

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2011

OR

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

For the transition period from _____ to _____

Commission file number: 001-33264



U.S. AUTO PARTS NETWORK, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(310) 735-0085
(Registrant's telephone number, including area code)

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

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

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

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

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

As of November 4, 2011, the registrant had 30,625,764 shares of common stock, \$0.001 par value, outstanding.

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**U.S. AUTO PARTS NETWORK, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED OCTOBER 1, 2011
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Unless the context requires otherwise, as used in this report, the terms "U.S. Auto Parts," the "Company," "we," "us" and "our" refer to U.S. Auto Parts Network, Inc. and its subsidiaries.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements included in this report, other than statements or characterizations of historical or current fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and we intend that such forward-looking statements be subject to the safe harbors created thereby. Any forward-looking statements included herein are based on management’s beliefs and assumptions and on information currently available to management. We have attempted to identify forward-looking statements by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would”, “will likely continue,” “will likely result” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding future events, our future operating and financial results, financial expectations, expected growth and strategies, current business indicators, capital needs, capital deployment, liquidity, contracts, litigation, product offerings, customers, acquisitions, competition and the status of our facilities. Forward-looking statements, no matter where they occur in this document or in other statements attributable to the Company involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in greater detail under the heading “Risk Factors” in Part II, Item 1A of this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report and the documents that we reference in this report and have filed as exhibits to the report completely and with the understanding that our actual future results may be materially different from what we expect. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****U.S. AUTO PARTS NETWORK, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts and par value)**

	October 1, 2011	January 1, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,151	\$ 17,595
Short-term investments	1,117	1,062
Accounts receivable, net of allowances of \$194 and \$372, respectively	8,805	5,339
Inventory	45,717	48,100
Deferred income taxes	360	359
Other current assets	4,444	5,646
Total current assets	75,594	78,101
Property and equipment, net	34,800	33,140
Intangible assets, net	15,456	18,718
Goodwill	18,854	18,647
Investments	2,104	4,141
Other non-current assets	981	790
Total assets	<u>\$147,789</u>	<u>\$153,537</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 33,833	\$ 31,660
Accrued expenses	15,480	15,487
Current portion of long-term debt	6,250	6,125
Current portion of capital leases payable	128	132
Other current liabilities	7,454	5,522
Total current liabilities	63,145	58,926
Long-term debt, net of current portion	13,188	17,875
Capital leases payable, net of current portion	67	185
Deferred income taxes	3,233	3,046
Other non-current liabilities	983	701
Total liabilities	80,616	80,733
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized at October 1, 2011 and January 1, 2011; 30,587,401 and 30,429,376 shares issued and outstanding at October 1, 2011 and January 1, 2011, respectively	31	30
Additional paid-in capital	156,372	153,962
Accumulated other comprehensive income	325	249
Accumulated deficit	(89,555)	(81,437)
Total stockholders' equity	67,173	72,804
Total liabilities and stockholders' equity	<u>\$147,789</u>	<u>\$153,537</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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U.S. AUTO PARTS NETWORK, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
Net sales	\$ 78,593	\$ 72,349	\$ 249,839	\$ 181,828
Cost of sales ⁽¹⁾	54,248	48,342	166,664	119,617
Gross profit	24,345	24,007	83,175	62,211
Operating expenses:				
Marketing ⁽²⁾	14,002	11,145	41,953	25,496
General and administrative ⁽²⁾	9,096	8,156	25,739	20,288
Fulfillment ⁽²⁾	4,449	4,102	14,048	10,269
Technology ⁽²⁾	1,676	1,665	5,531	3,841
Amortization of intangibles	338	919	3,328	1,164
Total operating expenses	29,561	25,987	90,599	61,058
(Loss) income from operations	(5,216)	(1,980)	(7,424)	1,153
Other income (expense):				
Other income	201	134	279	185
Interest expense	(291)	(214)	(758)	(214)
Total other expense, net	(90)	(80)	(479)	(29)
(Loss) income before income taxes	(5,306)	(2,060)	(7,903)	1,124
Income tax provision	2	10,979	215	12,154
Net loss	\$ (5,308)	\$ (13,039)	\$ (8,118)	\$ (11,030)
Basic net loss per share	\$ (0.17)	\$ (0.43)	\$ (0.27)	\$ (0.36)
Diluted net loss per share	\$ (0.17)	\$ (0.43)	\$ (0.27)	\$ (0.36)
Shares used in computation of basic net loss per share	30,571,472	30,357,988	30,521,529	30,225,194
Shares used in computation of diluted net loss per share	30,571,472	30,357,988	30,521,529	30,225,194

