortization of intangibles in the current period was primarily due to the intangible assets acquired pursuant to the acquisition of Partsbin completed in May 2006.

Other Income (Expense), Net

	Year Ended December 31, 2005	2006	$ Change	% Change
	(in thousands)			
Other income (expense), net	$ 85	$ (1,358)	$(1,443)	Not meaningful
Percent of net sales	0.1%	(1.1)%		(1.2)%

The increase in other income (expense), net in the current period was primarily due to a $1,499,000 increase in interest expense from the notes payable incurred during 2006 as part of the recapitalization and acquisition of Partsbin. This increase was partially offset by an increase in interest income during the current period as a result of generally higher cash balances. Upon completion of our initial public offering, we reduced our long-term indebtedness by approximately $28.0 million.

Table of Contents

Quarterly Results of Operations

The following tables present unaudited quarterly results of operations, in dollar amounts and as a percentage of net sales, for the last eight quarters. This information has been derived from our unaudited consolidated financial statements and has been prepared by us on a basis consistent with our audited consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the information for the periods presented. However, the sum of the four quarters in a given year may not agree to the annual results due to rounding within certain quarters.

	Three Months Ended							
	Mar. 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Mar. 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
	(in thousands, except share and per share data)							
Consolidated Statement of Income Data:								
Net sales	$ 18,005	$ 26,966	$ 38,324	$ 36,765	$ 43,743	$ 42,112	$ 37,786	$ 37,315
Cost of sales	10,259	17,617	25,903	24,794	30,074	28,327	24,096	24,635
Gross profit	7,746	9,349	12,421	11,971	13,669	13,785	13,691	12,680
Operating expenses:								
General and administrative	1,965	2,290	2,758	2,581	2,876	3,655	3,184	8,872
Marketing	1,976	3,179	4,979	4,968	5,900	4,922	4,917	5,813
Fulfillment	1,152	1,213	1,224	1,374	1,717	1,862	1,920	2,058
Technology	194	323	381	434	449	507	439	593
Amortization of intangibles	4	947	2,086	2,055	2,054	2,100	2,097	2,099
Total operating expenses	5,291	7,952	11,428	11,412	12,996	13,045	12,556	19,435
Income (loss) from operations	2,455	1,397	993	559	673	740	1,135	(6,755)
Other income (expense):								
Other income	149	3	(2)	2	2	3	3	3
Interest income (expense),net	(40)	(317)	(593)	(560)	(280)	545	389	483
Other income (expense), net	109	(314)	(595)	(558)	(278)	548	392	486
Income (loss) before income taxes	2,564	1,083	398	1	395	1,288	1,527	(6,269)
Income tax provision (benefit)	(156)	472	211	23	160	515	633	(771)
Net income (loss)	$ 2,720	$ 611	$ 187	$ (22)	$ 235	$ 773	$ 894	$ (5,498)
Basic net income (loss) per share	$ 0.21	$ 0.04	$ 0.01	$ (0.00)	$ 0.01	$ 0.03	$ 0.03	$ (0.18)
Diluted net income (loss) per share	$ 0.18	$ 0.03	$ 0.01	$ (0.00)	$ 0.01	$ 0.03	$ 0.03	$ (0.18)
Shares used in computation of basic net income (loss) per share	13,200,000	14,120,952	15,199,681	15,199,672	23,491,850	29,832,927	29,837,538	29,846,757
Shares used in computation of diluted net income (loss) per share	15,382,341	20,772,428	21,876,868	15,199,672	26,564,603	29,853,346	30,009,891	29,846,757

	Three Months Ended							
	Mar. 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Mar. 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
As a Percent of Net Sales:								
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	57.0	65.3	67.6	67.4	68.8	67.3	63.8	66.0
Gross profit	43.0	34.7	32.4	32.6	31.2	32.7	36.2	34.0
Operating expenses:								
General and administrative	10.9	8.5	7.2	7.0	6.6	8.7	8.4	23.8
Marketing	11.0	11.8	13.0	13.5	13.5	11.7	13.0	15.6
Fulfillment	6.4	4.5	3.2	3.8	3.9	4.4	5.1	5.5
Technology	1.1	1.2	1.0	1.2	1.0	1.2	1.2	1.6
Amortization of intangibles	0.0	3.5	5.4	5.6	4.7	5.0	5.5	5.6
Total operating expenses	29.4	29.5	29.8	31.1	29.7	31.0	33.2	52.1
Income (loss) from operations	13.6	5.2	2.6	1.5	1.5	1.7	3.0	(18.1)
Other income (expense):								
Other income	0.8	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0
Interest income (expense), net	(0.2)	(1.2)	(1.5)	(1.5)	(0.6)	1.3	1.0	1.3
Other income (expense), net	0.6	(1.2)	(1.5)	(1.5)	(0.6)	1.3	1.0	1.3
Income (loss) before income taxes	14.2	4.0	1.1	0.0	0.9	3.0	4.0	(16.8)
Income tax provision (benefit)	(0.9)	1.7	0.6	0.1	0.4	1.2	1.6	(2.1)
Net income (loss)	15.1%	2.3%	0.5%	(0.1)%	0.5%	1.8%	2.4%	(14.7)%

In May 2006, we completed the acquisition of Partsbin, which resulted in lower gross margins related to the introduction of Partsbin's drop-ship fulfillment method and lower margins on certain of the performance parts and accessories, higher marketing expense, higher interest expense related to the acquisition indebtedness and higher amortization of intangibles recognized. Beginning in the third quarter of 2007, we implemented strategies such as reducing unprofitable revenue streams including international sales and special order sales and strategic price increases and we successfully negotiated beneficial purchase prices with our suppliers. These strategies improved gross margin in the second half of 2007 for certain products. The completion of our initial public offering in February 2007, the hiring of our new CEO in October 2007 and the preliminary shareholder litigation settlement amount of $4.5 million charged in December 2007 resulted in higher general and administrative expense. The termination of our S corporation status in March 2006 and increased revenue also resulted in higher income tax provision in subsequent quarters.

We expect that our revenue, operating results and cash flows generally will vary from quarter to quarter depending on a variety of factors, including but not limited to the following:

- fluctuations in the demand for aftermarket auto parts;
- price competition on the Internet or among offline retailers for auto parts;
- our ability to attract visitors to our websites and convert those visitors into customers;
- government regulations related to use of the Internet for commerce, including the application of existing tax regulations to Internet commerce and changes in tax regulations;
- our ability to offer a broad range of aftermarket auto parts;
- our ability to maintain and expand our supplier and distribution relationships;
- the effects of seasonality on the demand for our products;
- our ability to accurately forecast demand for our products and maintain appropriate inventory levels;
- our ability to successfully integrate the operations of Partsbin;
- our ability to build and maintain customer loyalty;
- the success of our brand-building and marketing campaigns;
- technical difficulties, system downtime or Internet brownouts;

- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure; and
- general economic, industry and market conditions.

Liquidity and Capital Resources

Sources of Liquidity

We have historically funded our operations from cash generated from operations, credit facilities, bank and stockholder loans, an equity financing and capital lease financings. At December 31, 2007, the only notes payable outstanding related to a $1.0 million payable to the former stockholders of Partsbin.

We currently maintain a $7.0 million bank line of credit, which expires on October 30, 2009 and bears interest at prime minus 0.5% (7.75% at December 31, 2006). As of December 31, 2007, we had no amount outstanding under this line of credit. The bank line of credit is with a commercial lender and is secured by substantially all of our assets. The notes payable to the former stockholders of Partsbin were also secured by substantially all of our assets.

Cash Flows

We had cash and cash equivalents of $19.4 million and short-term investments in auction rate securities of $22.7 million for a total of $42.1 million in highly-liquid assets as of December 31 2007, representing a $40.9 million increase from $1.2 million in cash and cash equivalents as of December 31, 2006. The increase in our cash and cash equivalents and short-term investments as of December 31, 2007 was primarily due to the net proceeds from our initial public offering that was completed in February 2007. We received net cash proceeds from our initial public offering of approximately $71.5 million after deducting the underwriting discounts and commissions and offering expenses. Approximately $28.0 million of the net proceeds from the offering was used to repay our outstanding indebtedness of approximately $18.0 million and $10.0 million under two term loans to our commercial lender. In addition, we repaid $4.0 million on the notes payable to the former stockholders of Partsbin.

Operating Activities

We generated $9.6 million of net cash from operating activities for the year ended December 31, 2007. The significant components of cash flows from operating activities were a net loss of $3.6 million primarily resulting from $9.8 million in non-cash depreciation and amortization expense, $2.2 million of non-cash stock-based compensation expense and an increase of $4.0 million in accounts payable and other current liabilities.

Investing Activities

Cash used in investing activities during the year ended December 31, 2007 totaled $29.0 million and was primarily attributable to our net investments of $22.7 million in auction rate securities, purchases of $5.0 million of property and equipment primarily for the expansion of our Philippine operations and the capitalized cost from software, hardware and technology infrastructure upgrades. We also acquired an assembled workforce in the Philippines valued at approximately $1.3 million.

Financing Activities

Cash provided in investing activities during the year ended December 31, 2007 totaled $37.6 million and was primarily due to the net proceeds from our initial public offering that was completed in February 2007.

Funding Requirements

We had working capital of $40.4 million as of December 31, 2007, which was primarily due to cash generated from our initial public offering. The historical seasonality in our business during the fourth and first calendar quarters of each year, cause cash and cash equivalents, inventory and accounts payable to be generally higher in these quarters, resulting in fluctuations in our working capital. We anticipate that funds generated from operations and funds available under our line of credit will be sufficient to meet our working capital needs and expected capital expenditures for at least the next twelve months. Our future capital requirements may, however, vary materially from those now planned or anticipated. Changes in our operating plans, lower than anticipated net sales, increased expenses or other events, including those described in “Risk Factors,” may cause us to seek additional debt or equity financings in the future. Our $7.8 million of short-term investments as of March 2008 was reclassified as long-term investments as a result of failed auctions and liquidity issues and we may not have access those funds. Financings may not be available on acceptable terms, on a timely basis, or at all, and our failure to raise adequate capital when needed could negatively impact our growth plans and our financial condition and results of operations.

We are currently evaluating the feasibility of opening a new distribution center and expect to spend approximately $5.0 million in 2008 on this facility should we move forward with these plans.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Contractual Obligations

The following table sets forth our contractual cash obligations and commercial commitments as of December 31, 2007.

	Payment Due By Period (in thousands)				
Contractual Obligations:	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt obligations	$1,000	$ 1,000	$ —	$ —	$ —
Capital lease obligations	127	79	48	—	—
Operating lease obligations	1,760	1,368	296	96	—
Total	$2,887	$ 2,447	$ 344	$ 96	$ —

Operating Lease Obligations. Commitments under operating leases relate to our lease on our principal facility.

Seasonality

We believe our business is subject to seasonal fluctuations. We have historically experienced higher sales of body parts in winter months when inclement weather and hazardous road conditions typically result in more automobile collisions and an increased demand for body parts. Partsbin, with its focus on engine parts, performance parts and accessories, has historically experienced higher sales in the summer vacation months when consumers have more time to undertake elective projects to maintain and enhance the performance of their automobiles and the warmer weather during that time is conducive for such projects. We expect the historical seasonality trends to continue to have a material impact on our financial condition and results of operations.

Inflation

Inflation has not had a material impact upon our operating results, and we do not expect it to have such an impact in the near future. We cannot assure you that our business will not be so affected by inflation in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial commodity market prices and rates. We are exposed to market risk primarily in the area of changes in United States interest rates and conditions in the credit markets. We also have some exposure related to foreign currency fluctuations. We do not have other derivative financial instruments. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to increase the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities.

Interest Rate Risk. All of our investments are classified as available-for-sale and therefore reported on the balance sheet at market value. Our investment securities consist of high-grade auction rate securities. As of December 31, 2007, our short-term marketable securities included $22.7 million of investments in close-end funds which hold high-grade (AAA rated) auction rate securities issued by municipalities. Our auction rate securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions. The recent conditions in the global credit markets have prevented some investors from liquidating their holdings of auction rate securities because the amount of securities submitted for sale has exceeded the amount of purchase orders for these securities. If there is insufficient demand for the securities at the time of an auction, the auction may not be completed and the interest rates may be reset to predetermined higher rates. When auctions for these securities fail, the investments may not be readily convertible to cash until a future auction of these investments is successful or they are redeemed or mature. If the credit ratings of the security issuers deteriorate and any decline in market value is determined to be other-than –temporary, we would be required to adjust the carrying value of the investment through an impairment charge. To date, we have not recorded any realized gains or losses on our investment portfolio or recognized any significant unrealized gains or losses on investments.

As of January 31, 2008, we held $24.9 million in auction rate securities and in early February 2008, we ordered the sale of our entire holdings of $24.9 million of auction rate securities. We successfully sold $17.1 million of our holdings and placed these funds in a money market account. On February 13, 2008, we were informed that there was insufficient demand at auctions for four of our high-grade auction rate securities, representing approximately $7.8 million. As a result, these affected securities are currently not liquid and the interest rates have been reset to the predetermined higher rates.

In the event we need to access the funds that are in an illiquid state, we will not be able to do so without the possible loss of principal, until a future auction for these investments is successful or they are redeemed by the issuer or they mature. At this time, management has not obtained sufficient evidence to conclude that these investments are impaired or that they will not be settled in the short term, although the market for these investments is presently uncertain. If we are unable to sell these securities in the market or they are not redeemed, then we may be required to hold them to maturity. We do not have a need to access these funds for operational purposes for the foreseeable future. We will continue to monitor and evaluate these investments on an ongoing basis for impairment or for a short-term to long-term reclassification. Based on our ability to access our cash and other short-term investments, our expected cash flows, and our other sources of cash, we do not anticipate that the potential illiquidity of these investments will affect our ability to execute our current business plan.

Pursuant to the terms of our line of credit with our principal lender, changes in the prime rate or monthly LIBOR rate could affect the existing rate of our outstanding loans and the rates at which we could borrow funds under our line of credit. At December 31, 2007, we had no outstanding borrowings under our line of credit with this lender. We had outstanding borrowings in the aggregate amount of $1.0 million under the notes to the former Partsbin stockholders. A 1% increase or decrease in LIBOR would not result in a material increase or decrease, respectively, in interest expense related to these outstanding borrowings.

Foreign Currency Risk. Our purchases of auto parts from our Asian suppliers are denominated in U.S. dollars, however, a change in the foreign currency exchange rates could impact our product costs over time. While our Philippine operational expenses are paid in Philippine pesos, and Canadian website sales are denominated in Canadian dollars, fluctuations in currency rates have only had a nominal impact on our operations historically.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item 8 is set forth in Part IV, Item 15 of this report and is hereby incorporated into this Item 8 by reference. The quarterly financial information required by this Item 8 is set forth in Item 7 of this report and is hereby incorporated into this Item 8 by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A(T). CONTROLS A ND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed with the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the specified time periods, and that such information is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2007 pursuant to Rule 13a-15 and 15d-15 of the Exchange Act and concluded that, as of that date our disclosure controls and procedures were not effective at the reasonable assurance level because of the identification of certain material weaknesses in our internal control over financial reporting, as described below, which we view as an integral part of our disclosure controls and procedures.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). We assessed the effectiveness of our internal control over financial reporting as of December 31, 2007, based on the "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework"). This assessment was conducted utilizing our documentation of policies and procedures, risk control matrices, gap analysis, key process walk-throughs and management's knowledge of and interaction with its controls, but we did not complete the testing of our key controls.

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Management determined that there was a material weakness related to the financial statement close process due in part to the lack of experienced knowledgeable staff, incomplete documentation and review of the financial statement close process and deficiencies in our information technology general controls. Based on this assessment, we concluded that we did not maintain effective internal control over financial reporting as of December 31, 2007, based on the specified criteria. In addition, because management has not fully completed the testing of the operation of our internal control over financial reporting, additional material weaknesses not described above may exist in those areas that were not tested.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this Annual Report.

Management's Plan for Remediation

In connection with the development and implementation of our remediation plans, we intend to complete testing of our internal controls.

We are in the process of implementing remediation plans to address the identified material weakness as well as the gaps in our key controls. The focus of our remediation plans in the first quarter of 2008, has included the hiring of more knowledgeable accounting staff and the implementation of additional financial statement closing and review procedures.

Changes in Internal Control Over Financial Reporting

During the fourth quarter of 2007, management implemented an internal control framework and began the documentation of internal controls using the COSO framework and the evaluation of the design of our internal control over financial reporting. In addition to utilizing internal resources, management also engaged outside consulting firms to assist in various aspects of its evaluation and compliance efforts. We are in the process of implementing the remediation plans to address the identified material weakness; however, except as discussed above, no changes to our internal control over financial reporting were made in the fourth quarter of the fiscal year covered by this report that have materially affected our then existing internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

(a) *Identification of Directors.* The information under the caption “Election of Directors,” appearing in the Proxy Statement, is hereby incorporated by reference.

(b) *Identification of Executive Officers and Certain Significant Employees.* The information under the caption “Executive Compensation and Other Information—Executive Officers,” appearing in the Proxy Statement, is hereby incorporated by reference.

(c) *Compliance with Section 16(a) of the Exchange Act.* The information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance,” appearing in the Proxy Statement, is hereby incorporated by reference.

(d) *Code of Ethics.* The information under the caption “Corporate Governance,” appearing in the Proxy Statement, is hereby incorporated by reference.

(e) *Audit Committee*. The information under the caption “Corporate Governance — Board Committees and Meetings — Audit Committee,” appearing in the Proxy Statement, is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions “Executive Compensation and Other Information” and “Compensation Committee Report,” appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under the captions “Equity Compensation Plans” and “Ownership of Securities by Certain Beneficial Owners and Management,” appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under the captions “Corporate Governance — Director Independence” and “Certain Relationships and Related Transactions,” appearing in the Proxy Statement, is incorporated herein by reference.

Table of Contents

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the caption "Fees Paid to Independent Registered Public Accounting Firm," appearing in the Proxy Statement, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) *Financial Statements.* The following financial statements of U.S. Auto Parts Network, Inc. are included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below:

(2) *Financial Statement Schedules*.

All schedules have been omitted because they are not required or the required information is included in our consolidated financial statements and notes thereto.

(3) *Exhibits*.

The following exhibits are filed herewith or incorporated by reference to the location indicated below:

Exhibit No.	Description
2.1*	Acquisition Agreement dated May 19, 2006 by and among U.S. Auto Parts Network, Inc. and Partsbin, Inc., on the one hand, and The Partsbin.com, Inc., All OEM Parts, Inc., Power Host, Inc., Auto Parts Web Solutions, Inc., Web Chat Solutions, Inc., Everything Internet, LLC, Richard E. Pine, Lowell E. Mann, Brian Tinari and Todd Daugherty, on the other hand
3.1	Second Amended and Restated Certificate of Incorporation of U.S. Auto Parts Network, Inc. as filed with the Delaware Secretary of State on February 14, 2007 (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2007)
3.2	Amended and Restated Bylaws of U.S. Auto Parts Network, Inc. (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2007)
4.1*	Specimen common stock certificate
10.1+*	U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan
10.2+*	Form of Stock Option Agreement under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.3+*	Form of Notice of Grant of Stock Option under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.4+*	Form of Acceleration Addendum to Stock Option Agreement under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.5+*	U.S. Auto Parts Network, Inc. 2007 Omnibus Plan and forms of agreements
10.6*	Investors' Rights Agreement dated March 3, 2006 by and between U.S. Auto Parts Network, Inc. and Oak Investment Partners XI, L.P.
10.7*	Note and Security Agreement dated May 19, 2006 by and among U.S. Auto Parts Network, Inc., Richard Pine, Lowell Mann, Brian Tinari and Todd Daugherty

Table of Contents

Exhibit No.	Description
10.8+*	Offer Letter of Employment dated May 19, 2006 by and between U.S. Auto Parts Network, Inc. and Richard Pine
10.9+*	Non-Competition Agreement dated May 19, 2006 by and among U.S. Auto Parts Network, Inc. and Richard Pine, Lowell Mann, Brian Tinari and Todd Daugherty
10.10*	Shareholder's Release dated May 19, 2006 by and between U.S. Auto Parts Network, Inc. and Richard Pine
10.11*	Business Loan Agreement dated February 24, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.12*	Promissory Note dated February 24, 2006 by U.S. Auto Parts Network, Inc. in favor of East West Bank
10.13*	Teletransmission Agreement dated February 24, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.14*	Business Loan Agreement dated February 24, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.15*	Changes in Terms Agreement dated February 24, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.16*	Loan Agreement dated May 18, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.17*	Secured Promissory Note dated May 18, 2006 by U.S. Auto Parts Network, Inc. in favor of East West Bank
10.18*	Collateral Assignment Agreement dated May 18, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.19*	Collateral Assignment Agreement dated May 18, 2006 by and between PartsBin, Inc. and East West Bank
10.20*	Security Agreement dated May 18, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.21*	Security Agreement dated May 18, 2006 by and between PartsBin, Inc. and East West Bank
10.22*	Amendment to Existing Agreements dated May 18, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.23*	Commercial Lease Agreement dated January 1, 2004 by and between U.S. Auto Parts Network, Inc. and Nia Chloe Enterprises, LLC
10.24*	Standard Industrial/Commercial Multi-Tenant Lease — Gross dated October 1, 2006 by and between U.S. Auto Parts Network, Inc. and Margay 2003, LLC
10.25*	Standard Industrial/Commercial Multi-Tenant Lease — Gross dated July 12, 2004 by and between U.S. Auto Parts Network, Inc. and Isadore Socransky
10.26*	Lease dated November 30, 2004 by and between U.S. Auto Parts Network, Inc. and William Coats
10.27†*	Catalog License and Parts Purchase Agreement dated November 20, 2006 by and between U.S. Auto Parts Network, Inc. and WORLDPAC, Inc.
10.28+*	Employment Agreement dated January 2007 by and between U.S. Auto Parts Network, Inc. and Michael J. McClane
10.29†*	Services Agreement dated October 3, 2006 by and between U.S. Auto Parts Network, Inc. and Efficient Frontier, Inc.
10.30+*	Offer Letter of Employment dated November 2006 by and between U.S. Auto Parts Network, Inc. and Howard Tong
10.31†*	Master Services Agreement dated August 5, 2005 by and between PartsBin, Inc. (as successor in interest to All OEM Parts, Inc.) and Access Worldwide Communications, Inc.
10.32+*	Offer Letter of Employment dated January 1, 2006 by and between U.S. Auto Parts Network, Inc. and Houman Akhavan

Table of Contents

Exhibit No.	Description
10.33+*	Form of Indemnification Agreement for Officers and Directors
10.34+*	Indemnification Agreement dated March 3, 2006 by and between U.S. Auto Parts Network, Inc. and Frederic Harman
10.35*	Deeds of Assignment and Declarations of Trust executed September 2006 regarding MBS Tek Corporation stock transfer
10.36	Form of lock-up agreement, dated March 16, 2007, by and between U.S. Auto Parts Network, Inc. and each of the selling stockholders and the officers and/or directors affiliated with such selling stockholders (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2007)
10.37	Form of lock-up agreement, dated March 16, 2007, by and between U.S. Auto Parts Network, Inc. and each other executive officer and director (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2007)
10.38	Lock-up agreement, dated March 16, 2007, by and between U.S. Auto Parts Network, Inc. and Oak Investment Partners XI, L.P. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2007)
10.39	Purchase Agreement, dated April 20, 2007, by and among U.S. Auto Parts Network, Inc., Access Worldwide Communications, Inc. and their respective Philippine affiliates (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2007)
10.40	Lease Agreements, dated August 8, 2007, by and among MBS Tek Corporation and Roshan Commercial Corp. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 2, 2007)
10.41	Form of Suppliers' Agreement entered into between U.S. Auto Parts Network, Inc. and certain of its U.S. based suppliers and primary drop-ship vendors (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 2, 2007)
10.42+	Employment Agreement dated October 12, 2007 between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.43+	Non-Qualified Stock Option Agreement dated October 15, 2007 between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.44+	Non-Qualified Stock Option Agreement dated October 15, 2007 (performance grant) between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.45+	2007 New Employee Incentive Plan (incorporated by reference to Exhibit 99.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.46	Lease Agreement, dated October 11, 2007, by and between MBS Tek Corporation and Averon Holding Corporation (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2007)

Exhibit No.	Description
10.47+	2008 Base Salaries and Target Bonuses of Certain Officers (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 4, 2008)
10.48	First Amendment to Collateral Assignment Agreements, dated October 31, 2007, by and between U.S. Auto Parts Network, Inc. and East West Bank
10.49+	Separation Agreement and Release of All Claims, effective March 10, 2008, by and between U.S. Auto Parts Network, Inc. and Howard Tong
10.50	Business Loan Agreement dated October 31, 2007 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.51	Changes in Terms Agreement dated October 31, 2007 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.52	Teletransmission Agreement dated October 31, 2007 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.53	Commercial Security Agreement dated October 31, 2007 by and between U.S. Auto Parts Network, Inc. and East West Bank
21.1*	Subsidiaries of U.S. Auto Parts Network, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of the principal executive officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of the principal financial officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of the Chief Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference tbo the exhibit of the same number from the registration statement on Form S-1 of U.S. Auto Parts Network, Inc. (File No. 333-138379) initially filed with the Securities and Exchange Commission on November 2, 2006, as amended.

\+ Indicates a management contract or compensatory plan or arrangement

† U.S. Auto Parts Network, Inc. has been granted confidential treatment with respect to certain portions of this exhibit (indicated by asterisks), which have been separately filed with the Securities and Exchange Commission.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

U.S. AUTO PARTS NETWORK, INC.

Date: March 28, 2008

By: /s/ SHANE EVANGELIST
Shane Evangelist
Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned officers and directors of U.S. Auto Parts Network, Inc., do hereby constitute and appoint Shane Evangelist and Michael J. McClane, and each of them, our true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby, ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated:

Signature	Title	Date
/s/ SHANE EVANGELIST Shane Evangelist	Chief Executive Officer and Director (principal executive officer)	March 28, 2008
/s/ MICHAEL J. MCCLANE Michael J. McClane	Chief Financial Officer, Executive Vice President of Finance, Treasurer and Secretary (principal financial and accounting officer)	March 28, 2008
/s/ ROBERT J. MAJTELES Robert J. Majteles	Chairman of the Board	March 28, 2008
/s/ JOSHUA L. BERMAN Joshua L. Berman	Director	March 28, 2008
/s/ FREDRIC W. HARMAN Fredric W. Harman	Director	March 28, 2008
/s/ SOL KHAZANI Sol Khazani	Director	March 28, 2008
/s/ MEHRAN NIA Mehran Nia	Director	March 28, 2008
/s/ WARREN B. PHELPS III Warren B. Phelps III	Director	March 28, 2008
/s/ JEFFREY A. SCHWARTZ Jeffrey A. Schwartz	Director	March 28, 2008
/s/ ELLEN F. SIMINOFF Ellen F. Siminoff	Director	March 28, 2008

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
U.S. Auto Parts Network, Inc.

We have audited the accompanying consolidated balance sheet of U.S. Auto Parts Network, Inc. (the Company) as of December 31, 2006 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U.S. Auto Parts Network, Inc. at December 31, 2006 and 2007, and the consolidated results of its operations and its cash flows for the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 28, 2008

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2006	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 1,183	$ 19,399
Marketable securities	—	22,650
Accounts receivable, net	2,789	2,907
Inventory, net	8,796	11,191
Deferred income taxes	934	831
Prepaid expenses and other current assets	1,149	1,808
Total current assets	14,851	58,786
Property and equipment, net	2,716	6,945
Intangible assets, net	33,362	26,444
Goodwill	14,179	14,201
Deferred income taxes	1,703	3,562
Other noncurrent assets	1,901	118
Total assets	$ 68,712	$110,056
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,893	$ 8,103
Accrued expenses	2,912	7,822
Line of credit	2,000	—
Notes payable	10,805	1,000
Capital leases payable, current portion	62	73
Other current liabilities	2,392	1,367
Total current liabilities	26,064	18,365
Notes payable less current portion, net	21,922	—
Capital leases payable, less current portion	114	48
Total liabilities	48,100	18,413
Commitments and contingencies		
Stockholders' equity:		
Series A convertible preferred stock, par value $0.001; 11,100,000 and 10,000,000 shares authorized as of December 31, 2006 and 2007, respectively; 11,055,425 and 0 shares issued and outstanding as of December 31, 2006 and 2007, respectively; (liquidation preference of $45,000 at December 31, 2006)	11	—
Common stock, par value $0.001; 50,000,000 and 100,000,000 shares authorized as of December 31, 2006 and 2007, respectively; 15,199,672 and 29,846,757 shares issued and outstanding as of December 31, 2006 and December 31, 2007, respectively	15	30
Additional paid-in capital	68,906	143,223
Accumulated other comprehensive income	5	312
Accumulated deficit	(48,325)	(51,922)
Total stockholders' equity	20,612	91,643
Total liabilities and stockholders' equity	$ 68,712	$110,056

See accompanying notes.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Years Ended December 31,		
	2005	2006	2007
Net sales	$ 59,698	$ 120,060	$ 160,957
Cost of sales	34,829	78,573	107,132
Gross profit	24,869	41,487	53,825
Operating expenses:			
General and administrative(1)	7,254	9,594	18,587
Marketing(1)	5,802	15,102	21,551
Fulfillment(1)	4,357	4,963	7,557
Technology(1)	868	1,332	1,987
Amortization of intangibles	17	5,092	8,350
Total operating expenses	18,298	36,083	58,032
Income (loss) from operations	6,571	5,404	(4,207)
Other income (expense), net:			
Loss from disposition of assets	—	(5)	—
Other income	191	157	11
Interest income	—	95	1,677
Interest expense	(106)	(1,605)	(540)
Other income (expense), net	85	(1,358)	1,148
Income (loss) before income taxes	6,656	4,046	(3,059)
Income tax (benefit) provision	(163)	550	538
Net income (loss)	$ 6,819	$ 3,496	$ (3,597)
Basic net income (loss) per share	$ 0.52	$ 0.24	$ (0.13)
Diluted net income (loss) per share	$ 0.52	$ 0.17	$ (0.13)
Shares used in computation of basic net (loss) income per share	13,200,000	14,437,657	28,274,022
Shares used in computation of diluted net income (loss) per share	13,200,000	19,990,431	28,274,022

(1) Includes share-based compensation expense related to option grants, as follows:

	Years Ended December 31,		
	2005	2006	2007
General and administrative expense	$ —	$ 582	$ 1,645
Marketing expense	—	171	359
Fulfillment expense	—	25	103
Technology expense	—	78	67
	$ —	$ 856	$ 2,174

See accompanying notes.

Table of Contents

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Preferred Stock		Common Stock		Additional Paid-in-Capital	Loans to Stockholders	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity	Comprehensive Income for the Period
	Shares	Amount	Shares	Amount						
Balance, December 31, 2004	—	—	13,200,000	13	526	(356)	132	5,645	5,960	
Net income	—	—	—	—	—	—	—	6,819	6,819	$ 6,819
Distributions	—	—	—	—	—	—	—	(7,764)	(7,764)	
Repayment of stockholder loans	—	—	—	—	—	356	—	—	356	
Reclassification adjustment on available-for-sale investments	—	—	—	—	—	—	(132)	—	(132)	(132)
Total comprehensive income										$ 6,687
Balance, December 31, 2005	—	—	13,200,000	13	526	—	—	4,700	5,239	
Net income	—	—	—	—	—	—	—	3,496	3,496	$ 3,496
Final S corporation distribution	—	—	—	—	—	—	—	(1,700)	(1,700)	
Undistributed earnings related to terminated S corporation status	—	—	—	—	4,821	—	—	(4,821)	—	
Recapitalization distribution	—	—	—	—	—	—		(50,000)	(50,000)	
Contributions	—	—	—	—	110	—	—	—	110	
Issuance of common stock	—	—	16,363	—	150	—	—	—	150	
Issuance of preferred stock	11,055,425	11	—	—	42,127	—	—	—	42,138	
Issuance of warrants	—	—	—	—	147	—	—	—	147	
Share-based compensation	—	—	—	—	1,027	—	—	—	1,027	
Issuance of common stock in connection with business acquisition	—	—	1,983,315	2	19,998	—	—	—	20,000	
Fractional shares cancelled due to stock split	—	—	(6)	—	—	—	—	—	—	
Effect of changes in foreign currencies	—	—	—	—	—	—	5	—	5	5
Total comprehensive income										$ 3,501
Balance, December 31, 2006	11,055,425	$ 11	15,199,672	$ 15	$ 68,906	$ —	$ 5	$ (48,325)	$ 20,612	
Net loss	—	—	—	—	—	—	—	(3,597)	(3,597)	$ (3,597)
Issuance of shares in connection with IPO, net of fees	—	—	8,000,000	8	71,537	—	—	—	71,545	
Conversion of preferred stock	(11,055,425)	(11)	6,633,255	7	4	—	—	—	—	
Issuance of shares in connection with exercise of stock options	—	—	13,830	—	94	—	—	—	94	
Share-based compensation	—	—	—	—	2,682	—	—	—	2,682	
Effect of changes in foreign currencies	—	—	—	—	—	—	307	—	307	307
Total comprehensive income										$ (3,290)
Balance, December 31, 2007	—	$ —	29,846,757	$ 30	$ 143,223	$ —	$ 312	$ (51,922)	$ 91,643	

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2005	2006	2007
Operating activities			
Net income (loss)	$ 6,819	$ 3,496	$ (3,597)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,976	1,786	1,469
Amortization of intangibles	17	5,092	8,350
Non-cash interest expense	—	61	273
Loss from disposition of assets	—	5	—
Share-based compensation	—	956	2,174
Realized gain on sale of marketable securities	(75)	—	—
Deferred income taxes	(101)	(2,615)	(1,756)
Changes in operating assets and liabilities:			
Accounts receivable, net	(489)	(1,152)	(118)
Inventory, net	(3,336)	608	(2,394)
Prepaid expenses and other current assets	(264)	(716)	(641)
Other noncurrent assets	43	(1,824)	1,790
Accounts payable and accrued expenses	3,964	549	5,061
Other current liabilities	104	889	(1,025)
Net cash provided by (used in) operating activities	8,658	7,135	9,585
Investing activities			
Additions to property, equipment and intangibles	(440)	(1,890)	(5,002)
Acquisition of assembled workforce	—	—	(1,296)
Acquisition of business, net of cash acquired	—	(24,381)	(23)
Proceeds from sale of equipment	154	—	—
Proceeds from sale of marketable securities	653	—	74,447
Purchase of marketable securities	—	—	(97,097)
Payments of related-party loans	356	—	—
Net cash provided by (used in) investing activities	723	(26,271)	(28,971)
Financing activities			
Proceeds from credit line	2,000	2,000	750
Payments of credit line	(3,500)	—	(2,750)
Proceeds received from notes payable, net of discount	—	31,705	—
Payments made on notes payable	—	(4,111)	(32,000)
Proceeds from initial public offering, net of offering costs	—	—	71,537
Proceeds received on issuance of Series A convertible preferred stock, net of offering costs	—	42,246	—
Payments of short-term financing	(105)	(351)	(56)
Payments to related parties	(1,777)	—	—
Contributed capital	10	—	—
Proceeds from sale of common stock and exercise of stock options	—	150	94
Stockholder distributions	(7,764)	(1,700)	—
Recapitalization distribution	—	(50,000)	—
Net cash (used in) provided by financing activities	(11,136)	19,939	37,575
Effect of exchange rate changes on cash	—	5	27
Net (decrease) increase in cash and cash equivalents	(1,755)	808	18,216
Cash and cash equivalents, beginning of period	2,130	375	1,183
Cash and cash equivalents, end of period	$ 375	$ 1,183	$ 19,399
Supplemental disclosure of noncash financing activities:			
Property acquired under capital leases	$ 500	$ —	$ —
Undistributed earnings related to terminated S corporation status	—	4,821	—
Issuance of common stock in connection with business acquisition	—	20,000	—
Issuance of note payable to selling shareholders in connection with business acquisition	—	5,000	—
Issuance of warrants for costs associated with debt and equity issuances	—	147	—
Cash paid during the period for:			
Interest	$ 76	$ 1,330	$ 253
Income taxes	469	3,378	3,446

See accompanying notes.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies and Nature of Operations

U.S. Auto Parts Network, Inc. (including its subsidiaries, the "Company") 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. The Company's flagship websites are located at *www.partstrain.com* and *www.autopartswarehouse.com*, and the corporate website is located at *www.usautoparts.net*.

The Company's products consist of body parts, engine parts and accessories. Body parts include bumpers, doors, door handles, fenders, grilles, hoods, lamps, mirrors, tailgates, wheels and window regulators. Engine parts include alternators, brake discs, catalytic converters, climate control, clutches, drive shafts, exhausts, fuel injection/delivery, headers, oxygen sensors, radiators and shocks and struts. Accessories include air deflectors, bug shields, car bras, car covers, cargo liners, cold air intakes, floor mats/carpeting, nerf bars, running boards, seat covers, tonneau covers and vent visors. The Company also offers performance versions of many of these parts.

The Company is a Delaware C corporation and is headquartered in Carson, California. The Company also has employees located in Trenton, New Jersey, as well as in the Philippines.