⁽¹⁾ Excludes depreciation and amortization expense which is included in marketing, general and administrative and fulfillment costs.

⁽²⁾ Includes share-based compensation expense related to option grants, as follows:

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
Marketing	\$ 82	\$ 73	\$ 329	\$ 265
General and administrative	387	447	1,162	1,447
Fulfillment	100	72	276	261
Technology	54	48	179	139
Total share-based compensation expense	\$ 623	\$ 640	\$ 1,946	\$ 2,112

See accompanying notes to unaudited condensed consolidated financial statements.

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U.S. AUTO PARTS NETWORK, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
Operating activities		
Net loss	\$ (8,118)	\$ (11,030)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,202	6,483
Amortization of intangibles	3,328	1,164
Share-based compensation	1,946	2,112
Deferred income taxes	187	12,232
Amortization of deferred financing costs	95	20
Loss from disposition of assets	—	(15)
Changes in operating assets and liabilities:		
Accounts receivable	(3,466)	2,943
Inventory	2,383	(15,871)
Prepaid expense and other current assets	(105)	(5,969)
Other non-current assets	—	(137)
Accounts payable and accrued expenses	2,725	7,357
Other current liabilities	1,940	1,656
Other non-current liabilities	283	663
Net cash provided by operating activities	10,400	1,608
Investing activities		
Additions to property and equipment	(11,140)	(9,798)
Purchases of intangibles	(63)	(1,003)
Changes in restricted cash	319	(319)
Proceeds from sale of marketable securities	2,100	29,409
Purchases of marketable securities	(55)	(19,225)
Purchases of company-owned life insurance	(281)	(250)
Proceeds from purchase price adjustment	787	—
Acquisition, net of cash acquired	—	(27,500)
Net cash used in investing activities	(8,333)	(28,686)
Financing activities		
Proceeds from long-term debt	—	25,000
Payments made on long-term debt	(4,562)	—
Changes in book overdraft	(85)	—
Payments of short-term financing	(122)	(5)
Payments of debt financing costs	(53)	(467)
Proceeds from exercise of stock options	324	788
Net cash (used in) provided by financing activities	(4,498)	25,316
Effect of exchange rate changes on cash	(13)	51
Net change in cash and cash equivalents	(2,444)	(1,711)
Cash and cash equivalents, beginning of period	17,595	26,251
Cash and cash equivalents, end of period	\$ 15,151	\$ 24,540
Supplemental disclosure of non-cash investing and financing activities:		
Accrued asset purchases	\$ 1,191	\$ 589
Property acquired under capital lease	32	285
Unrealized gain (loss) on investments	58	(98)
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	\$ 9	\$ 103
Cash paid during the period for interest	853	\$ 97

See accompanying notes to unaudited condensed consolidated financial statements.

U.S. AUTO PARTS NETWORK, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

U.S. Auto Parts Network, Inc. (collectively with 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. Our flagship websites are located at www.autopartswarehouse.com, www.partstrain.com, www.jcwhitney.com, www.stylintrucks.com and our corporate website is located at www.usautoparts.net.

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

The Company is a Delaware C corporation and is headquartered in Carson, California. The Company also has employees located in Kansas, Virginia, Illinois and Ohio, as well as in the Philippines.

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to U.S. Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company as of October 1, 2011 and January 1, 2011, and the consolidated results of operations for the thirteen and thirty-nine weeks ended October 1, 2011 and October 2, 2010, and cash flows for the thirty-nine weeks ended October 1, 2011 and October 2, 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. The Company’s results of operations for the thirteen and thirty-nine weeks ended October 1, 2011 are not necessarily indicative of those to be expected for the entire year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended January 1, 2011 (“fiscal 2010”), which was filed with the SEC on March 17, 2011.