Principles of Consolidation

On June 30, 2005, the Company acquired MBS Marketing, Inc. ("MBS"), which provided Internet marketing services to support the Company's online marketing program. Prior to June 30, 2005, the Company had no direct ownership interest in MBS but, as the Company was the primary beneficiary of MBS under Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "*Consolidation of Variable Interest Entities"* ("FIN 46R"), the financial statements of MBS were consolidated with those of the Company. MBS and the Company were also under common ownership. Effective June 30, 2005, the Company merged MBS into its operations. Pursuant to the merger, all assets, liabilities, rights and obligations of MBS were transferred to, and assumed by, the Company, and the Company issued 2,200,440 shares of its common stock to the stockholders of MBS in exchange for their shares in MBS. The merger was accounted for as entities under common control, whereby the Company recognized the assets and liabilities of MBS at their carryover basis as of the date of the merger. Accordingly, adjustments have been made to combine MBS on a historical basis and all significant intercompany balances and transactions have been eliminated in consolidation.

In September 2005, the shareholders of the Company established MBS Tek Corporation ("MBS Tek") to conduct business internationally. As the Company was the primary beneficiary of MBS Tek, it has been consolidated under FIN 46R. All significant inter-company transactions and balances have been eliminated in consolidation. The equity balance of MBS Tek is presented as a non-controlling interest on the face of the consolidated balance sheet as of December 31, 2005. In September 2006, MBS Tek became a majority-owned subsidiary of the Company and is no longer presented as a non-controlling interest at December 31, 2006.

On May 19, 2006, U.S. Auto Parts acquired All OEM Parts, Inc., ThePartsBin.com, Inc. and their affiliated companies (collectively "Partsbin") pursuant to a merger involving a wholly-owned subsidiary of U.S. Auto Parts (the "Merger Sub"). Prior to the acquisition, Partsbin consisted of seven entities accounted for as entities under common control. Upon the consummation of the merger, five of the Partsbin entities merged with and into the Merger Sub, and the sixth entity, a Canadian company, survived as a wholly-owned subsidiary of the Merger Sub. The Company did not acquire the seventh entity, TPB Real Estate, LLC. Subsequent to the acquisition, the combined financial statements of Merger Sub and the Canadian company, which remains a wholly-owned subsidiary of Merger Sub, are included in the consolidated financial statements of U.S. Auto Parts.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, but are not limited to, the valuation of inventory, valuation of deferred tax assets and liabilities, estimated useful lives of property, equipment and software, valuation of intangible assets, including goodwill, recoverability of software development costs, valuation of sales returns and allowances, and the ultimate collection of accounts receivables. Actual results could differ from these estimates.

Reclassifications

Certain reclassifications have been made to prior year financial statements in order to conform to current year presentation.

Cash and Cash Equivalents

The Company considers all money market funds and short-term debt securities purchased with original maturities of ninety days or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying value of financial instruments, which include cash and cash equivalents, marketable securities, accounts receivable, accounts payable and borrowings, approximates fair value at December 31, 2006 and 2007 due to their short-term maturities and the relatively stable interest rate environment.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable are stated net of allowance for doubtful accounts. At December 31, 2006 and 2007, amounts due from a single customer were $948,000 and $1.2 million, respectively, representing 34% and 40% of net accounts receivable, respectively. The allowance for doubtful accounts is determined primarily on the basis of past collection experience and general economic conditions. The Company determines terms and conditions for its customers primarily based on the volume purchased by the customer, customer creditworthiness and past transaction history. The allowance for doubtful accounts totaled $24,000 and $12,000 at December 31, 2006 and 2007, respectively.

Concentrations of credit risk are limited to the customer base to which the Company's products are sold. There is one significant concentration of credit risk related to one customer. The balance of the amount receivable from this customer at December 31, 2007 was $1.2 million. The maximum amount of loss due to credit risk that the Company would incur should the customer fail to perform is the amount of the outstanding receivable. The Company does not believe other significant concentrations of credit risk exist.

Marketable Securities

Marketable securities are mainly comprised of close-end funds primarily invested in Auction Rate Securities ("ARS"). The underlying ARS are tax-exempt municipal bonds with maturities of thirty or more years, for which the interest rates are reset through a "Dutch auction" every seven days. In accordance with SFAS No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*," and based on the Company's ability to market and sell these instruments, the Company classifies ARS as available-for-sale and carries them at amortized cost, which approximates fair value.

The Company held no marketable securities on December 31, 2005 or 2006. During the twelve months ended December 31, 2007, the carrying amount of the investment in ARSs approximated fair value due to the rapid turnover of the portfolio and the highly-liquid nature of these investments. Therefore, there were no significant realized or unrealized holding gains or losses.

Other-Than-Temporary Impairment

All of the Company's marketable securities are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Company's cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value. No impairment charges were recorded on any investments during the year ended December 31, 2007. The Company holds auction rate securities and in February 2008, certain auction rate securities held by the Company failed, as described more fully in Note 15, under the caption *Auction Rate Securities.*

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Inventory

Inventories consist of finished goods available-for-sale and are stated at the lower of cost or market value, determined using the first in, first out ("FIFO") method. The Company purchases inventory from suppliers both domestically and internationally. The Company believes that its products are generally available from more than one supplier and seeks to maintain multiple sources for its products, both internationally and domestically.

The Company primarily purchases products in bulk quantities to take advantage of quantity discounts and to assure inventory availability. Inventory is reported net of inventory reserves for slow moving, obsolete or scrap product, which are established based on specific identification of slow moving items and the evaluation of overstock considering anticipated sales levels. Gross inventory, inventory reserves and net inventory at December 31, 2006 and 2007 are as follows:

	Years Ended December 31,		
	2005	2006	2007
		(in thousands)	
Gross inventory	$9,760	$9,488	$11,794
Inventory reserves	(960)	(692)	(603)
Total net inventory	$8,800	$8,796	$11,191

The following table reconciles the inventory reserve:

(In thousands)	Balance at Beginning of Period	Charged to Cost or Expenses	Deductions	Balance at End of Period
Year Ended December 31, 2005				
Inventory reserve	$ 769	221	(30)	$ 960
Year Ended December 31, 2006				
Inventory reserve	$ 960	(119)	(149)	$ 692
Year Ended December 31, 2007				
Inventory reserve	$ 692	219	(308)	$ 603

Website and Software Development Costs

The Company capitalizes certain costs associated with website and software developed for internal use according to EITF No. 00-2, "*Accounting for Website Development Costs*" ("EITF 00-2"), and Statement of Position 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"* ("SOP 98-1"), when both the preliminary project design and testing stage are completed and management has authorized further funding for the project, which it deems probable of completion and to be used for the function intended. Capitalized costs include amounts directly related to website and software development such as payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the internal-use software project. Capitalization of such costs ceases when the project is substantially complete and ready for its intended use. The Company capitalized $889,000 and $2.3 million during the years ended December 31, 2006 and 2007, respectively. These amounts are amortized on a straight-line basis over two years once the software is placed into use.

Long-Lived Assets and Intangibles

The Company assesses long-lived assets, including intangibles subject to amortization, and indefinite lived intangibles, including goodwill, for impairment on an annual basis and whenever events and circumstances indicate that the carrying value of an asset may not be recoverable based on the undiscounted estimated future cash flows expected to result from its use and eventual disposition. For purposes of performing annual impairment tests, the Company identified reporting units in accordance with the guidance provided within SFAS No. 142, *"Goodwill and Other Intangible Asset."* The Company identified one reporting unit, equivalent with its one segment. Impairments will be recognized in operating results to the extent that the carrying value exceeds the discounted cash flows (or undiscounted cash flows in the case of goodwill and indefinite lived intangibles) of future operations. The Company did not recognize any impairment losses for the years ended December 31, 2005, 2006 or 2007.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Revenue Recognition

The Company recognizes revenue from product sales when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred (to the common carrier), the selling price is fixed or determinable, and collectability is reasonably assured. These criteria follow the Company's general policy to recognize revenue according to its shipping terms, which are F.O.B. shipping point. Under this policy, title and risk of loss are transferred to the customer upon delivery to the common carrier, at which time, revenue is recognized.

The Company evaluates the criteria of EITF 99-19, *"Reporting Revenue Gross as a Principal Versus Net as an Agent,"* in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when the Company is the primary party obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded gross.

Product sales and shipping revenues, net of promotional discounts and return allowances, are recorded when the products are shipped and title passes to customers. Retail items sold to customers are made pursuant to terms and conditions that provide for transfer of both title and risk of loss upon delivery to the carrier. Return allowances, which reduce product revenue by the Company's best estimate of expected product returns, are estimated using historical experience. The Company generally requires payment by credit card at the point of sale. Amounts received prior to when the Company ships goods to customers are recorded as deferred revenue.

The Company periodically provides incentive offers to its customers to encourage purchases. Such offers include current discount offers, such as percentage discounts off current purchases and other similar offers. Current discount offers, when accepted by the Company's customers, are treated as a reduction to the purchase price of the related transaction. Current discount offers and inducement offers are classified as an offsetting amount in net sales.

Sales discounts are recorded in the period in which the related sale is recognized. Sales returns and allowances are estimated based on historical amounts. Credits are issued to customers for returned products. Credits amounted to $5.6 million, $11.8 million and $18.1 million for the years ended December 31, 2005, 2006 and 2007, respectively. The Company's sales returns and allowances reserves totaled $170,000, $1.4 million and $710,000 at December 31, 2005, 2006 and 2007, respectively.

No customer accounted for more than 10% of the Company's net sales in the past three years.

The following table provides an analysis of the reserve for sales returns and the reserve for doubtful accounts:

(In thousands)	Balance at Beginning of Period	Charged to Revenue, Cost or Expenses	Deductions	Balance at End of Period
Year Ended December 31, 2005				
Reserve for sales returns	$ 200	(30)	—	$ 170
Reserve for doubtful accounts	51	16	—	67
Year Ended December 31, 2006				
Reserve for sales returns	$ 170	1,238	—	$ 1,408
Reserve for doubtful accounts	67	(32)	(11)	24
Year Ended December 31, 2007				
Reserve for sales returns	$ 1,408	(698)	—	$ 710
Reserve for doubtful accounts	24	(5)	(7)	12

Other Income

Other income consists of realized gains on available-for-sale investments, as well as commission income received from website licensing fees and other items.

	Years Ended December 31,		
	2005	2006	2007
	(in thousands)		
Commissions	$ 112	$ 23	$ —
Insurance claim	—	128	—
Other income	4	6	11
Realized gains	75	—	—
Total other income	$ 191	$ 157	$ 11

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Cost of Goods Sold

Cost of goods sold consists of the direct costs associated with procuring parts from suppliers and delivering products to customers. These costs include direct product costs, purchase discounts, outbound freight and warehouse supplies. The Company includes freight and shipping costs in cost of goods sold. Total freight and shipping expense included in cost of goods sold for the years ended December 31, 2005, 2006 and 2007 was $9.0 million, $14.5 million and $19.5 million, respectively.

Marketing

Marketing costs, including advertising, are expensed as incurred. The majority of marketing expense is paid to Internet search engine service providers and Internet commerce facilitators. For the years ended December 31, 2005, 2006 and 2007, the Company recognized advertising costs of $3.4 million, $9.2 million and $11.2 million, respectively.

General and Administrative

General and administrative expense consist primarily of administrative payroll and related expenses, merchant processing fees, legal and professional fees, and other administrative costs.

Fulfillment

Fulfillment costs consist primarily of payroll and related costs associated with warehouse employees, facility rent, building maintenance, and other costs associated with inventory management and wholesale operations.

Technology

Technology expenses consist primarily of payroll and related expenses, and costs associated with computer support, information technology, software development and connectivity.

Comprehensive Income

The Company reports comprehensive income in accordance with SFAS No. 130, "*Reporting Comprehensive Income*." Accumulated other comprehensive income includes net income, foreign currency translation adjustments related to the Company's foreign operations and unrealized gains and losses from equity investments and investments in mutual funds that hold both debt and equity securities in various publicly traded companies.

Leases

The Company analyzes lease agreements for operating versus capital lease treatment in accordance with SFAS No. 13, "*Accounting for Leases*." Rent expense for leases designated as operating is expensed on a straight-line basis over the term of the lease.

Foreign Currency Translation

For each of the Company's foreign subsidiaries, the functional currency is its local currency. Assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rates, and revenues and expenses are translated into U.S. dollars using average exchange rates. The effects of the foreign currency translation adjustments are included as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Income Taxes

For income tax purposes, until March 2006, the Company was taxed as an S corporation under provisions of the Internal Revenue, California, and Tennessee Taxation Codes, which required that income or loss of the Company be reported on the individual income tax returns of the stockholders. In addition, the Company was subject to income taxes from the States of California and Tennessee at reduced rates. However, MBS, which was consolidated with the Company for financial reporting in all periods presented (see Note 1), was subject to federal income taxes and franchise taxes in California at normal rates. On March 3, 2006, the Company completed a recapitalization which resulted in the revocation of its subchapter S corporation status. The entire Company now operates as a C corporation and is subject to tax in the United States.

The Company accounts for income taxes in accordance with SFAS No. 109, "*Accounting for Income Taxes*." Under SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When appropriate, a valuation reserve is established to reduce deferred tax assets, which include tax credits and loss carry forwards, to the amount that is more likely than not to be realized.

In July 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109"* ("FIN 48"), which became effective for the Company on January 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that has greater than 50 percent likelihood of being realized upon ultimate settlement. As a result of the adoption of FIN 48 at January 1, 2007 and as of December 31, 2007 as a result of updating its current year analysis, the Company recognized no material adjustment in the liability for unrecognized income tax benefits and no corresponding interest or penalties, however the Company's policy is to record interest and penalties as income tax expense. The tax years 2004 through 2006 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Net Income (Loss) Per Share

Net income (loss) per share has been computed in accordance with FASB Statement No. 128, "*Earnings Per Share*" (see Note 8).

Share-Based Compensation

The Company accounts for share-based compensation in accordance with SFAS No. 123 (revised 2004), "*Share-Based Payment*" ("SFAS No. 123(R)"), which was adopted on January 1, 2006. No stock options were granted prior to December 31, 2005. All stock options issued to employees are recognized as share-based compensation expense in the financial statements based on their respective grant date fair values, and are recognized within the statement of income as general and administrative, marketing, fulfillment or technology, based on employee departmental classifications.

Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. The Company currently uses the Black-Scholes option pricing model to estimate the fair value of share-based payment awards, with the exception of options granted containing market conditions, which the Company estimates the fair value using a Monte Carlo model. The determination of the fair value of share-based payment awards utilizing the Black-Scholes and Monte Carlo models is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. As of December 31, 2007, the Company did not have an adequate history of market prices of its common stock as the Company only recently became a public company, and as such the Company estimates volatility in accordance with Staff Accounting Bulletin No. 107 ("SAB 107") using historical volatilities of similar public entities. The expected life of the awards is based on a simplified method which defines the life as the average of the contractual term of the options and the weighted average vesting period for all open tranches. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of awards. The dividend yield assumption is based on the Company's expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

For non-employees, the Company accounts for share-based compensation in accordance with Emerging Issues Task Force No. 96-18, "*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*." Equity instruments awarded to non-employees are periodically re-measured as the underlying awards vest unless the instruments are fully vested, immediately exercisable and non-forfeitable on the date of grant.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Segment Data

The Company manages its operations on a consolidated basis for purposes of assessing performance and making operating decisions. Accordingly, the Company operates in one reportable segment and reporting revenues by product line or geographic location is impracticable.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements"* ("SFAS No. 157"). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was scheduled to be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of this statement on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"* ("SFAS No. 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company is currently evaluating the impact of this statement on its consolidated financial statements.

2. Property and Equipment, Net

The Company's fixed assets consisted of computer software (internally developed and purchased), machinery and equipment, furniture and fixtures, and vehicles, and are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable and amortizable assets to operations over their estimated service lives. Depreciation expense for the years ended December 31, 2005, 2006 and 2007 was $181,000, $384,000 and $940,000, respectively. Software amortization expense for the years ended December 31, 2005, 2006 and 2007 was $1.8 million, $1.4 million and $529,000, respectively. The cost and related accumulated depreciation of assets retired or otherwise disposed of are removed from the accounts and the resultant gain or loss is reflected in earnings.

Property and equipment consisted of the following at December 31, 2006 and 2007:

	December 31,	
	2006	2007
	(in thousands)	
Machinery and equipment	$ 2,046	$ 4,000
Computer software and equipment	4,271	5,390
Vehicles	152	152
Leasehold improvements	112	704
Furniture and fixtures	102	368
Construction in process	738	2,528
	7,421	13,142
Less accumulated depreciation and amortization	(4,705)	(6,197)
Property and equipment, net	$ 2,716	$ 6,945

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 2007, $2.8 million of the Company's net property and equipment was located in the Philippines. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes, at rates based on the following estimated useful lives:

	Years
Machinery and equipment	3 – 5
Computer software (purchased and developed)	2 – 5
Computer equipment	3 – 5
Vehicles	3 – 5
Leasehold improvements	3 – 5
Furniture and fixtures	5 – 7

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Intangibles

In May 2006, in connection with the acquisition of Partsbin, the Company recognized goodwill with an indefinite life in the amount of $14.2 million and other intangible assets described in the table below. In April 2007, the Company acquired an assembled workforce, valued at $1.3 million, from its outsourced call center provider in the Philippines, Access Worldwide, which consisted of bringing the services of 171 sales and customer service agents in-house. See Note 12 for further discussion regarding details of these acquisitions.

Intangibles subject to amortization are expensed on a straight-line basis. Amortization expense relating to intangibles totaled $17,000, $5.1 million and $8.4 million for the years ended December 31, 2005, 2006 and 2007, respectively. Included in the intangible asset, assembled workforce is an increase of approximately $159,000 due to foreign currency fluctuation.

Intangibles, excluding goodwill, consisted of the following at for the years ended:

		December 31, 2006			December 31, 2007		
	Useful Life	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount
				(in thousands)			
Intangible assets subject to amortization:							
Websites	5 years	$28,988	$(3,569)	$25,419	$28,988	$ (9,367)	$19,621
Software	2 - 5 years	4,089	(839)	3,250	4,089	(2,202)	1,887
Vendor agreements	3 years	2,996	(614)	2,382	2,996	(1,613)	1,383
Assembled workforce	7 years	—	—	—	1,445	(155)	1,291
Purchased domain names	3 years	165	(84)	81	175	(143)	32
		36,238	(5,106)	31,132	37,670	(13,480)	24,214
Intangible assets not subject to amortization:							
Domain names	indefinite life	2,230	—	2,230	2,230	—	2,230
Total		$38,468	$(5,106)	$33,362	$39,900	$(13,480)	$26,444

The following table summarizes the future estimated annual amortization expense for these assets over the next five years:

	Years Ending December 31,
2008	$ 8,400
2009	6,915
2010	6,007
2011	2,438
Thereafter	454
Total	$ 24,214

Table of Contents

4. Line of Credit

At December 31, 2004, the Company had a $3.0 million committed line of credit agreement with a bank with interest at 0.25% above the lender's reference rate. In 2006, the credit line was extended to July 31, 2007, and was increased to $7.0 million. In February 2007, the credit line was extended to October 31, 2009. At December 31, 2006, the Company had $2.0 million outstanding with a weighted-average interest rate of 7.75%. No amounts were outstanding at December 31, 2007. The credit agreement contains customary covenants that, among other things, requires compliance with certain financial ratios and targets and restricts the incurrence of additional indebtedness. During the year ended December 31, 2006, for purposes of complying with loan covenants, the bank amended the covenant related to EBITDA to add back share-based compensation. As a result of this amendment, the Company was compliant with all loan covenants as of December 31, 2006 and 2007. There are no compensating balance requirements. Substantially all the assets of the Company serve as collateral on the line of credit.

5. Notes Payable

Notes payable consists of the following:

	December 31,	
	2006	2007
	(in thousands)	
Secured debt, payable beginning March 31, 2007, with interest at LIBOR for 12 months, then LIBOR plus 1.5%, due March 31, 2010	$ 10,000	$ —
Secured debt, payable beginning June 30, 2007, with interest at LIBOR plus 1.75%, net, due May 31, 2010	17,727	—
Notes payable to stockholders, payable beginning June 30, 2007, with interest at LIBOR, due March 31, 2008	5,000	1,000
Total	32,727	1,000
Less current portion	(10,805)	(1,000)
Long-term notes payable	$ 21,922	$ —

On March 3, 2006, the Company entered into a secured $10.0 million loan agreement with a bank in connection with the recapitalization described below. The loan bore interest at LIBOR for the first twelve months and LIBOR plus 1.5% thereafter. On May 19, 2006, the Company entered into a secured loan agreement with the same bank to provide financing for the cash portion of the purchase price for the acquisition of Partsbin in the amount of $22.0 million. During the third and fourth quarters of 2006, the Company paid $4.0 million toward the principal balance of the loan, reducing the balance to $18.0 million (consisting of the net $17.7 million balance shown above and a $273,000 discount). The loans bore interest at LIBOR plus 1.75% and were interest only until April 2007. The loans were secured by substantially all of the assets of the Company, and the term of each loan was four years with monthly payments of principal and interest required after the first year. The loans were also required to be paid off with the proceeds of a qualified initial public offering, as defined in such agreements. As a result, during the year ended December 31, 2007, these notes were fully repaid with the proceeds from the initial public offering which occurred on February 9, 2007 (see Note 6).

As a component of the purchase price for the acquisition of Partsbin, the Company entered into promissory notes in the aggregate principal amount of $5.0 million with the stockholders of Partsbin. The notes bore interest at LIBOR and were interest only until June 2007. Beginning in the quarter ending June 30, 2007, the notes were payable in equal quarterly installments until March 31, 2008. The notes became due and payable upon the completion of the Company's initial public offering, as defined in such notes. The notes are secured by substantially all the assets of the Company. During the year ended December 31, 2007 $4.0 million was paid on these notes, with the proceeds from the initial public offering which occurred on February 9, 2007 (see Note 6).

The discount on notes payable represents fees paid to the lender plus the fair value of the warrant issued in connection with the loan.

Future maturities of notes payable will be $1.0 million in 2008.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Series A Convertible Preferred Stock and Stockholders' Equity

Initial Public Offering

On February 8, 2007, the SEC declared effective the Company's Registration Statement on Form S-1 for its initial public offering. The Company's common stock commenced trading on February 9, 2007. The Company and the selling stockholders sold a total of 11.5 million shares of the Company's common stock at a price of $10.00 per share, of which 3.5 million of the shares were offered by selling stockholders (which included 1.5 million shares sold pursuant to the exercise of the underwriters' over-allotment option). A total of $115.0 million was generated through the offering, which was distributed as follows: $8.1 million for underwriting discounts and commissions; $32.5 million to the selling stockholders; and $74.4 million to the Company. The Company incurred additional offering costs of approximately $2.9 million, of which $1.7 million was included in other assets at December 31, 2006. RBC Capital Markets Corporation, Thomas Weisel Partners LLC, Piper Jaffray & Co., and JMP Securities LLC acted as the underwriters for the offering. Upon the closing of the Company's initial public offering, 11,055,425 shares of the Company's Series A convertible preferred stock (the "Preferred Stock") converted into an aggregate of 6,633,255 shares of common stock.

Approximately $28.0 million of the net proceeds from the offering was used to repay outstanding indebtedness of approximately $18.0 million and $10.0 million under two term loans. In addition, $4.0 million of the net proceeds from the offering was used to repay the notes payable to the former stockholders of Partsbin. The remaining net proceeds from the offering have been invested in money market funds and tax exempt municipal bonds.

Authorized Capital Stock

On February 14, 2007, the Company filed a second amended and restated certificate of incorporation to provide for authorized capital stock of 100,000,000 shares of common stock and 10,000,000 shares of undesignated preferred stock.

Convertible Preferred Stock

The Preferred Stock was convertible on a one-to-one basis, at the option of the holders thereof, into shares of common stock. In the event of a liquidation, dissolution or winding up of the Company, the holders of the Preferred Stock were entitled to receive, prior to any distribution to the holders of common stock, an amount equal to $4.07 per share. The Preferred Stock was also entitled to receive dividends, when and if declared by the board of directors. No dividends were declared during the year ended December 31, 2007. In addition to the foregoing rights and privileges, the holders of the Preferred Stock were entitled to elect two directors to the Company's board of directors. Each share of the Preferred Stock automatically converted into common stock upon completion of the Company's initial public offering in February 2007 discussed above.

Stock Split

In January 2007, the Company completed a reverse stock split of the Company's common stock pursuant to which each share of the Company's outstanding common stock was converted into 0.6 shares of the Company's common stock. All share and per share data included in these consolidated financial statements retroactively reflect the stock split. The allocation of the split to certain stockholder trusts resulted in the cancellation of 6 shares in order to prevent the existence of partial shares.

Recapitalization

On March 3, 2006, the Company completed a recapitalization. As part of this transaction, the Company sold 11,055,425 shares of Preferred Stock at a purchase price of $4.07 per share, or $45.0 million in the aggregate. Issuance costs totaled approximately $2.9 million and included the value of the warrants issued. The warrants were valued at $108,000 using the Black-Scholes valuation model using the following assumptions: expected life of two years; risk-free interest rate of 4.75%; volatility (based upon historical volatilities of similar public entities) of 31%; and dividend yield of 0%. Total issuance costs were netted against the proceeds received.

To provide additional financing for the recapitalization, the Company borrowed $10.0 million from a bank on March 3, 2006 (see Note 5). This loan and a portion of the $45.0 million received from the sale of the Preferred Stock were used to fund the $51.7 million distribution made to the holders of the Company's common stock as a part of the recapitalization, of which

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

$50.0 million related to the transaction and $1.7 million represented the final S corporation distribution resulting from the termination of the Company's S corporation status. Total undistributed earnings of $4.8 million on this date have been included in the Company's consolidated financial statements as additional paid in capital. The amount distributed in excess of accumulated earnings was $45.2 million.

In addition, the stockholders approved a stock split of the Company's common stock at a ratio of 1,100 shares for every one share previously held. The stock split became effective on March 3, 2006. All share and per share data included in these consolidated financial statements retroactively reflect this stock split as well as the reverse stock split described above.

Stock Options

The Company adopted the 2007 Omnibus Incentive Plan (the "2007 Omnibus Plan") in Janaury 2007, which became effective on the effective date (February 8, 2007) of the registration statement filed in connection with the Company's initial public offering. Under the 2007 Omnibus Plan, the Company is authorized to issue 2.4 million shares of common stock under various instruments plus an automatic annual increase on the first day of each of the Company's fiscal years beginning on January 1, 2008 and ending on January 1, 2017 equal to (i) the lesser of (A) 1,500,000 shares of Common Stock or (B) five percent (5%) of the number of shares of Common Stock outstanding on the last day of the immediately preceding fiscal year or (ii) such lesser number of shares of Common Stock as determined by the Company's board of directors. Options granted under the 2007 Omnibus Plan generally expire no later than ten years from the date of grant and generally vest over a period of four years. The exercise price of all option grants must be equal to 100% of the fair market value on the date of grant. The 2007 Omnibus Plan provides for automatic grant of options to purchase common stock to non-employee directors.

At December 31, 2007, 385,937 shares were available for future grants under the 2007 Omnibus Plan.

The following table summarizes the Company's stock option activity under the 2007 Omnibus Plan:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2006	—	$ —		
Granted	2,664,069	6.66		
Exercised	—	—		
Expired	—	—		
Forfeited	(773,006)	$ 6.44		
Options outstanding, December 31, 2007	1,891,063	$ 6.75	3.15	$ 2,833,190
Vested and expected to vest at December 31, 2007	—	$ —	—	$ —
Options exercisable, December 31, 2007	—	$ —	—	$ —

The weighted-average fair value of options granted during the year ended December 31, 2007 was $6.66.

The intrinsic value of stock options at the date of exercise is the difference between the fair value of the stock at the date of exercise and the exercise price. During the year ended December 31, 2007, there were no exercises under the 2007 Omnibus Plan. Aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value price of the Company's common stock for the 1,402,463 options that were in-the-money as of December 31, 2007.

Additional information with respect to outstanding options under the 2007 Omnibus Plan as of December 31, 2007 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
\$5.00-\$6.00	1,049,963	2.90	\$ 5.77	—	\$ —
\$6.01-\$7.00	183,000	3.25	\$ 6.08	—	\$ —
\$7.01-\$9.00	618,100	3.57	\$ 8.44	—	\$ —
\$9.01-\$10.00	40,000	2.50	\$ 9.41	—	\$ —
Totals	1,891,063	3.15	\$ 6.75	—	\$ —

The Company adopted the 2007 New Employee Incentive Plan (the "2007 New Employee Plan") in October 2007. Under the 2007 New Employee Plan, the Company is authorized to issue 2.0 million shares of common stock under various instruments solely to new employees. Options granted under the 2007 New Employee Plan generally expire no later than ten years from the date of grant and generally vest over a period of four years. The exercise price of all option grants must be equal to 100% of the fair market value on the date of grant.

At December 31, 2007, 1,000,000 shares were available for future grants under the 2007 New Employee Plan.

The following table summarizes the Company's stock option activity under the 2007 New Employee Plan:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2006	—	\$ —		
Granted	1,000,000	8.65		
Exercised	—	—		
Expired	—	—		
Forfeited				
Options outstanding, December 31, 2007	1,000,000	\$ 8.65	3.83	\$ —
Vested and expected to vest at December 31, 2007	—	\$ —	—	\$ —
Options exercisable, December 31, 2007	—	\$ —	—	\$ —

The weighted-average fair value of options granted during the year ended December 31, 2007 was \$8.65.

The intrinsic value of stock options at the date of exercise is the difference between the fair value of the stock at the date of exercise and the exercise price. During the year ended December 31, 2007, there were no exercises under the 2007 New Employee Plan. Aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value price of the Company's common stock for options that were in-the-money as of December 31, 2007. No options outstanding at December 31, 2007 were in-the-money.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Additional information with respect to outstanding options under the 2007 New Employee Plan as of December 31, 2007 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$8.65	1,000,000	3.83	$ 8.65	—	$ —

The Company adopted the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan (the “2006 Plan”) in March 2006. All stock options to purchase common stock granted to employees in 2006 were granted under the 2006 Plan and had exercise prices equal to the fair value of the underlying stock, as determined by the Company’s board of directors on the applicable option grant date. The board of directors determined the value of the underlying stock by considering a number of factors, including historical and projected financial results, the risks the Company faced at the time, the preferences of the Company’s Preferred Stock holders and the lack of liquidity of the Company’s common stock. No stock options were granted by the Company prior to the adoption of the 2006 Plan.

At December 31, 2007, there were no shares available for future grants under the 2006 Plan.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2005	—	$ —		
Granted	2,891,304	$ 8.75		
Exercised	—	$ —		
Expired	—	$ —		
Forfeited	(104,772)	$ 9.08		
Options outstanding, December 31, 2006	2,786,532	$ 8.74		
Granted	123,000	$ 11.68		
Exercised	(13,830)	$ 8.12		
Expired	—	$ —		
Forfeited	(887,364)	$ 9.70		
Options outstanding, December 31, 2007	2,008,338	$ 8.74	2.32	$ 1,263,802
Vested and expected to vest at December 31, 2007	815,493	$ 8.30	2.31	$ 560,107
Options exercisable, December 31, 2007	2,008,338	$ 8.51	2.32	$ 1,263,802
Options exercisable, December 31, 2006	2,786,532	$ 8.74	3.36	$ 8,187,950

The weighted-average fair value of options granted during the year ended December 31, 2007 was $11.68.

The intrinsic value of stock options at the date of exercise is the difference between the fair value of the stock at the date of exercise and the exercise price. During the years ended December 31, 2007, the intrinsic value of options exercised was $18,524. In determining the intrinsic value of stock options exercised, the Company established the exercise price based on the fair value of the Company’s stock at the date of grant as determined by the Company’s board of directors until the Company’s stock was publicly traded upon the commencement of its initial public offering in February 2007. Aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value price of the Company’s common stock for the 957,978 options that were in-the-money as of December 31, 2007.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Additional information with respect to outstanding options under the 2006 Plan as of December 31, 2007 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$6.00-$7.00	915,738	2.25	$ 6.78	915,738	$ 6.78
$7.01-$9.00	42,240	2.17	$ 7.10	42,240	$ 7.10
$9.01-$10.00	668,280	2.42	$ 9.17	668,280	$ 9.17
$10.01-$12.00	382,080	2.36	$ 11.68	382,080	$ 11.68
Total	2,008,338	2.32	$ 8.51	2,008,338	$ 8.51

Warrants

At December 31, 2007, the Company had outstanding vested warrants to purchase up to 84,332 shares of common stock, which warrants terminate three years after their respective grant dates. The following table summarizes the warrants outstanding at December 31, 2007:

Security Issued Upon Exercise	No. of Shares	Grant Date	Exercise Price	Purpose of Grant
Common stock	66,332	March 3, 2006	$ 6.78	Financial advisory services
Common stock	18,000	May 22, 2006	$ 9.17	Lending arrangement
Total	84,332			

The March 3, 2006 warrants were issued in connection with the placement of the Preferred Stock to the placement agent as a portion of their fee. The warrants are immediately exercisable and fully vested. The fair value of these warrants has been netted against the proceeds of the private placement and recorded as a reduction to the Preferred Stock. The May 22, 2006 warrants were issued as part of the $22.0 million secured debt financing associated with the Partsbin acquisition and were recorded as a discount on notes payable. Both issuances increased additional paid-in-capital on common stock.

The Company determined the fair value of the warrants at the date of grant using the Black-Scholes option pricing model based on the estimated fair value of the underlying common stock, a volatility rate ranging from 30% to 31%, zero dividends, a risk-free interest rate ranging from 4.75% to 5.00%, and an expected life of two years.

7. Accounting for Share-Based Compensation

The Company accounts for share-based compensation in accordance with SFAS No. 123 (revised 2004), "*Share-Based Payment*" ("SFAS 123(R)"), which was adopted on January 1, 2006. No stock options were granted prior to January 1, 2006. All stock options issued to employees are recognized as share-based compensation expense in the financial statements based on their respective grant date fair values, on a straight-line basis and are recognized within the statements of income as general and administrative, marketing, fulfillment or technology expense, based on employee departmental classifications.

Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payment awards. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. As of December 31, 2007, the Company did not have an adequate history of market prices of its common stock as the Company only recently became a public company, and as such the Company estimates volatility in accordance with SAB No. 107 using historical volatilities of similar public entities. The expected life of an award is based on a simplified method which defines the life as the average of the contractual term of the option and the weighted average vesting period for all open tranches. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected life of the awards. The dividend yield assumption is based on the Company's expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for the each of the years ended:

	December 31, 2006	December 31, 2007
Expected life	3– 4 years	1– 4 years
Risk-free interest rate	5%	3% – 5%
Expected volatility	30% –38%	32% –39%
Expected dividend yield	0%	0%

Using the Black-Scholes option-pricing model for the estimated weighted average fair value of an option to purchase one share of common stock granted during the year ended December 31, 2007, the resulting fair value was $2.66 per share of common stock subject to options.

In October 2007, the Board approved an option grant, which contained a market condition requirement. These options will vest based on the achievement of specified stock price appreciation milestones, which represents a market condition, over a five-year period commencing on October 15, 2007. The grant was for a total of 250,000 shares. The fair value of the option was estimated on the date of grant using the Monte Carlo option pricing model with the following average assumptions:

	December 31, 2007
Expected life	2.4 years
Risk-free interest rate	4.20%
Expected volatility	39%
Expected dividend yield	0%
Initial stock price	$ 8.65

Share-Based Compensation Expense

The Company's adoption of SFAS No. 123(R), effective January 1, 2006, resulted in the recognition of share-based compensation expense of $856,000 and $2.2 million, net of $171,000 and $508,000 of expense capitalized as internally- developed software, for each of the years ended December 31, 2006 and 2007, respectively. This share-based compensation expense caused the Company's basic and diluted net income per share for the years ended December 31, 2006 and 2007 to be reduced by $0.06 and $0.05 and $0.08 and $0.08, respectively.

There was $4.6 million of unrecognized compensation expense related to stock options as of December 31, 2007, which expense is expected to be recognized over a weighted-average period of 2.9 years. The table below sets forth the expected amortization of share-based compensation expense for the next four years for all options granted as of December 31, 2007, assuming all employees remain employed by the Company for their remaining vesting periods:

	Years Ending December 31,			
	2008	2009	2010	2011
	(in thousands)			
Amortization of share-based compensation	$1,912	$1,725	$608	$306

For non-employees, the Company accounts for share-based compensation in accordance with EITF No. 96-18, *"Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."* Equity instruments awarded to non-employees are periodically re-measured as the underlying awards vest unless the instruments are fully vested, immediately exercisable and non-forfeitable on the date of grant.

8. Net Income Per Share

Net income per share has been computed in accordance with FASB Statement No. 128, *"Earnings Per Share."* The following table sets forth the computation of basic and diluted net income (loss) per share:

	Years Ended December 31,		
	2005	2006	2007
	(in thousands, except share and per share data)		
Net Income Per Share			
Numerator:			
Net income (loss)	$ 6,819	$ 3,496	$ (3,597)
Denominator:			
Weighted-average common shares outstanding (basic)	13,200,000	14,437,657	28,274,022
Common equivalent shares from conversion of preferred stock	—	5,524,683	—
Common equivalent shares from common stock options and warrants	—	28,091	—
Weighted-average common shares outstanding (diluted)	13,200,000	19,990,431	28,274,022
Basic net income (loss) per share	$ 0.52	$ 0.24	$ (0.13)
Diluted net income (loss) per share	$ 0.52	$ 0.17	$ (0.13)

Potentially dilutive securities not included in the calculation of diluted net income per share because to do so would be anti-dilutive are as follows (in common equivalent shares):

	Years Ended December 31,		
	2005	2006	2007
Common stock warrants	—	—	84,332
Options to purchase common stock	—	1,649,614	4,899,400
Shares of common stock subject to repurchase	—	—	—
Total	—	1,649,614	4,983,732

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Income Taxes

From inception to March 2, 2006, the Company operated as an S corporation. Deferred tax assets and liabilities are recognized for the tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset valuation allowance will be recorded if it is more likely than not that all or a portion of the recorded deferred tax assets will not be realized.