Subsequent to the issuance of the Company’s fiscal 2010 consolidated financial statements, the Company identified an error which resulted in reclassifying \$1.5 million from accounts receivable to goodwill. The Company considers this an immaterial reclassification and has changed the January 1, 2011 consolidated balance sheet. See “*Note 5 – Business Combination*” for details on the immaterial reclassification.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 investments, valuation of inventory, valuation of deferred tax assets and liabilities, and valuation of intangible assets, including goodwill. Actual results could differ from these estimates.

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.

U.S. AUTO PARTS NETWORK, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* (“ASU 2010-29”), an update to Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations* (“ASC 805”). The amendments in ASU 2010-29 specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in ASU 2010-29 also expand the supplemental pro forma disclosures under ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company will apply the provisions of ASU 2010-29 to future acquisitions which occur after January 2, 2011. The Company believes that the adoption will not have a material effect on the Company’s consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU 2011-04”), an update to ASC Topic 820, *Fair Value Measurement* (“ASC 820”). The amendments in ASU 2011-04 are the result of joint efforts by the FASB and International Accounting Standards Board (“IASB”) to develop a single, converged fair value framework and provide converged guidance on how to measure fair value and on what disclosures to provide about fair value measurements. While ASU 2011-04 is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands ASC 820’s existing disclosure requirements for fair value measurements and makes other amendments. Many of these amendments were made to eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards (“IFRSs”). However, some could change how the fair value measurement guidance in ASC 820 is applied. For public entities, amendments are effective for interim and annual periods beginning after December 15, 2011. The Company will adopt the provisions of ASU 2011-04 on January 1, 2012, the starting date of its fiscal year ending December 29, 2012. The Company believes that the adoption will not have a material effect on the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (“ASU 2011-05”), an update to ASC Topic 220, *Comprehensive Income* (“ASC 220”). The amendments in ASU 2011-05 revise the manner in which entities present comprehensive income in their financial statements by removing the presentation options in ASC 220 and requiring entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendments in ASU 2011-5 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company will adopt the provisions of ASU 2011-05 on January 1, 2012, the starting date of its fiscal year ending December 29, 2012. The adoption will have an impact on the presentation of other comprehensive income on the Company’s consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment* (“ASU 2011-08”), an update to ASC Topic 350, *Intangibles – Goodwill and Other* (“ASC 350”). Under the amendments in ASU 2011-8, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in paragraph 350-20-35-4. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in paragraph 350-20-35-9. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The Company adopted the provisions of ASU 2011-08 on October 2, 2011, the starting date of the fourth quarter of its fiscal year ending December 31, 2011 (“fiscal 2011”). The Company believes that the adoption will not have a material effect on the Company’s consolidated financial statements.

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U.S. AUTO PARTS NETWORK, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2—Investments

As of October 1, 2011, the Company held the following securities and investments, recorded at fair value (in thousands):

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
Auction rate preferred securities in municipal and state agencies ⁽¹⁾	\$ 2,125	\$—	\$ (21)	\$ 2,104
Mutual funds and money market funds ⁽²⁾	1,130	—	(13)	1,117
Total	\$ 3,255	\$—	\$ (34)	\$ 3,221

As of January 1, 2011, the Company held the following securities and investments, recorded at fair value (in thousands):

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
Auction rate preferred securities in municipal and state agencies ⁽¹⁾	\$ 4,225	\$—	\$ (84)	\$ 4,141
Mutual funds ⁽²⁾	1,070	—	(8)	1,062
Total	\$ 5,295	\$—	\$ (92)	\$ 5,203

⁽¹⁾ Auction rate preferred securities (“ARPS”) issued by municipal and state agencies have a maturity of 15 to 30 years and are classified as long-term investments available-for-sale. As of October 1, 2011 and January 1, 2011, all of these securities were held in two and three, respectively, tax-exempt municipal bonds managed under closed-end funds and had been in a continuous loss position for more than twelve months.

⁽²⁾ Mutual funds and money market funds are classified as short-term investments available-for-sale and recorded at fair market value, based on quoted prices of identical assets that are trading in active markets as of the end of the period for which the values are determined.

Proceeds from the sale of available-for-sale securities are disclosed separately in the accompanying unaudited condensed consolidated statements of cash flows. For the thirteen and thirty-nine weeks ended October 1, 2011 and October 2, 2010, there were no recognized gross realized gains or losses.

The accumulated unrealized net loss on the securities and investments at October 1, 2011 and January 1, 2011 was \$34,000 and \$92,000, respectively.

Note 3—Fair Value Measurements

Fair value is defined as an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

Provisions of ASC 820 establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1—Observable inputs such as quoted prices in active markets;

Level 2—Inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3—Unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

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U.S. AUTO PARTS NETWORK, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Financial Assets Valued on a Recurring Basis

As of October 1, 2011 and January 1, 2011, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included the Company's financial instruments, including investments associated with the ARPS. The Company measures the following financial assets at fair value on a recurring basis. The fair value of these financial assets was determined using the following inputs at October 1, 2011 and January 1, 2011 (in thousands):

	As of October 1, 2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents ⁽¹⁾	\$15,151	\$15,151	\$ —	\$ —
Short-term investments ⁽²⁾	1,117	1,117	—	—
Non-current investments available-for-sale ⁽³⁾	2,104	—	—	2,104
	<u>\$18,372</u>	<u>\$16,268</u>	<u>\$ —</u>	<u>\$2,104</u>

	As of January 1, 2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents ⁽¹⁾	\$17,595	\$17,595	\$ —	\$ —
Short-term investments ⁽²⁾	1,062	1,062	—	—
Non-current investments available-for-sale ⁽³⁾	4,141	—	—	4,141
	<u>\$22,798</u>	<u>\$18,657</u>	<u>\$ —</u>	<u>\$4,141</u>

⁽¹⁾ Cash and cash equivalents consists primarily of money market funds with original maturity dates of three months or less at the date of purchase, for which the Company determines fair value through quoted market prices.

⁽²⁾ Short-term investments consist of mutual funds and money market funds. Short-term investments are classified as investments available-for-sale and recorded at fair market value, based on quoted prices of identical assets that are trading in active markets as of the end of the period for which the values are determined.

⁽³⁾ As of October 1, 2011, the Company had invested \$2.1 million in ARPS, which are classified as available-for-sale securities and reflected at \$2.1 million, which includes an unrealized loss of \$21,000. As of January 1, 2011, the Company had invested \$4.2 million in ARPS, which were classified as available-for-sale securities and reflected at \$4.1 million, which included an unrealized loss of \$84,000. The Company has included its investments related to ARPS in the Level 3 category.

Before utilizing Level 3 inputs in fair value measurement, the Company considered significant Level 2 observable inputs of similar assets in active and inactive markets. The Company's broker dealer received estimated market values from an independent pricing service as of the balance sheet date and the anticipated future market for such investments. These investments consist solely of collateralized debt obligations supported by municipal and state agencies; do not include mortgage-backed securities or student loans; have redemption features that call for redemption at 100% of par value; and have a current credit rating of A or AAA. For the period between June 30, 2008 through October 1, 2011, the Company received partial redemptions at par on these investments totaling \$5.6 million. The fact that there is not an active market to liquidate these investments was considered in classifying them as Level 3. Due to the uncertainty with regard to the short-term liquidity of these securities, the Company determined that it could not rely on par value to represent fair value. Therefore, the Company estimated the fair values of these securities utilizing a discounted cash flow valuation model as of October 1, 2011 and January 1, 2011. This analysis considered the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation the security will have a successful auction or market liquidity. These securities were also compared, when possible, to other observable market data with similar characteristics to the securities held by the Company.