In July 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*," which became effective for the Company on January 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that has greater than 50 percent likelihood of being realized upon ultimate settlement. As a result of the adoption of FIN 48 at January 1, 2007 and as of December 31, 2007 as a result of updating its current year analysis, the Company recognized no material adjustment in the liability for unrecognized income tax benefits and no corresponding interest or penalties; however the Company's policy is to record interest and penalties as income tax expense. The tax years 2004 through 2006 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Income tax expense as it relates to the Company's consolidated entity which was a C corporation for the years ended December 31, 2005, 2006 and 2007 consists of the following:

	Years Ended December 31,		
	2005	2006	2007
		(in thousands)	
Current:			
Federal tax	$(209)	$ 2,432	$ 1,634
State tax	148	733	570
Foreign tax	—	—	90
Total current taxes	(61)	3,165	2,294
Deferred:			
Federal tax	(54)	(2,018)	(1,409)
State tax	(48)	(597)	(349)
Foreign tax	—	—	—
Total deferred taxes	(102)	(2,615)	(1,757)
Income tax expense (benefit), consolidated	$(163)	$ 550	$ 538

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income tax expense differs from the amount that would result from applying the federal statutory rate as follows:

	Years Ended December 31,		
	2005	2006	2007
		(in thousands)	
Income tax at U.S. federal statutory rate:			
U.S. Auto Parts Network	$ —	$1,374	$(1,114)
MBS Marketing	(3)	—	—
Share-based compensation	—	111	161
State income tax, net of federal tax effect	115	240	(192)
S-Corporation rate adjustment	—	(715)	—
Change in rate for deferred tax assets	(275)	(457)	—
Tax exempt interest	—	—	(210)
Legal settlement	—	—	1,789
Foreign tax	—	—	90
Other	—	(3)	14
Effective tax (benefit) provision	$(163)	$ 550	$ 538

The Company's effective tax rate was also impacted by income taxes incurred in foreign and state jurisdictions. With respect to the income of its foreign subsidiaries, the Company takes the position that the earnings of the foreign subsidiaries are permanently invested in that jurisdiction. As a result, no additional income taxes have been provided on the possible repatriation of these earnings to the parent company. The Company has not calculated the amount of deferred liability that would result from such repatriation as such determinable is not practicable.

Deferred tax assets and deferred tax liabilities at December 31, 2005, 2006 and 2007 consisted of the following:

	December 31,		
	2005	2006	2007
		(in thousands)	
Deferred tax assets:			
Inventory reserve	$ 14	$ 280	$ 259
Share-based compensation	—	248	1,003
Amortization	—	1,580	3,841
Book over tax depreciation	—	78	—
Sales reserve	3	606	305
Deferred state tax deduction	—	—	124
Other	5	260	197
Total deferred tax assets	22	3,052	5, 729
Deferred tax liability:			
Tax over book depreciation	—	—	398
Tax over book goodwill amortization	—	203	609
State deferred tax liabilities	—	212	329
Accrual to cash adjustment	—	—	—
Total deferred tax liability	—	415	1,336
Net consolidated deferred tax assets (liabilities)	$ 22	$2,637	$ 4,393

Included in accrued expenses are income taxes receivable of $207,000 and $1.3 million for the years ended December 31, 2006 and 2007, respectively. Income taxes consist primarily of domestic taxes.

10. Related-Party Transactions

Beginning in November 2003, the Company leased its corporate headquarters and primary warehouse from Nia Chloe, LLC ("Nia Chloe"), a related party with ownership which mirrored the then ownership of the Company. Lease payments and expenses associated with this related party arrangement totaled $475,000, $541,000 and $527,000, respectively, for the years ended December 31, 2005, 2006 and 2007. The Company had guaranteed Nia Chloe's loans from two banks in the aggregate amount of $3.4 million with respect to the property that it leases from Nia Chloe. Such guarantees were terminated in March 2006. An unsecured, non-interest bearing loan of $94,000 was due to Nia Chloe and payable upon demand as of December 31, 2004. This loan was repaid in 2005. The Company has evaluated its relationship with Nia Chloe with regard to FIN 46R, "*Consolidation of Variable Interest Entities*". The Company has determined that Nia Chloe does not meet the criteria for consolidation under FIN 46R and therefore this entity is not consolidated in the Company's financial statements.

Prior to the merger of MBS into the Company in June 2005 (see Note 1), MBS provided marketing services to the Company and received an aggregate of $338,000 from the Company in the year ended December 31, 2005. The ownership of MBS, prior to the merger, mirrored the ownership of the Company.

In September 2006, MBS Tek was recapitalized and became a majority-owned subsidiary of the Company. The Company owns all of the outstanding shares of MBS Tek except for five shares in the aggregate, representing approximately 0.1% of the total outstanding shares of MBS Tek, of which two of the Company's officers each hold one share. Prior to September 2006, MBS Tek was owned by certain stockholders of the Company and mirrored the ownership of the Company. For the year ended December 31, 2005 and for the nine months ended September 30, 2006, the Company paid MBS Tek an aggregate of $398,000 and $759,000, respectively, in connection with marketing, software development, sales and customer service. Subsequent to September 30, 2006, MBS Tek has been consolidated into the Company and expenses are no longer treated as payments subject to related party treatment.

In September 2002, the landlord of a related party filed a lawsuit in Los Angeles Superior Court alleging certain breaches of a lease relating to a property located in Los Angeles, California. The Company was a sub-lessee to the property and was added as a co-defendant in the lawsuit, which was settled in March 2003. In October 2004, a lawsuit was filed against the Company and an officer, director and stockholder of the Company in connection with another business that had been owned by the related party. The Company was dismissed from the lawsuit in October 2005. The Company paid approximately $118,000 and $77,000 during the years ended December 31, 2005 and 2006, respectively, to defend and settle these lawsuits.

During 2004, the Company purchased, through MBS, $2.9 million in software from a related party, to support its online marketing efforts. The Company supported the fair value of the software purchase through an independent third-party valuation. At December 31, 2004 and 2005, the Company had unsecured notes payable outstanding for this software purchase, totaling $1.5 million and $96,000, respectively, with an interest rate of 5.0% per annum. These notes were repaid in 2006. Since the software purchases in 2004, the Company continued to purchase software and other products and services from the related party through December 31, 2006. The Company's payments to the related party for such services and products in 2005 and 2006 totaled $23,000 and $7,000, respectively.

From time to time, the Company has purchased inventory from an entity partially owned by a member of the Company's board of directors. During the years ended December 31, 2005, 2006 and 2007, the Company purchased inventory totaling $415,000, $360,000 and $394,000, respectively, from the entity, which the Company believes to be at fair market value.

In addition, the Company purchased office and warehouse supplies during the years ended December 31, 2005 and 2006 from a related party in the amount of $114,000 and $131,000, respectively, which the Company believes was the fair market value of the supplies.

Since 2004, a related party has used a portion of the Company's facility located in Nashville, Tennessee. For the years ended December 31, 2005, 2006 and 2007, the related party paid to the Company $36,000, $36,000 and $60,000, respectively, as payment for its use of such portion of the Company's Tennessee facility.

The Company paid a related party consulting fees which totaled $120,000 and $30,000, respectively, for the years ended December 31, 2005 and 2006. The Company terminated this arrangement in April 2006.

A related entity also provides printing services for the Company. For the years ended December 31, 2005, 2006 and 2007, the Company paid this entity $101,000, $170,000 and $62,000, respectively, for such services.

A family member of a director, officer and stockholder of the Company received wages from the Company totaling approximately $79,000, $79,000, and $79,000 in 2005, 2006 and 2007, respectively, as an employee in the Company's sales department. The family member terminated employment with the Company in December 2007.

In March 2006, concurrent with the Company's recapitalization and the termination of the Company's S corporation status, the Company distributed to the Company's stockholders an aggregate of $51.7 million in cash, in proportion to their ownership of the Company's common stock. At the time of this event, those stockholders were directors and officers of the Company.

In connection with the Company's acquisition of Partsbin in May 2006, the Company issued to a stockholder of Partsbin a promissory note in the principal amount of approximately $1.9 million, which bore interest at LIBOR, all of which was outstanding as of December 31, 2006. The stockholder served as a director and officer of the Company until October 2007.

Since October 2006, the Company has purchased paid search engine marketing services from an entity of which a member of the Company's board of directors is the chairman. During the years ended December 31, 2006 and 2007, the Company purchased paid search engine marketing services totaling $5,000 and $344,000, respectively, from the entity, which the Company believes to be at fair market value.

The Company has entered into indemnification agreements with the Company's directors and executive officers. These agreements require the Company to indemnify these individuals to the fullest extent permitted under law against liabilities that may arise by reason of their service to the Company, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified. The Company also intends to enter into indemnification agreements with the Company's future directors and executive officers.

11. Commitments and Contingencies

The Company's corporate headquarters and primary warehouse facilities are under a five-year non-cancelable operating lease, which commenced in November 2003 and expires in December 2008. The rent for the facilities is increased annually by the greater of 2% or the increase in the U.S. Consumer Price Index. During 2003, the Company had a two-year non-cancelable operating lease which was converted to the above agreement.

In September 2004, the Company entered into a lease for warehouse space adjacent to its primary facility in Carson, California from a third party under an agreement that expired August 31, 2006. This lease was renewed through February 28, 2009. On October 1, 2006, the Company entered into a third lease agreement for additional warehouse space adjacent to its primary facilities in Carson, CA. This lease expires September 30, 2008. Additionally, the Company leases warehouse space in Tennessee and Kansas from a third party on a month to month basis and leases office space internationally, with minimal lease cost, to help support its Internet marketing and administrative functions.

As part of the Partsbin acquisition on May 19, 2006, the Company acquired a lease for office space in Trenton, New Jersey with monthly payments of $11,614 including common area maintenance charges, real estate taxes, water, sewer and utilities. This lease was entered into by Partsbin in November 2001, was extended and currently expires in October 2009.

In August 2007, the Company's Philippines subsidiary entered into lease agreements to expand its current operations. Under the terms of the lease agreements, the Company added an additional 16,345 square feet of space for a period of twelve months, effective August 31, 2007, for monthly rent of approximately $11,000. In October 2007, the Company's Philippines subsidiary entered into a new lease agreement for additional space to expand its current operations. Under the terms of the lease, the Company added approximately 11,000 square feet of space for a period of three years, effective September 1, 2007, for monthly rent of approximately $9,000.

Facility rent expense, inclusive of amounts paid to Nia Chloe, for the years ended December 31, 2005, 2006 and 2007, were $790,000, $974,000 and $1.4 million, respectively.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Future minimum facility lease payments required under the above operating leases as of December 31, 2007 are:

Years Ending December 31,	Related Parties	Unrelated Parties	Total
	(in thousands)		
2008	$ 546	$ 822	$1,368
2009	—	296	296
2010	—	96	96
Total	$ 546	$ 1,214	$1,760

Obligations Under Capital Leases

The Company finances certain equipment under capital leases. Assets held under capital leases totaled $710,000, $252,000 and $264,000 for the years ended December 31, 2005, 2006 and 2007, respectively. Accumulated depreciation for assets held under capital leases totaled $208,000, $73,000 and $130,000 for the years ended December 31, 2005, 2006 and 2007, respectively. Depreciation of assets held under capital leases is included in depreciation expense and was $95,000, $55,000 and $52,000 for the years ended December 31, 2005, 2006 and 2007, respectively. Capitalized leases bear interest ranging from a nominal rate to 10.68%.

Future minimum lease payments under capital leases as of December 31, 2007 are:

Years Ending December 31,	(in thousands)
2008	$ 79
2009	48
2010	—
2011	—
Total minimum payment	127
Less amounts representing interest	(6)
Total obligation under capital leases	121
Less current portion	(73)
Long-term obligation	$ 48

Legal Matters

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the potential loss, if any, cannot be reasonably estimated. However, the Company believes that the final disposition of such matters will not have a material adverse effect on the financial position, results of operations or cash flow of the Company, with the exception of the items noted below. The Company maintains various liability insurance coverages to protect the Company's assets from losses arising out of or involving activities associated with ongoing and normal business operations.

Ford Global Technologies, LLC

On December 2, 2005, Ford Global Technologies, LLC ("Ford") filed a complaint with the United States International Trade Commission ("USITC" or the "Commission") against the Company and five other named respondents, including four Taiwan-based manufacturers. On December 12, 2005, Ford filed an amended complaint. Both the complaint and the amended complaint charged the Company and the other respondents with infringement of 14 design patents that Ford alleges cover eight parts on the 2004-2005 Ford F-150 trucks (the "Ford Design Patents"). Ford asked the USITC to issue a permanent general exclusion order excluding from entry into the United States all automotive parts that infringe the Ford Design Patents and that are imported into the United States, sold for importation in the United States, or sold within the United States after importation. Ford also sought a permanent order directing the Company and the other respondents to cease and desist from, among other things, selling, marketing, advertising, distributing and offering for sale imported automotive parts that infringe the Ford Design Patents. The Company filed its response to the complaint with the USITC in January 2006 denying, among other things, that any of the Ford Design Patents is valid and/or enforceable and, further, denying each and every allegation of infringement. The Company also asserted several affirmative defenses, any of which, if successful, would have precluded the USITC from granting any of Ford's requested relief. Some of these defenses were struck by the Administrative Law Judge ("ALJ") in response to motions by Ford. Additionally, four of the Ford Design Patents were dropped from the investigation at Ford's request. A hearing before the ALJ occurred in August 2006.

On December 4, 2006, the ALJ issued an initial determination finding three of the ten Ford Design Patents invalid, but upholding the validity and enforceability of the other seven Ford Design Patents, and ruling that the importation of automotive parts allegedly covered by these seven patents violates Section 337 of the Tariff Act of 1930, as amended. This initial determination was subject to review by the USITC. The Company and the other respondents accordingly filed a petition urging the Commission to review and reverse the portions of the initial determination finding seven of the ten patents valid, enforceable, and infringed. Ford, in turn, petitioned for review of the portion of the initial determination finding three of its design patents invalid. The ALJ's initial determination on all issues became the final determination of the USITC upon notice by the USITC on March 20, 2007 of its decision not to review the initial determination. On May 1, 2007, the Company and other respondents petitioned the USITC to reconsider its March 2007 ruling not to review the ALJ's determination regarding the seven Ford Design Patents found valid and infringed, in light of the Supreme Court's April 30, 2007 decision in *KSR International, Inc, v. Teleflex, Inc.* The USITC issued a "Notice of Commission Determination To Waive Reconsideration Rule Deadline And To Extend Target Date" on May 4, 2007. In this Notice, the USITC indicated that it would consider the petition and extended the target date for issuing a final order to June 6, 2007. Ford and the USITC's Office of Unfair Import Investigations opposed the Company's petition for reconsideration.

On June 6, 2007, the USITC denied the petition for reconsideration, terminated its investigation and issued a general exclusion order. The Commission denied Ford's request for a cease and desist order. The general exclusion order prohibits the importation, sale for importation, or sale in the United States after importation of aftermarket collision parts that infringe any of the seven Ford Design Patents previously determined to be valid. The final determination by the USITC was subject to review by the President of the United States, who is authorized to disapprove Commission orders for policy considerations. The mandatory 60-day Presidential review period ended on August 6, 2007, with the President taking no action.

While the portion of the Commission's March 20, 2007 ruling finding a violation of Section 337 did not become final appealable order until the end of the Presidential review period, the Commission's finding of no violation of Section 337 as to the three of Ford's Design Patents held invalid was not subject to Presidential review, and became a final appealable order as of March 20, 2007. Accordingly, on May 18, 2007, Ford filed a Petition For Review at the United States Court of Appeals for the Federal Circuit seeking review and reversal of the portion of the USITC's March 20, 2007 final determination finding three of the Ford Design Patents invalid.

On August 23, 2007, the Company also appealed to the United States Court of Appeals for the Federal Circuit, seeking a review and reversal of the portion of the Commission's March 20, 2007 final determination finding a violation of Section 337. Ford's Petition for Review and the Company's appeal have been consolidated and are currently pending before the United States Court of Appeals for the Federal Circuit. Due to the inherent uncertainties of litigation, the Company cannot predict the ultimate outcome of the litigation. An unfavorable result could have a material adverse effect on the Company. However, the Company believes the potential liability is not probable or reasonably estimatable and has recorded no amount related to this matter as of December 31, 2007.

Securities Litigation

On March 24, 2007, a putative stockholder class action lawsuit was filed against the Company and certain officers, directors and underwriters in the U.S. District Court for the Central District of California. The complaint alleged that the Company filed a false Registration Statement in connection with the Company's initial public offering in violation of Section 11 and Section 15 of the Securities Act of 1933, as amended (the "Securities Act"). On April 26, 2007, a second complaint containing substantially similar allegations was filed, and also included a claim under Section 12(a)(2) of the Securities Act. The complaints were consolidated on May 15, 2007. A lead plaintiff was selected on August 9, 2007. The amended consolidated complaint was filed on October 4, 2007, alleging violations of Sections 11, 12(a)(2) and 15 of the Securities Act. The amended complaint is against the Company and certain current and former officers, as well as Oak Investment

Partners XI, LP, and the underwriters involved in the initial public offering. The amended consolidated complaint alleged that the Company's Registration Statement failed to disclose material information and misstated the Company's financial results. Plaintiffs sought compensatory damages, restitution, unspecified equitable relief, as well as attorneys' fees and costs. As described more fully in Note 15, under the caption *Securities Litigation Settlement in Principle,* the Company and the lead plaintiff's counsel reached a settlement in principle in January 2008. The settlement in principle is subject to confirmatory discovery, finalization of settlement documentation and Court approval. The Company's contribution to the settlement consideration of approximately $3.8 million plus legal expenses have been included in the Company's financial statements for the year ended December 31, 2007. In light of the settlement in principle, defendants have rescheduled the motion to dismiss to April 7, 2008.

In August 2007, we also received a letter from the SEC that indicated that the SEC had commenced an informal inquiry into the events leading up to the Company's announcement on March 20, 2007 of its financial results for the fourth quarter and year ended December 31, 2006. The Company intends to fully cooperate with the SEC in this matter.

12. Employee Retirement Plan

Effective February 17, 2006, the Company adopted a 401(k) defined contribution retirement plan covering all full time employees who have completed one month of service. The Company may, at its sole discretion, match fifty cents per dollar up to 6% of each participating employee's salary. The Company's contributions vest in annual installments over three years. Discretionary contributions made by the Company totaled $82,000 and $145,000 for the years ended December 31, 2006 and 2007, respectively.

13. Recent Acquisition

In April 2007, the Company entered into a purchase agreement with its outsourced call center provider to bring in-house certain sales and customer service employees based in the Philippines, who were providing support to the Company through this provider. The purchase price to acquire this assembled workforce was approximately $1.7 million. In order to properly account for this transaction, the Company obtained an independent third party valuation of the components of this contract. The valuation resulted in the recognition of an intangible asset, "assembled workforce," with a fair value of $1.3 million and an estimated useful life of seven years. The remaining $400,000 of the purchase price was recorded as marketing expense. Under the terms of the purchase agreement, approximately 182 of the provider's employees were given the opportunity to become U.S. Auto Parts employees. As of the closing of this transaction, 171 of these employees agreed to transition over to direct employment by the Company's Philippines subsidiary. The Company also entered into an agreement to lease workstations in the provider's facility in the Philippines for a period of six months after the closing date.

On May 19, 2006, the Company acquired all of the assets of Partsbin, an online retailer of auto parts primarily selling engine parts, performance parts, and accessories to do-it-yourself consumers. The acquisition has been accounted for as a purchase in accordance with Statement of Financial Accounting Standards No. 141, "*Business Combinations*," and accordingly, the acquired assets and liabilities have been recorded at fair value. Because of this, different bases of accounting have been used to prepare the Company and Partsbin consolidated financial statements. The primary differences are related to additional interest expense on the debt (until paid off in February 2007 with the proceeds of the initial public offering) and amortization of the intangibles recorded at the date of the acquisition.

The total purchase price for the acquisition was $50.6 million and consisted of $25.0 million in cash, $5.0 million in notes payable to the former stockholders of Partsbin and 1,983,315 fully vested shares of the Company's common stock. In addition, the Company incurred $551,000 of direct transaction costs related to the acquisition. In addition to the purchase price, the Company issued to the former stockholders of Partsbin options exercisable for 1.1 million shares of the Company's common stock, which will vest over four years. The options vest with respect to 25% of the shares one year after the grant date with the remaining shares vesting in 36 monthly installments. In accordance with EITF Issue No. 95-8, "*Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*," these options will be recorded as compensation expense in the period in which they are earned, as the vesting of shares is directly linked to continued employment with the Company. The notes payable required payment of principal and accrued interest beginning June 30, 2007. The notes also became due and payable upon completion of the Company's initial public offering. See Note 6. Interest expense on the notes payable was accrued in the accompanying consolidated statement of operations.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The allocation of the purchase price to assets acquired and liabilities assumed and various finite and indefinite lived intangible assets as well as goodwill is based on a valuation study.

The results of operations of Partsbin and the estimated fair market values of the acquired assets and liabilities have been included in the consolidated financial statements from the date of the acquisition. The components of the aggregate cost of the transaction are as follows (in thousands):

Cash	$ 25,000
Notes payable	5,000
Common stock	20,000
Transaction costs	551
Total	$ 50,551

The purchase price for the Partsbin transaction was preliminarily allocated to assets purchased and liabilities assumed based on their estimated fair values determined by management as follows (in thousands):

		Estimated Amortizable Life
Tangible assets:		
Cash	$ 1,097	
Inventory	604	
Fixed assets:		
Computers and software	218	2-5 years
Machinery and equipment	35	3-5 years
Vehicles	16	3-5 years
Furniture and fixtures	2	3-5 years
Other assets — current	94	
Other assets — long term	28	
Intangible assets:		
Websites	28,988	5 years
Software	4,089	3 years
Vendor agreements	2,996	3 years
Domain names	2,345	
Goodwill	14,179	
Total assets	54,691	
Liabilities:		
Accounts payable and accrued expenses	(3,045)	
Other current liabilities	(1,080)	
Note payable — current	(8)	
Note payable — long term	(7)	
Total liabilities	(4,140)	
Total purchase price	$50,551	

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill is comprised of the residual amount of the purchase price over the fair value of acquired tangible and intangible assets. For tax purposes, the goodwill is amortized over fifteen years under IRC Section 197.

In accordance with the purchase method of accounting, the operating results of Partsbin have been included in the Company's consolidated operating results since the acquisition date, May 19, 2006. If the operating results of Partsbin had been included since the beginning of the period for years ended December 31, 2005 and 2006, the pro forma unaudited results of operations of the Company would be as follows:

	Years Ended December 31, 2005	Years Ended December 31, 2006
	(unaudited) (in thousands, except share and per share data)	
Net sales	$ 98,168	$ 143,912
Net income (loss)	(3,052)	1,448
Basic net income (loss) per share	$ (0.20)	$ 0.10
Diluted net income (loss) per share	$ (0.20)	$ 0.07
Weighted average shares used in computing basic net income (loss) per common share	15,183,315	15,192,945
Weighted average shares used in computing diluted net income (loss) per common share	15,183,315	20,745,720

14. Quarterly Information (Unaudited)

The following quarterly information includes all adjustments which management considers necessary for a fair presentation of such information. For interim quarterly financial statements, the provision for income taxes is estimated using the best available information for projected results for the entire year. The sum of the four quarters will not agree to the year total due to rounding within a quarter.

	Three Months Ended							
	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
	(in thousands, except share and per share data)							
Consolidated Statement of Income Data:								
Net sales	$ 18,005	$ 26,966	$ 38,324	$ 36,765	$ 43,743	$ 42,112	$ 37,787	$ 37,315
Gross profit	7,746	9,349	12,421	11,971	13,669	13,785	13,691	12,680
Income from operations	2,455	1,397	993	559	673	740	1,135	(6,755)
Income before income taxes	2,564	1,083	398	1	395	1,288	1,527	(6,269)
Net income (loss)	$ 2,720	$ 611	$ 187	$ (22)	$ 235	$ 773	$ 894	$ (5,498)
Basic net income (loss) per share	$ 0.21	$ 0.04	$ 0.01	$ (0.00)	$ 0.01	$ 0.03	$ 0.03	$ (0.18)
Diluted net income (loss) per share	$ 0.18	$ 0.03	$ 0.01	$ (0.00)	$ 0.01	$ 0.03	$ 0.03	$ (0.18)
Shares used in computation of basic net income (loss) per share	13,200,000	14,120,952	15,199,681	15,199,672	23,491,850	29,832,927	29,837,538	29,846,757
Shares used in computation of diluted net income (loss) per share	15,382,341	20,772,428	21,876,868	15,199,672	26,564,603	29,853,346	30,009,891	29,846,757

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

15. Subsequent Events (Unaudited)

Securities Litigation Settlement in Principle

The Company and certain of its officers, directors, and underwriters have been served with two putative class action complaints alleging violations of federal securities law in connection with the Company's initial public offering. These complaints were subsequently consolidated. In January 2008, the parties reached a settlement in principle, subject to confirmatory discovery, finalization of settlement documentation and Court approval. The Company's contribution to the settlement consideration is approximately $3.8 million and legal costs, which expense it has included in its financial results for the year ended December 31, 2007, under general and administration expense. The Company cannot guarantee that a court-approved settlement will be obtained and therefore the Company could be subject to incur additional significant costs and/or result in the further diversion of the attention of management and other key employees.

Auction Rate Securities

The Company's short-term marketable securities included $22.7 million and $24.9 million of auction rate securities issued primarily by municipalities as of December 31, 2007 and January 31, 2008, respectively. As of January 31, 2008, the Company held $24.9 million in auction rate securities and in early February 2008, the Company ordered the sale of its entire holdings of $24.9 million of auction rate securities. Sales of $17.1 million of the Company's holdings in auction rate securities were successful and placed in a money market account. On February 13, 2008, the Company was informed that there was insufficient demand at auction (also known as a failure to settle) for four of its auction rate securities: Blackrock Muniholdings California Insured Fund, Nuveen Insured California Dividend Advantage Municipal Fund, Blackrock Muniyield California Insured Fund Inc. and Van Kampen Merritt California Quality Municipal Trust, representing $3.4 million, $1.9 million, $1.4 million and $1.1 million, respectively. As a result, these affected securities are currently not liquid. However, the Company now earns higher interest rates on these specific investments. In the event the Company needs to access the funds that are in an illiquid state, it will not be able to do so without the possible loss of principal, until a future auction for these investments is successful or they are redeemed by the issuer or they mature. At this time, management has not obtained sufficient evidence to conclude that these investments are impaired or that they will not be settled in the short term, although the market for these investments is presently uncertain. If we are unable to sell these securities in the market or they are not redeemed, then the Company could be required to hold them to maturity. The Company does not have a need to access these funds for operational purposes for the foreseeable future. The Company will continue to monitor and evaluate these investments on an ongoing basis for impairment or for the need to reclassify to long term investments.

EXHIBIT INDEX

Exhibit No.	Description
2.1*	Acquisition Agreement dated May 19, 2006 by and among U.S. Auto Parts Network, Inc. and Partsbin, Inc., on the one hand, and The Partsbin.com, Inc., All OEM Parts, Inc., Power Host, Inc., Auto Parts Web Solutions, Inc., Web Chat Solutions, Inc., Everything Internet, LLC, Richard E. Pine, Lowell E. Mann, Brian Tinari and Todd Daugherty, on the other hand
3.1	Second Amended and Restated Certificate of Incorporation of U.S. Auto Parts Network, Inc. as filed with the Delaware Secretary of State on February 14, 2007 (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2007)
3.2	Amended and Restated Bylaws of U.S. Auto Parts Network, Inc. (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2007)
4.1*	Specimen common stock certificate
10.1+*	U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan
10.2+*	Form of Stock Option Agreement under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.3+*	Form of Notice of Grant of Stock Option under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.4+*	Form of Acceleration Addendum to Stock Option Agreement under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.5+*	U.S. Auto Parts Network, Inc. 2007 Omnibus Plan and forms of agreements
10.6*	Investors' Rights Agreement dated March 3, 2006 by and between U.S. Auto Parts Network, Inc. and Oak Investment Partners XI, L.P.
10.7*	Note and Security Agreement dated May 19, 2006 by and among U.S. Auto Parts Network, Inc., Richard Pine, Lowell Mann, Brian Tinari and Todd Daugherty
10.8+*	Offer Letter of Employment dated May 19, 2006 by and between U.S. Auto Parts Network, Inc. and Richard Pine
10.9+*	Non-Competition Agreement dated May 19, 2006 by and among U.S. Auto Parts Network, Inc. and Richard Pine, Lowell Mann, Brian Tinari and Todd Daugherty
10.10*	Shareholder's Release dated May 19, 2006 by and between U.S. Auto Parts Network, Inc. and Richard Pine
10.11*	Business Loan Agreement dated February 24, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.12*	Promissory Note dated February 24, 2006 by U.S. Auto Parts Network, Inc. in favor of East West Bank
10.13*	Teletransmission Agreement dated February 24, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.14*	Business Loan Agreement dated February 24, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank

Table of Contents

Exhibit No.	Description
10.15*	Changes in Terms Agreement dated February 24, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.16*	Loan Agreement dated May 18, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.17*	Secured Promissory Note dated May 18, 2006 by U.S. Auto Parts Network, Inc. in favor of East West Bank
10.18*	Collateral Assignment Agreement dated May 18, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.19*	Collateral Assignment Agreement dated May 18, 2006 by and between PartsBin, Inc. and East West Bank
10.20*	Security Agreement dated May 18, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.21*	Security Agreement dated May 18, 2006 by and between PartsBin, Inc. and East West Bank
10.22*	Amendment to Existing Agreements dated May 18, 2006 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.23*	Commercial Lease Agreement dated January 1, 2004 by and between U.S. Auto Parts Network, Inc. and Nia Chloe Enterprises, LLC
10.24*	Standard Industrial/Commercial Multi-Tenant Lease — Gross dated October 1, 2006 by and between U.S. Auto Parts Network, Inc. and Margay 2003, LLC
10.25*	Standard Industrial/Commercial Multi-Tenant Lease — Gross dated July 12, 2004 by and between U.S. Auto Parts Network, Inc. and Isadore Socransky
10.26*	Lease dated November 30, 2004 by and between U.S. Auto Parts Network, Inc. and William Coats
10.27†*	Catalog License and Parts Purchase Agreement dated November 20, 2006 by and between U.S. Auto Parts Network, Inc. and WORLDPAC, Inc.
10.28+*	Employment Agreement dated January 2007 by and between U.S. Auto Parts Network, Inc. and Michael J. McClane
10.29†*	Services Agreement dated October 3, 2006 by and between U.S. Auto Parts Network, Inc. and Efficient Frontier, Inc.
10.30+*	Offer Letter of Employment dated November 2006 by and between U.S. Auto Parts Network, Inc. and Howard Tong
10.31†*	Master Services Agreement dated August 5, 2005 by and between PartsBin, Inc. (as successor in interest to All OEM Parts, Inc.) and Access Worldwide Communications, Inc.
10.32+*	Offer Letter of Employment dated January 1, 2006 by and between U.S. Auto Parts Network, Inc. and Houman Akhavan
10.33+*	Form of Indemnification Agreement for Officers and Directors
10.34+*	Indemnification Agreement dated March 3, 2006 by and between U.S. Auto Parts Network, Inc. and Frederic Harman
10.35*	Deeds of Assignment and Declarations of Trust executed September 2006 regarding MBS Tek Corporation stock transfer

Exhibit No.	Description
10.36	Form of lock-up agreement, dated March 16, 2007, by and between U.S. Auto Parts Network, Inc. and each of the selling stockholders and the officers and/or directors affiliated with such selling stockholders (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2007)
10.37	Form of lock-up agreement, dated March 16, 2007, by and between U.S. Auto Parts Network, Inc. and each other executive officer and director (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2007)
10.38	Lock-up agreement, dated March 16, 2007, by and between U.S. Auto Parts Network, Inc. and Oak Investment Partners XI, L.P. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2007)
10.39	Purchase Agreement, dated April 20, 2007, by and among U.S. Auto Parts Network, Inc., Access Worldwide Communications, Inc. and their respective Philippine affiliates (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2007)
10.40	Lease Agreements, dated August 8, 2007, by and among MBS Tek Corporation and Roshan Commercial Corp. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 2, 2007)
10.41	Form of Suppliers' Agreement entered into between U.S. Auto Parts Network, Inc. and certain of its U.S. based suppliers and primary drop-ship vendors (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 2, 2007)
10.42+	Employment Agreement dated October 12, 2007 between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.43+	Non-Qualified Stock Option Agreement dated October 15, 2007 between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.44+	Non-Qualified Stock Option Agreement dated October 15, 2007 (performance grant) between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.45+	2007 New Employee Incentive Plan (incorporated by reference to Exhibit 99.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.46	Lease Agreement, dated October 11, 2007, by and between MBS Tek Corporation and Averon Holding Corporation (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2007)

Table of Contents

Exhibit No.	Description
10.47+	2008 Base Salaries and Target Bonuses of Certain Officers (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 4, 2008)
10.48	First Amendment to Collateral Assignment Agreements, dated October 31, 2007, by and between U.S. Auto Parts Network, Inc. and East West Bank
10.49+	Separation Agreement and Release of All Claims, effective March 10, 2008, by and between U.S. Auto Parts Network, Inc. and Howard Tong
10.50	Business Loan Agreement dated October 31, 2007 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.51	Changes in Terms Agreement dated October 31, 2007 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.52	Teletransmission Agreement dated October 31, 2007 by and between U.S. Auto Parts Network, Inc. and East West Bank
10.53	Commercial Security Agreement dated October 31, 2007 by and between U.S. Auto Parts Network, Inc. and East West Bank
21.1*	Subsidiaries of U.S. Auto Parts Network, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of the principal executive officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of the principal financial officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of the Chief Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference to the exhibit of the same number from the registration statement on Form S-1 of U.S. Auto Parts Network, Inc. (File No. 333-138379) initially filed with the Securities and Exchange Commission on November 2, 2006, as amended.

\+ Indicates a management contract or compensatory plan or arrangement

† U.S. Auto Parts Network, Inc. has been granted confidential treatment with respect to certain portions of this exhibit (indicated by asterisks), which have been separately filed with the Securities and Exchange Commission.

Exhibit 10.48

FIRST AMENDMENT TO COLLATERAL ASSIGNMENT

This First Amendment to Collateral Assignment is executed as of October 31, 2007 by U.S. Auto Parts Network, Inc., a Delaware corporation, located at 17150 S. Margay Avenue, Carson, CA 90746 (the **"Assignor"**) in favor of East West Bank, located at 9300 Flair Drive, El Monte, CA 91731 (the **"Lender"**), with reference to the following:

WHEREAS, Assignor and Lender have executed that certain Collateral Assignment dated May 18, 2006 (the **"Collateral Assignment"**); and

WHEREAS, Assignor and Lender are amending and restating that certain Business Loan Agreement dated February 24, 2006, in a Business Loan Agreement of even date herewith.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, Assignor and Lender hereby covenant and agree as follows:

1. §1.2 of the Collateral Assignment is hereby amended to read as follows:

   "1.2 All capitalized terms contained in this Agreement, but not specifically defined in this Agreement, have the meanings provided in the Loan Agreement (as defined below), or, if not defined therein, in the UCC to the extent the same are used or defined therein."

2. A new §1.3 of the Collateral Assignment is hereby added to read as follows:

   "1.3 As used herein, **"Loan Agreement"** means that certain Business Loan Agreement dated October 31, 2007, as the same may be amended."

3. A new §1.4 of the Collateral Assignment is hereby added to read as follows:

   "1.4 As used herein, **"Loan Document"** or **"Loan Documents"** means "Related Documents" as defined in that certain Commercial Security Agreement dated October 31, 2007, between Assignor and Lender, as the same may be amended (the **"Commercial Security Agreement"**).

4. A new §1.5 of the Collateral Assignment is hereby added to read as follows:

   "1.5 As used herein, **"Obligations"** means "Indebtedness" as defined in the Commercial Security Agreement.

5. The words “Section 7.1 of” in §7.1 of this Collateral Assignment are hereby deleted.

6. §14 of the Collateral assignment is hereby amended to read as follows:

“**NOTICES**. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party’s address. For notice purposes, Assignor agrees to keep Lender informed at all times of Assignor’s current address.”

IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the date first set forth above.