As a result of the temporary declines in fair value for the Company's ARPS, which the Company generally attributes to liquidity issues rather than credit issues, the Company recorded an unrealized loss of \$21,000 and \$84,000 to accumulated other comprehensive income as of October 1, 2011 and January 1, 2011, respectively. Due to the Company's belief that the market for these collateralized instruments may take in excess of twelve months to fully recover, the Company has classified these investments as noncurrent and has included them in investments on the unaudited condensed consolidated balance sheets at October 1, 2011 and January 1, 2011. As of October 1, 2011, the Company continued to earn interest on all of its ARPS instruments. Any future fluctuation in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to accumulated other comprehensive income. If the Company determined that any decrease in the value of the instruments was other-than-temporary, it would record a charge to earnings as appropriate. The Company is not certain how long it may be required to hold each security. However, given the Company's current cash position, liquid cash equivalents and expected cash provided by operations, it believes it has the ability to hold, and intends to continue to hold the ARPS as long-term investments until the market for such securities stabilizes.

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U.S. AUTO PARTS NETWORK, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During the thirty-nine weeks ended October 1, 2011 and the fiscal year ended January 1, 2011, there were no transfers of Level 1 and Level 2 assets. The following tables present the Company's ARPS measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at October 1, 2011 and January 1, 2011 (in thousands):

	Long-Term Investments
Balance as of July 2, 2011	\$ 3,766
Redemption	(1,700)
Unrealized gains included in other comprehensive income	38
Balance as of October 1, 2011	<u>\$ 2,104</u>
	Long-Term Investments
Balance as of January 1, 2011	\$ 4,141
Redemption	(2,100)
Unrealized gains included in other comprehensive income	63
Balance as of October 1, 2011	<u>\$ 2,104</u>
	Long-Term Investments
Balance as of July 3, 2010	\$ 4,165
Redemption	—
Unrealized gains included in other comprehensive income	(36)
Balance as of October 2, 2010	<u>\$ 4,129</u>
	Long-Term Investments
Balance as of January 2, 2010	\$ 4,264
Redemption	(125)
Unrealized gains included in other comprehensive income	(10)
Balance as of October 2, 2010	<u>\$ 4,129</u>

Non-Financial Assets Valued on a Non-Recurring Basis

The Company's long-lived or indefinite-lived intangible assets are measured at fair value on a non-recurring basis. These assets are measured at cost but are written down to fair value, if necessary, as a result of impairment.

As of October 1, 2011 and January 1, 2011, the Company's long-lived and indefinite-lived intangible assets did not indicate a potential impairment under the provisions of ASC Topic 350, *Intangibles* and ASC Topic 360, *Property, Plant, and Equipment* and, as such, they were not measured at fair value.

Note 4—Inventory

Inventories consist entirely of finished goods 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, and routinely enters into supply agreements with U.S. based suppliers and its primary drop-ship vendors. The Company believes that its inventoried products are generally available from more than one supplier and seeks to maintain multiple sources for its products, both internationally and domestically.

Note 5—Business Combination

In August 2010, the Company completed the purchase (the "Acquisition") of all of the issued and outstanding shares of Automotive Specialty Accessories and Parts ("WAG"), a leader in the automobile aftermarket performance parts and accessories market. Assets acquired include intangible assets consisting of customer relationships, technology, and trade names, tangible assets such as furniture and fixtures, machinery and equipment, and a 350,000 square foot distribution center in LaSalle, Illinois with a headquarter office located in Chicago, Illinois. The final purchase price of WAG was \$26.7 million in cash, including certain adjustments as set forth in that certain Stock Purchase Agreement executed August 2, 2010 (the "Purchase Agreement") among Go Fido, Inc., WAG, 2000 Riverside Capital Appreciation Fund, L.P. and the other stockholders of WAG. The Acquisition provided the Company with product line expansion into all terrain vehicles, recreational vehicles and motorcycles, as well as deep product knowledge into niche segments like Jeep, Volkswagen and truck enthusiasts. This expansion in the Company's product line has increased its customer reach in the do-it-yourself automobile and off-road accessories market. In addition, WAG's state-of-the-art facility located in Illinois, which was custom built for business-to-consumer distribution of auto parts, allowed the Company to complete a three-distribution center network. The Company believes that the combination of WAG's established brands and focus on the customer experience, coupled with the Company's capacity to compete online, creates opportunity for growth. These expected synergies from the Acquisition contributed to the goodwill associated with the Acquisition of \$9.1 million. See the purchase price allocation table below for further details.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Acquisition has been accounted for under the purchase method of accounting in accordance with ASC 805. Accordingly, the assets and liabilities of WAG have been recorded as of the acquisition date at their respective fair values, and combined with the Company's assets and liabilities. The determination of estimated fair value requires management to make significant estimates and assumptions. The results of operations of WAG 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 following table summarizes our allocation of the purchase price for the Acquisition to the estimated fair values of the assets acquired and liabilities assumed at the date of the Acquisition (in thousands):