“Lender”:	“Assignor”:
East West Bank	**U.S. Auto Parts Network, Inc.**
By: /s/ JAY KIM	By: /s/ MICHAEL MCCLANE
Name: Jay Kim	Name: Michael McClane
Title: Sr. VP	Title: CFO

SEPARATION AGREEMENT AND RELEASE OF ALL CLAIMS

This Separation Agreement and Release of All Claims (the "***Agreement***") is between Howard Tong ("***Executive***") and U.S. Auto Parts Network, Inc., its foreign and domestic subsidiaries (whether or not wholly-owned), parent corporations, brother-sister corporations, benefit plans and plan administrators, affiliated entities, joint ventures, successors and/or assigns (collectively referred to as "***Company***" or "***USAP***").

RECITALS

A. Executive was employed by the Company as its Chief Operating Officer. Executive's employment was terminated by the Company effective December 10, 2007 ("***Separation Date***"), and Executive will not provide services to the Company after this date. Executive and the Company mutually desire to end their relationship as amicably as possible and eliminate any future disputes. The Company has elected to offer Executive compensation and benefits to which Executive would not otherwise be entitled. The Company and the Executive ("***the Parties***") expressly disclaim any wrongdoing or any liability to the other. This Agreement and compliance with it shall not be construed as an admission by the Company or Executive of any liability or violation to the rights of either of the Parties or any other person or as a violation of any order, law, statute duty or contract whatsoever as to either of the Parties or any person.

AGREEMENTS

Based upon the foregoing, and in consideration of the mutual promises contained in this Agreement, Executive and the Company (for its benefit and the benefit of the other Company Parties as defined below) agree, effective upon the date of execution by Executive, as follows:

1. Acknowledgment. Executive acknowledges that he has been paid all regular salary, expenses, commissions, distributions, earned but unused vacation, bonuses and Company benefits duty and owing as of the Separation Date, less appropriate withholdings and is not owed any monies allowed, including but not limited to those required under the California Labor Code, as of the Separation Date. This sum is not consideration for this Agreement. Information regarding the transfer or distribution of Executive's 401(k) Retirement Plan Account, while employed with the Company, will be or has been provided to Executive under a separate cover by the Principal Financial Group.

/s/ HO
Initial Here

2. Consideration & Effective Date. The Parties recognize that, apart from this Agreement, the Company is not obligated to provide Executive with any of the benefits set forth hereunder. The "***Effective Date***" of this Agreement shall be three (3) business days after receipt of this original fully executed Agreement from the Executive. Subject to Executive's compliance with the terms and conditions of this Agreement, the Company agrees to provide Executive the following consideration on the dates specified below:

(a) Severance. The Company will pay Executive a total of six (6) months severance to be paid in monthly installments, in the gross monthly amount of $20,833.22, less all applicable state and federal withholdings and other lawful deductions ("***Severance Payment***"). The monthly Severance Payment will be paid to the Executive subject to the terms of this Agreement, and after the Effective Date, as follows: 1) Executive will receive equivalent to three (3) months severance on first payroll period (consistent with the Company's regular payroll schedule) following the Effective Date; and 2) Executive will then receive the remaining three (3) months of the Severance Payment in three (3) monthly payments for three (3) consecutive months, to be paid on the first day of each month, starting with the second month after the Effective Date, until fully paid out.

(b) COBRA. Executive acknowledges and agrees it is his obligation and discretion to timely enroll and qualify for the benefits under COBRA. Executive further acknowledges and agrees that if he properly and timely enrolls for COBRA benefits it is his obligation to reimburse the Company for the COBRA benefits. As further consideration for this Agreement the Company agrees that upon Executive's timely and proper election of COBRA continuation coverage under the Company's health plan and proof provided by Executive of his timely and proper enrollment and qualification for COBRA benefits, the Company will pay Executive's monthly COBRA premiums, for a maximum of six months, as specified in this paragraph. The Company's obligation to pay such premium reimbursements will begin only after the Effective Date, to be paid until the earlier of (i) a maximum of six (6) months following the Effective Date, for the period of January through June of 2008, or (ii) until such time as Executive subsequently becomes covered by another group health plan or gains employment with an employer that offers a group health plan. Executive agrees to notify the Company immediately if he becomes eligible for or covered by another group health plan. Executive understands and agrees he is responsible for reimbursing the Company for all other COBRA premiums aside from what has been specified in this paragraph.

(c) Additional Payments. Executive understands he has been paid all expenses and has received all reimbursements owed to him and that such sum is not consideration for this Agreement. In further consideration for this Agreement, the Company agrees to pay Executive a lump sum monthly payment of $850 per month, for a total of six (6) months (hereinafter "***Allowance Payment***"). The Company agrees to provide the Executive with the Allowance Payment on the first day of each month, starting with the first month following the Effective Date, for a total of six payments paid to the Executive, subject to the terms of this Agreement and as specified herein, in six consecutive months.

/s/ HO
Initial Here

(d) Confirmation. Executive understands and acknowledges that he is not entitled to and would not receive the consideration specified in Paragraphs 2(a), (b), and (c) (referred to hereinafter collectively as the "***Consideration***"), including the Payment and Severance Payment, but for compliance with the terms and conditions of this Agreement. Executive further acknowledge that said Consideration does not include any wages, accrued but unused vacation or any other money or income to which the Executive is otherwise entitled.

3. Taxes. Not withstanding the tax deductions set forth in Paragraph 2 above, Executive shall pay in full when due, and shall be solely responsible for, any and all federal, state, or local income taxes or other taxes that are or may be assessed against him relating to the Consideration provided, including the Severance Payment and Payment received pursuant to this Agreement, as specified in Paragraph 2, as well as all interest or penalties that may be owed in connection with such taxes. Executive is not relying on any representations or conduct of the Company with respect to the adequacy of the withholdings.

4. Release.

(a) Executive. Executive, hereby forever relieves, releases, and discharges the Company as well as its past, present and officers, directors, administrators, shareholders, employees, agents, attorneys, insurers, divisions, successors, subsidiaries, parents, assigns, representatives, brother/sister corporations, and all other affiliated or related corporations, all benefit plans sponsored by the Company, and entities, and each of their respective present and former agents, employees, or representatives, insurers, partners, associates, successors, and assigns, and any entity owned by or affiliated with any of the above (all of the foregoing are collectively referred to as the "***Company Parties***"), from any and all claims, debts, liabilities, demands, obligations, liens, promises, acts, agreements, costs and expenses (including but not limited to attorneys' fees), damages, actions, and causes of action, of whatever kind or nature, including but not limited to any statutory, civil, administrative, or common law claims, whether known or unknown, suspected or unsuspected, fixed or contingent, apparent or concealed, arising out of any act or omission occurring before Executive's execution of this Agreement, including but not limited to any claims based on, arising out of, or related to Executive's employment with, or the ending of Executive's employment with the Company, any claims arising from rights under federal, state, and local laws relating to the regulation of federal or state tax payments or accounting; federal, state or local laws that prohibit harassment or discrimination on the basis of race, national origin, religion, sex, gender, age, marital status, bankruptcy status, disability, perceived disability, ancestry, sexual orientation, family and medical leave, or any other form of harassment or discrimination or related cause of action (including but not limited to failure to maintain an environment free from harassment and retaliation, inappropriate comments or touching and/or "off-duty" conduct of other Company employees); statutory or common law claims of any kind, including but not limited to, any alleged violation of Title VII of the Civil Rights Act of 1964, The Civil Rights Act of 1991, Sections 1981 through 1988 of Title 42 of the United States Code, as amended; The Employee Retirement Income Security Act of 1971, as amended, The Americans with Disability Act of 1990, as amended, the Workers Adjustment and Retraining Notification Act, as amended; the Occupational Safety and Health Act, as amended, the Sarbanes-Oxley Act of 2002, the California Family Rights Act (Cal. Govt. Code § 12945.2 et seq.), the California Fair Employment and Housing

/s/ HO

Initial Here

Act (Cal. Govt. Code § 12900 et. seq.), statutory provision regarding retaliation/discrimination for filing a workers' compensation claim under Cal. Labor Code § 132a, California Unruh Civil Rights Act, California Sexual Orientation Bias Law (Cal. Lab. Code § 1101 et. seq.), California AIDS Testing and Confidentiality Law, California Confidentiality of Medical Information (Cal. Civ. Code § 56 et. seq.), contract, tort, and property rights, breach of contract, breach of implied-in-fact contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract or current or prospective economic advantage, fraud, deceit, invasion of privacy, unfair competition, misrepresentation, defamation, wrongful termination, tortious infliction of emotional distress (whether intentional or negligent), breach of fiduciary duty, violation of public policy, or any other common law claim of any kind whatsoever; any claims for severance pay, sick leave, family leave, liability pay, overtime pay, vacation, life insurance, health insurance, continuation of health benefits, disability or medical insurance, or Executive's 401(k) rights or any other fringe benefit or compensation, including but not limited to stock options; any claim for damages or declaratory or injunctive relief of any kind. The Parties agree and acknowledge that the release contained in this Paragraph 4 does not apply to any vested rights Executive may have, including those under any 401(k) Savings Plan with the Company. Executive represents that at the time of the execution of this Agreement, he suffers from no work-related injuries and has no disability or medical condition as defined by the Family Medical Leave Act. Executive represents that he has no workers' compensation claims that he intends to bring against the Company. Executive understands that nothing contained in this Agreement, including, but not limited to, this Paragraph 4, will be interpreted to prevent him from filing a charge with a governmental agency or participating in or cooperating with an investigation conducted by a governmental agency. However, Executive agrees he is waiving the right to monetary damages or other individual legal or equitable relief awarded as a result of any such proceeding. Executive further acknowledges that he has been paid all wages, vacation, bonuses or other income owed to him and thus this release also releases the Company for all claims of unpaid wages, including unpaid overtime wages, related to his employment with the Company and subject to the terms specified in Paragraph 2 of this Agreement. Excluded from this Release are claims that by law cannot be released in this Agreement.

(b) The Company. The Company, on behalf of itself, its officers, and directors, hereby forever relieves, releases, and discharges Executive from any and all known claims, debts, liabilities, demands, obligations, liens, promises, acts, agreements, costs and expenses (including but not limited to attorneys' fees), damages, actions, and causes of action, of whatever kind or nature, including but not limited to any statutory, civil, administrative, or common law claims, suspected or unsuspected, fixed or contingent, arising out of any act or omission occurring before the Effective Date of this Agreement, including but not limited to any claims based on, arising out of, or related to Executive's employment with, or the ending of the Executive's employment with, the Company. The Parties agree however, that this release does not encompass (i) claims for violation of the federal or state securities laws, including but not limited to any claims related to the Executive's alleged participation in insider trading, or (ii) any other claims that by law cannot be excluded by a release.

/s/ HO

Initial Here

(c) Mistakes in Fact; Voluntary Consent. Executive expressly and knowingly acknowledges that, after the execution of this Agreement, Executive may discover facts different from or in addition to those that he now knows or believes to be true with respect to the claims released in this Agreement. Nonetheless, this Agreement shall be and remain in full force and effect in all respects, notwithstanding such different or additional facts and Executive intends to fully, finally, and forever settle and release those claims released in this Agreement. In furtherance of such intention, the release given in this Agreement shall be and remain in effect as a full and complete release of such claims, notwithstanding the discovery and existence of any additional or different claims and Executive assumes the risk of misrepresentations, concealments, or mistakes, and if Executive should subsequently discover that any fact relied upon in entering into this Agreement was untrue, that any fact was concealed, or that his understanding of the facts or law was incorrect, he shall not be entitled to set aside this Agreement or the settlement reflected in this Agreement or be entitled to recover any damages on that account.

(d) Section 1542 of the California Civil Code. Executive expressly waives any and all rights and benefits conferred upon the Parties by Section 1542 of the California Civil Code, which states as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(e) No Lawsuits. Executive represents that he has not filed any claims, charges, complaints or actions against the Company or any Company Parties, or assigned to anyone any charges, complaints, claims or actions against the Company or any Company Parties. Executive agrees to take any and all steps reasonably necessary to insure that no lawsuit arising out of any claim released herein shall ever be prosecuted by Executive or on his behalf in any forum, and hereby warrants and covenants that no such action has been filed or shall ever be filed or prosecuted. Executive also agrees that if any claim is prosecuted in his name before any court or administrative agency that he waives and agrees not to take any award or other damages from such suit to the extent permissible under applicable law. Executive further agrees to cooperate fully with the Company in the event of a lawsuit or threat of lawsuit arising out of acts and events occurred during Executive's employment with the Company. In the event there is need for cooperation from the Executive, the Company agrees that any request for cooperation under this paragraph will be reasonable and that the Company will a make good faith effort to accommodate Executive's schedule.

(f) Confidentiality / Nondisparagment. The Parties agree that, except to the extent required by law, subpoena or by the Company's independent auditors, they will not disclose to others (i) the fact or terms of this Agreement, (ii) the amounts referenced in this Agreement, including the Consideration specified in Paragraph 2, or (iii) the fact

/s/ HO
Initial Here

of the payment of these amounts. Executive agrees that, except to the extent required by law or subpoena, he will not disclose to others any disparaging or derogatory information pertaining to or relating to (A) the Company or the Company's business, products, services, officers, directors, agents, attorneys, employees; or (B) Executive's employment with the Company, or the ending of Executive's employment with the Company, except that he may disclose such facts to his attorneys, accountants, insurers, spouse, or licensed physician or other professional advisors to whom the disclosure is necessary to effect the purpose for which the professional has been consulted, provided that the professional agrees to be bound by his confidentiality provision. Except as otherwise specifically provided herein, Executive agrees that if ever asked to disclose any fact covered by this Paragraph, he must state words to the effect of "*I cannot comment.*" Nothing contained in this Paragraph shall preclude Executive from revealing or describing his employment with the Company to his prospective employers; provided however, such disclosure shall be limited to the fact that he was employed by the Company, the dates of his employment, his job title and position with the Company, and the nature of his duties with the Company. Executive agrees to direct all requests for references to Michael McClane, Chief Financial Officer, U.S. Auto Parts Network, Inc., at (310) 735-0085. The Company acknowledges that in describing Executive's employment with the Company to his prospective employer, it will follow its regular practice of limiting any such disclosure to the fact that he was employed by the Company, the dates of his employment with the Company, his job title and position with the Company, and any other information the Company has been required to disclose by the state or federal securities laws and filings. The Company further agrees that its officers or directors will not knowingly make any derogatory or disparaging statements to any third party about Executive or his separation from the Company unless otherwise required by law or subpoena, and Company shall respond accurately and fully to any question, inquiry, or request for information required by legal process. The confidentiality obligations contained in this Paragraph shall be in addition to any other confidentiality agreements between the Parties. Notwithstanding the foregoing**,** nothing in this Agreement shall be construed as precluding disclosure where such disclosure is required and compelled by law. In the event that Executive is required and compelled by law to disclose any such matters, he will first give fifteen (15) days advance written notice (or, in the event that it is not possible to provide fifteen (15) days written notice, as much written notice as is possible under the circumstances) to the Company so that the Company may present and preserve any objections that it may have to such disclosure and/or seek an appropriate protective order. Executive acknowledges and agrees that this paragraph is a material inducement to the Company's entering into this Agreement, and further acknowledges and agrees that any breach of this paragraph shall be subject to a claim for damages or equitable relief (or both), including but not limited to injunctive relief. The Company agrees that should it be required by law to disclose this Agreement (or provisions thereof), or through the SEC filings, or some other means, the Company will provide Executive notice of such obligation, as specified in this paragraph.

5. Proprietary Information and Return of Company Property. Executive agrees to continue to abide by the terms and provisions of the U.S. Auto Parts Network, Inc.'s Confidentiality and Non-Disclosure Agreement, which he executed during his employment with

/s/ HO

Initial Here

the Company, and have been attached hereto and incorporated by reference as Exhibit A to this Agreement. Executive further agrees to immediately return all Company property in his possession, including but not limited to all materials, documents, photographs, handbooks, manuals, electronic records, files, laptop computer, blackberry, cellular telephones, keys and access cards, no later than two days after his execution of this Agreement.

6. Remedies. Executive understands that in the event he violates any provision of this Agreement, including the provisions set forth in Paragraphs 4 or 5, then: (a) the Company shall have the right to apply for and receive an injunction to restrain any violation of this Agreement; (b) the Company shall have the right to immediately discontinue any enhanced benefits or Consideration provided to him under this Agreement; (c) Executive will be obligated to reimburse the Company its cost and expenses incurred in defending his lawsuit and enforcing this Agreement, including the Company's court costs and reasonable attorneys fees; and (d) as an alternative to (c),at the Company's option, Executive shall be obligated upon written demand by the Company, to repay the Company the cost of all but $500 of the enhanced benefits paid under this Agreement, including the Consideration. Executive acknowledges and agrees that the covenants contained in this Paragraph 6 shall not affect the validity of this Agreement and shall not be deemed to be a penalty or forfeiture. The remedies available to the Company pursuant to this Paragraph 6 are in addition to, and not in lieu of, any remedies which may be available under statutory and/or common law relating to trade secrets and the protection of the Company's business interest generally.

7. Nonassignment. Executive represents and warrants that he has not assigned or transferred any portion of any claim or rights he has or may have to any other person, firm, corporation or any other entity, and that no other person, firm, corporation, or other entity has any lien or interest in any such claim.

8. Miscellaneous Provisions

(a) Integration. This Agreement constitutes a single, integrated written contract expressing the entire Agreement of the parties concerning the subject matter referred to in this Agreement. No covenants, agreements, representations, or warranties of any kind whatsoever, whether express or implied in law or fact, have been made by any party to this Agreement, except as specifically set forth in this Agreement. All prior and contemporaneous discussions, negotiations, and agreements have been and are merged and integrated into, and are superseded by, this Agreement.

(b) Modifications. No modification, amendment, or waiver of any of the provisions contained in this Agreement shall be binding upon the Parties to this Agreement unless made in writing and signed by both Parties.

(c) Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law and to carry out each provision herein to the greatest extent possible, but if any provision of this Agreement is held to be void, voidable, invalid, illegal or for any other reason unenforceable, the validity, legality and enforceability of the other provisions of this Agreement will not be affected or impaired thereby.

/s/ HO

Initial Here

(d) Non-Reliance on Other Parties. Except for statements expressly set forth in this Agreement, neither of the Parties has made any statement or representation to any other Party regarding a fact relied on by the other Party in entering into this Agreement, and no Party has relied on any statement, representation, or promise of any other party, or of any representative or attorney for any other Party, in executing this Agreement or in making the settlement provided for in this Agreement.

(e) Negotiated Agreement. The terms of this Agreement are contractual, not a mere recital, and are the result of negotiations between the Parties. Accordingly, neither of the Parties shall be deemed to be the drafter of this Agreement.

(f) Successors and Assigns. This Agreement shall inure to the benefit of and shall be binding upon the heirs, successors, and assigns of the Parties hereto and each of them. In the case of the Company, this Agreement is intended to release and inure to the benefit of the Company and the Company Parties.

(g) Applicable Law. This Agreement shall be construed in accordance with, and governed by, the laws of the State of California without taking into account conflict of law principles.