Purchase price paid in cash ⁽¹⁾	\$ 27,500
Purchase price adjustment ⁽²⁾	(787)
Final purchase price	<u>\$ 26,713</u>
Purchase price allocation is presented below:	
Assets:	
Accounts receivable ⁽³⁾	1,132
Inventory	12,366
Deferred income taxes	120
Property and equipment	16,430
Intangible assets	17,378
Other assets	2,287
Total assets	<u>\$ 49,713</u>
Liabilities:	
Accounts payable	\$(23,542)
Accrued expenses	(4,534)
Deferred income taxes	(2,734)
Other liabilities	(1,272)
Total liabilities	<u>\$(32,082)</u>
Goodwill ⁽⁴⁾	<u>\$ 9,082</u>
Final purchase price	<u>\$ 26,713</u>

⁽¹⁾ Represents the purchase price paid in cash, net of cash acquired, at the closing of the Acquisition of \$27.5 million.

⁽²⁾ The purchase price adjustment of \$787,000 represents the settlement amount that shareholders of WAG paid to USAP for the negative working capital amount of WAG on the date of the Acquisition. The net working capital of WAG on the date of the Acquisition was determined in accordance with the definitions and procedures set forth in the Purchase Agreement.

⁽³⁾ Accounts receivable decreased by \$1.5 million from \$2.6 million in the current quarter due to the Company's correction of an immaterial balance sheet reclassification. See below for additional information.

⁽⁴⁾ Goodwill resulting from the Acquisition was non-deductible for tax purposes. Goodwill increased by \$1.5 million from \$7.6 million in the current quarter due to the Company's correction of an immaterial balance sheet reclassification. See below for additional information.

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U.S. AUTO PARTS NETWORK, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Of the total purchase price, approximately \$8.2 million has been allocated to trade name assets with an indefinite life and \$9.2 million has been allocated to amortizable intangible assets acquired. The amortizable intangible assets are being amortized on a straight line basis over their respective useful lives except for internet platform intellectual property which is being amortized on an accelerated basis over 10 months based on the Company's estimated usage of the asset as follows:

	<u>Weighted-Average Useful Life</u>	<u>Gross Carrying Amount</u> (in thousands)
Intangible assets subject to amortization:		
Internet platform intellectual property	10 months	\$ 4,300
Product design intellectual property	9 years	2,750
Customer relationships	4 years	2,050
Favorable leases	2.5 years	78
		<u>9,178</u>
Intangible assets not subject to amortization:		
Trade names	indefinite life	8,200
Total		<u>\$ 17,378</u>

WAG's financial results have been included in our condensed consolidated statement of operations since the acquisition date of August 12, 2010. Therefore, pro forma information for the thirteen and thirty-nine weeks ended October 1, 2011 has not been presented since the results of operations of WAG have been included in our actual consolidated results of operations for the entire period. The following pro forma financial information presents the results as if the Acquisition had occurred on January 3, 2010 (in thousands, except share and per share amounts):

	<u>Thirteen Weeks Ended October 2, 2010</u>	<u>Thirty-Nine Weeks Ended October 2, 2010</u>
Net sales	\$ 83,794	\$ 258,435
Net loss	(3,471)	(9,435)
Basic net loss per share	(0.11)	(0.31)
Diluted net loss per share	(0.11)	(0.31)
Weighted average shares used in computing basic net loss per common share	30,357,988	30,225,194
Weighted average shares used in computing diluted net loss per common share	30,357,988	30,225,194