(h) This Agreement may be executed via facsimile and in one or more counterparts, each of which shall be deemed an original, but all of which together constitute one and the same instrument, binding on the parties.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

/s/ HO

Initial Here

EXECUTIVE ACKNOWLEDGES AND AGREES THAT EXECUTIVE HAS CAREFULLY READ AND VOLUNTARILY SIGNED THIS AGREEMENT, THAT EXECUTIVE HAS HAD AN OPPORTUNITY TO CONSULT WITH AN ATTORNEY OF EXECUTIVE'S CHOICE, AND THAT EXECUTIVE SIGNS THIS AGREEMENT WITH THE INTENT OF RELEASING THE COMPANY AND THE COMPANY PARTIES FROM ANY AND ALL CLAIMS.

ACCEPTED AND AGREED TO:

March 11, 2008	March 5, 2008
U.S. AUTO PARTS NETWORK, INC.	EXECUTIVE
By: /s/ SHANE EVANGELIST	/s/ HOWARD TONG
Name: Shane Evangelist	Name: Howard Tong
Its: CEO	Address:*************

/s/ HO

Initial Here

Exhibit 10.50

BUSINESS LOAN AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
$7,000,000.00	**10-31-2007**	**10-31-2009**	*******		**D. L. W.**	**8779**	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "***" has been omitted due to text length limitations.

Borrower: U.S. Auto Parts Network, Inc.
17150 S. Margay Avenue
Carson, CA 90746

Lender: East West Bank
9300 Flair Drive
El Monte, CA 91731

THIS BUSINESS LOAN AGREEMENT dated October 31, 2007, is made and executed between U.S. Auto Parts Network, Inc. ("Borrower") and East West Bank ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement ("Loan"). Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of October 31, 2007, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a corporation for profit which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Delaware. Borrower is duly authorized to transact business in all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign corporation in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 17150 S. Margay Avenue, Carson, CA 90746. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None.**

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of incorporation or organization, or bylaws, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that:
(1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral.
(2) Borrower has no

knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with the following:

Additional Requirements.

Form 10-Q. As soon as available, but in no event later than forty five (45) days after the end of each fiscal quarter, Borrower shall provide Lender with balance sheet, income and expense statements, reconciliation of net worth and statement of cash flows, with notes thereto for the year ended, prepared by Borrower.

Form 10-K. As soon as available, but in no event later than ninety (90) days after the end of each fiscal year, Borrower shall provide Lender with balance sheet, income and expense statements, reconciliation of net worth and statement of cash flows, with notes thereto for the year ended, prepared by Borrower.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Financial Covenants and Ratios. Comply with the following covenants and ratios:

Other Requirements. Borrower understands and agrees that while this Agreement is in effect, Borrower will maintain a financial condition indicated by the following ratios measured on a quarterly basis, unless otherwise noted:

Minimum Annualized EBITDA. Maintain a Minimum Annualized EBITDA (defined as net earnings before total interest expense and taxes, depreciation and amortization) plus stock-based compensation for four rolling quarters of **$10,000,000.00**

Capital Leases. Capital leases for ordinary business not to exceed **$2,000,000.00.**

Except as provided above, all computations made to determine compliance with the requirements contained in this paragraph shall be made in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Environmental Compliance and Reports. Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) pay any dividends on Borrower's stock (other than dividends payable in its stock), provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from the payment of dividends, if Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as Shareholders of a Subchapter S Corporation because of their ownership of shares of Borrower's stock, or purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Borrower will not enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's or any Grantor's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness. In the event of a death, Lender, at its option, may, but shall not be required to, permit the Guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to Lender, and, in doing so, cure any Event of Default.

Change in Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

Insecurity. Lender in good faith believes itself insecure.

Right to Cure. If any default, other than a default on Indebtedness, is curable and if Borrower or Grantor, as the case may be, has not been given a notice of a similar default within the preceding twelve (12) months, it may be cured if Borrower or Grantor, as the case may be, after receiving written notice from Lender demanding cure of such default: (1) cure the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiate steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continue and complete all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently.

Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

AMENDMENT AND RESTATEMENT OF PRIOR AGREEMENT. This Agreement amends and restates the Business Loan Agreement dated February 24, 2006, between Borrower and Lender, as amended.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of California.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in extending Loan Advances, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the extension of Loan Advances and delivery to Lender of the Related Documents, shall be continuing in nature, shall be deemed made and redated by Borrower at the time each Loan Advance is made, and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. To the extent permitted by applicable law, all parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means U.S. Auto Parts Network, Inc. and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means East West Bank, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means the promissory note dated January 6, 2003, in the original principal amount of $1,250,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the promissory note or agreement.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED OCTOBER 31, 2007.

BORROWER:

U.S. AUTO PARTS NETWORK, INC.

By: /s/ Michael McClane
Michael McClane, Chief Financial Officer of U.S. Auto Parts Network, Inc.

LENDER:

EAST WEST BANK

By:
Authorized Signer

CHANGE IN TERMS AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
$7,000,000.00	**10-31-2007**	**10-31-2009**	***********		**D. L. W.**	**8779**	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "***" has been omitted due to text length limitations.

Borrower: U.S. Auto Parts Network, Inc.
17150 S. Margay Avenue
Carson, CA 90746

Lender: East West Bank
9300 Flair Drive
El Monte, CA 91731

Principal Amount: $7,000,000.00 **Initial Rate: 7.250%** **Date of Agreement: October 31, 2007**

DESCRIPTION OF EXISTING INDEBTEDNESS. The Promissory Note dated January 6, 2003, along with any and all subsequent Change in Term Agreements.

DESCRIPTION OF CHANGE IN TERMS.

The **Maturity** date of the Note is hereby extended from **October 31, 2007 to October 31, 2009.**

CONTINUING VALIDITY. Except as expressly changed by this Agreement, the terms of the original obligation or obligations, including all agreements evidenced or securing the obligation(s), remain unchanged and in full force and effect. Consent by Lender to this Agreement does not waive Lender's right to strict performance of the obligation(s) as changed, nor obligate Lender to make any future change in terms. Nothing in this Agreement will constitute a satisfaction of the obligation(s). It is the intention of Lender to retain as liable parties all makers and endorsers of the original obligation(s), including accommodation parties, unless a party is expressly released by Lender in writing. Any maker or endorser, including accommodation makers, will not be released by virtue of this Agreement. If any person who signed the original obligation does not sign this Agreement below, then all persons signing below acknowledge that this Agreement is given conditionally, based on the representation to Lender that the non-signing party consents to the changes and provisions of this Agreement or otherwise will not be released by it. This waiver applies not only to any initial extension, modification or release, but also to all such subsequent actions.

PRIOR TO SIGNING THIS AGREEMENT, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS AGREEMENT. BORROWER AGREES TO THE TERMS OF THE AGREEMENT.

BORROWER:

U.S. AUTO PARTS NETWORK, INC.

By: /s/ Michael McClane
Michael McClane, Chief Financial Officer of U.S. Auto Parts Network, Inc.

Exhibit 10.52

TELETRANSMISSION AGREEMENT-LINE OF CREDIT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
$7,000,000.00	**10-31-2007**	**10-31-2009**	*******		**D. L. W.**	**8779**	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "***" has been omitted due to text length limitations.

Borrower: U.S. Auto Parts Network, Inc.
17150 S. Margay Avenue
Carson, CA 90746

Lender: East West Bank
9300 Flair Drive
El Monte, CA 91731

This TELETRANSMISSION AGREEMENT-LINE OF CREDIT is attached to and by this reference is made a part of the Change In Terms Agreement, dated October 31, 2007, and executed in connection with a loan or other financial accommodations between EAST WEST BANK and U.S. Auto Parts Network, Inc.

The undersigned Borrower contemplates making loan advance requests and applications for Lender to issue letters of credit and amendments, and instructing Lender to accept discrepant documents, to effect payment under letters of credit and collections and or finance import or export transactions. Borrower recognizes that Lender customarily requires that such advance requests, applications and instructions be completed and executed by Borrower on Lender's standard forms or approved formats and/or that original signed documents be received.

Borrower, however, desires to apply and to instruct Lender, by means of teletransmissions including but not limited to electronic mail, internet, telex, telefax, facsimile and/or telecopy, to made loan advances, issue letters of credit and amendments, to instruct Lender to accept discrepant documents, to effect payment under letters of credit and collections and/or to finance import or export transactions. Borrower agrees that Lender may act in accordance with such electronically transmitted applications and instructions ("Electronic Instructions") on the terms and conditions herein provided.

1. Format. Borrower's Electronic Instructions shall be sent to Lender only by means of such teletransmission services in such format(s) as may be approved from time to time by Lender in its sole discretion.

2. Security Procedures. Borrower shall provide to Lender, in writing and duly signed by Borrower, any security, verification procedures reasonably requested by Borrower. In addition, Lender may require additional procedures in its sole discretion and Lender shall notify Borrower of any such additional procedures in advance of their use (hereinafter referred to as "Security Procedures").

3. Authority. Borrower hereby authorizes and instructs Lender to take all actions requested in any and all Electronic Instructions and agrees that each such Electronic Instruction shall be deemed originals and shall be deemed to incorporate all of the terms and provisions of the Lender's standard forms and/or any such format(s) approved by Lender. Borrower recognizes and agrees that it shall be obligated for any loan advance request and under any letters of credit or amendment issued and or actions taken by Lender pursuant to Electronic Instruction to the same extent as if such advance request, letter of credit or amendment were issued and or actions taken by Lender pursuant to a Lender's standard form or Lender approved format(s) signed by Borrower.

4. Indemnity. Borrower agrees to indemnify and hold harmless Lender, its officers, directors, employees and affiliates against any and all liability, loss, cost, damages, attorneys' fees and other expenses which Lender may incur by reason of or in consequence of Lender's actions in reliance upon and pursuant to the information contained in any and all of the electronic Instructions received by Lender and purported to be sent by Borrower or its representatives or employees. In addition, the parties agree that Lender is not responsible for checking electronic mail on a regular basis, and Borrower is advised to make arrangements to assure electronic mail has been opened, and sent to a current employee, and the employee is in the office. The parties agree that Lender shall not be responsible for delays, errors or omissions resulting from malfunction of equipment or lines or from other conditions beyond the control of Lender. The parties further agree that Lender shall not be responsible for misuse or wrongful access by Borrower's representative and employees nor for any delay in taking any actions requested by Borrower whether such delay is caused by omission or instructions which Lender deems to be uncertain or unclear or otherwise. Nothing contained herein shall be construed to relieve Lender from responsibility for its own failure to observe the security Procedures or act in good faith.

5. Verbal or Telephone Instructions. Borrower hereby authorizes the person listed below ("Authorized Representatives") to give verbal or telephonic instructions in connection with Electronic Instructions. Lender assumes no responsibility for ascertaining the authenticity of any representative or caller giving such verbal or telephonic instruction except to the extent such representative or caller identifies him/herself as an Authorized Representative. Borrower agrees to indemnify and hold harmless and defend Lender from and against any and all actions, claims, liability loss or expenses that may rise out of or occur in connection with any action taken in reliance upon such verbal or telephonic instructions.

6. Borrower's Authority. Borrower hereby warrants and represents that Borrower and the undersigned officer(s) of Borrower have full power and authority to enter into this Agreement and that all corporate and/or legal actions necessary in connection with Borrower's execution and delivery of this Agreement have been taken.

Borrower's Authorized Representatives:

(Print name) (Signature)

(Print name) (Signature)

(Print name) (Signature)

7. Follow-up Documents. Borrower agrees to mail each original loan advance request or application and or amendment request for letters of credit immediately following its facsimile transmission to East West Bank at 9300 Flair Drive, El Monte, CA 91731, Attn: Loan Services

Department. The mailed application and or amendment must be clearly marked “Confirmation”. Minor changes to instructions may be communicated to Lender by telephone. In such case, confirming instructions detailing the changes must be sent by facsimile. Acceptance of discrepancies must be sent by facsimile. Failure by Borrower to follow these instructions does not diminish the provisions of this Agreement.

THIS TELETRANSMISSION AGREEMENT-LINE OF CREDIT IS EXECUTED ON OCTOBER 31, 2007.

BORROWER:

U.S. AUTO PARTS NETWORK, INC.

By: /s/ Michael McClane
Michael McClane, Chief Financial Officer of U.S. Auto Parts Network, Inc.

Exhibit 10.53

COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
$7,000,000.00	10-31-2007	10-31-2009	*******		D. L. W.	8779	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "***" has been omitted due to text length limitations.

Grantor: **U.S. Auto Parts Network, Inc.**
17150 S. Margay Avenue
Carson, CA 90746

Lender: **East West Bank**
9300 Flair Drive
El Monte, CA 91731

THIS COMMERCIAL SECURITY AGREEMENT dated October 31, 2007, is made and executed between U.S. Auto Parts Network, Inc. ("Grantor") and East West Bank ("Lender").

GRANT OF SECURITY INTEREST. For valuable consideration. Grantor grants to Lender a security interest in the Collateral to secure the Indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

COLLATERAL DESCRIPTION. The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the Indebtedness and performance of all other obligations under the Note and this Agreement:

All Inventory, Chattel Paper, Accounts, Equipment, Deposit Accounts and General Intangibles

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

(A) All accessions, attachments, accessories, tools, parts, supplies, replacements of and additions to any of the collateral described herein, whether added now or later.

(B) All products and produce of any of the property described in this Collateral section.

(C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, consignment or other disposition of any of the property described in this Collateral section.

(D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.

(E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

CROSS-COLLATERALIZATION. In addition to the Note, this Agreement secures all obligations, debts and liabilities, plus interest thereon, of Grantor to Lender, or any one or more of them, as well as all claims by Lender against Grantor or any one or more of them, whether now existing or hereafter arising, whether related or unrelated to the purpose of the Note, whether voluntary or otherwise, whether due or not due, direct or indirect, determined or undetermined, absolute or contingent, liquidated or unliquidated, whether Grantor may be liable individually or jointly with others, whether obligated as guarantor, surety, accommodation party or otherwise, and whether recovery upon such amounts may be or hereafter may become barred by any statute of limitations, and whether the obligation to repay such amounts may be or hereafter may become otherwise unenforceable.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Grantor's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Grantor holds jointly with someone else and all accounts Grantor may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL. With respect to the Collateral, Grantor represents and promises to Lender that:

Perfection of Security Interest. Grantor agrees to take whatever actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper and instruments if not delivered to Lender for possession by Lender. **This is a continuing Security Agreement and will continue in effect even though all or any part of the Indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.**

Notices to Lender. Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the management of the Corporation Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's state of organization; (7) conversion of Grantor to a new or different type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name or state of organization will take effect until after Lender has received notice.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or previously shipped or delivered pursuant to a contract of sale, or for services previously performed by Grantor with or for the account debtor. So long as this Agreement remains in effect, Grantor shall not, without Lender's prior written consent, compromise, settle, adjust, or extend payment under or with regard to any such Accounts. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

Location of the Collateral. Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts or general intangibles, the records concerning the Collateral) at Grantor's address shown above or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

Removal of the Collateral. Except in the ordinary course of Grantor's business, including the sales of inventory, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of California, without Lender's prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Repairs and Maintenance. Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due all claims for work done on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be filed against the Collateral.

Inspection of Collateral. Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

Compliance with Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify and defend shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral if the estimated cost of repair or replacement exceeds $1,000.00, whether or not such casualty or loss is covered by insurance. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed

Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (1 5) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

Financing Statements. Grantor authorizes Lender to file a UCC financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs. Grantor irrevocably appoints Lender to execute documents necessary to transfer title if there is a default. Lender may file a copy of this Agreement as a financing statement. If Grantor changes Grantor's name or address, or the name or address of any person granting a security interest under this Agreement changes, Grantor will promptly notify the Lender of such change.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon Default.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Grantor fails to make any payment when due under the Indebtedness.

Other Defaults. Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

Default in Favor of Third Parties. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Grantor's property or Grantor's or any Grantor's ability to repay the Indebtedness or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the Indebtedness or guarantor, endorser, surety, or accommodation party dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Grantor has not been given a notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured if Grantor, after receiving written notice from Lender demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the California Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the Rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Election of Remedies. Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

AMENDMENT AND RESTATEMENT OF PRIOR AGREEMENT. This Agreement amends and restates the Security Agreement dated May 18, 2006, between Grantor and Lender.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of California.

Preference Payments. Any monies Lender pays because of an asserted preference claim in Grantor's bankruptcy will become a part of the Indebtedness and, at Lender's option, shall be payable by Grantor as provided in this Agreement.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

Power of Attorney. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

Waiver of Co-Obligor's Rights. If more than one person is obligated for the Indebtedness, Grantor irrevocably waives, disclaims and relinquishes all claims against such other person which Grantor has or would otherwise have by virtue of payment of the Indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Successors and Assigns. Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the Indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the Indebtedness.

Survival of Representations and Warranties. All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's Indebtedness shall be paid in full.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. To the extent permitted by applicable law, all parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means U.S. Auto Parts Network, Inc. and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

Default. The word "Default" means the Default set forth in this Agreement in the section titled "Default".

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental

Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

Grantor. The word "Grantor" means U.S. Auto Parts Network, Inc.

Guaranty. The word "Guaranty" means the guaranty from guarantor, endorser, surety, or accommodation party to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents. Specifically, without limitation, Indebtedness includes all amounts that may be indirectly secured by the Cross-Collateralization provision of this Agreement.

Lender. The word "Lender" means East West Bank, its successors and assigns.

Note. The word "Note" means the promissory note dated January 6, 2003, in the original principal amount of $1,250,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the promissory note or agreement.

Property. The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED OCTOBER 31, 2007.

GRANTOR:

U.S. AUTO PARTS NETWORK, INC.

By: /s/ Michael McClane
Michael McClane, Chief Financial Officer of U.S. Auto Parts Network, Inc.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-143179) pertaining to the 2007 Omnibus Incentive Plan and the 2006 Equity Incentive Plan of U.S. Auto Parts Network, Inc. of our report dated March 28, 2008, with respect to the consolidated financial statements of U.S. Auto Parts Network, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ Ernst & Young LLP

Los Angeles, California
March 28, 2008

EXHIBIT 31.1

**CERTIFICATION PURSUANT TO EXCHANGE ACT
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Shane Evangelist, certify that:

1. I have reviewed this annual report on Form 10-K of U.S. Auto Parts Network, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2008

/S/ SHANE EVANGELIST
Shane Evangelist
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael J. McClane, certify that:

1. I have reviewed this annual report on Form 10-K of U.S. Auto Parts Network, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 28, 2008

/s/ MICHAEL J. McCLANE

Michael J. McClane
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of U.S. Auto Parts Network, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shane Evangelist, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2008

/s/ SHANE EVANGELIST
Shane Evangelist
Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of U.S. Auto Parts Network, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. McClane, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2008

/s/ MICHAEL J. McCLANE
Michael J. McClane
Chief Financial Officer