Related to the Acquisition, the Company has incurred acquisition and integration related costs of \$3.8 million and \$6.6 million for the thirteen and thirty-nine weeks ended October 1, 2011, respectively, which have been recorded in general and administrative expenses. These costs included one-time contract cancellation costs of \$1.5 million that the Company recorded in September 2011, pursuant to ASC Topic 420, *Exit or Disposal Cost Obligations* ("ASC 420"), for terminating WAG's sublease agreement related to its former corporate offices located in Chicago, Illinois. See "Note 14 – Subsequent Events" for details on the sublease termination.

During the current quarter, the Company discovered that certain accounts receivable were erroneously overstated by \$1.5 million which also resulted in an understatement of \$1.5 million in related goodwill. Accordingly, the Company reclassified \$1.5 million from accounts receivable to goodwill in the consolidated balance sheet as of January 1, 2011. The Company considers this an immaterial reclassification. This reclassification had no effect on the Company's previously reported consolidated statements of operations, consolidated statements of shareholders' equity nor the consolidated net cash provided by operating activities, the net cash used in investing activities and the net cash (used in) provided by financing activities within the consolidated statement of cash flows.

No significant integration costs are anticipated in the future, subject to changes in the integration plan. The majority of the acquisition and integration related costs were paid as of October 1, 2011.

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U.S. AUTO PARTS NETWORK, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6—Goodwill and Intangibles

The following table summarizes the change in our goodwill during the thirty-nine weeks ended October 1, 2011 as follows (in thousands):

Balance at January 1, 2011 (as previously reported)	\$17,137
Change in goodwill	1,510
Balance at January 1, 2011 (as adjusted)	\$18,647
Change in goodwill	207
Balance at October 1, 2011	\$18,854

During the thirty-nine weeks ended October 1, 2011, the Company recorded goodwill adjustments of \$1.7 million related to the immaterial balance sheet reclassification of WAG's \$1.5 million accounts receivable and the settlement amount of \$0.2 million received from the shareholders of WAG for the negative working capital of WAG on the date of the Acquisition. See "Note 5 – Business Combination" for details on the goodwill adjustments.

The Company evaluates goodwill for impairment on an annual basis or more frequently if events or circumstances occur that would indicate a reduction in fair value. As of October 31, 2010, the Company performed its annual impairment test and the excess of fair value estimates over carrying value for our reporting unit was approximately \$187 million. Based on its analysis, there would have to be a 65% decrease in the fair value of the reporting unit to fail step 1. During the thirty-nine weeks ended October 1, 2011, there was no change to the Company's reporting unit and no events or circumstances occurred that would indicate an impairment of goodwill based on the excess of fair value over carrying value for our reporting unit. The accumulated impairment loss on goodwill was \$4.4 million as of October 1, 2011 and January 1, 2011.

Intangibles subject to amortization are expensed on a straight-line basis. Amortization expense relating to intangibles totaled \$0.3 million and \$3.3 million for the thirteen and thirty-nine weeks ended October 1, 2011, respectively. Amortization expense relating to intangibles totaled \$1.0 million and \$1.2 million for the thirteen and thirty-nine weeks ended October 2, 2010, respectively. During the thirteen and thirty-nine weeks ended October 1, 2011, the Company purchased certain domain and trade names for a purchase price of \$15,000 and \$63,000, respectively. All of these assets were allocated to intangible assets not subject to amortization. During the thirteen and thirty-nine weeks ended October 2, 2010, the Company purchased certain websites and domain names for a purchase price of \$1.0 million, of which \$0.8 million was allocated to amortizable intangibles. In addition, associated with the Acquisition, approximately \$8.2 million of the total purchase price had been allocated to trade name assets with an indefinite life and \$9.2 million had been allocated to amortizable intangible assets during the third quarter of fiscal 2010 as noted in the table below.

Intangibles, excluding goodwill, consisted of the following at October 1, 2011 and January 1, 2011 (in thousands):

	Useful Life	October 1, 2011			January 1, 2011		
		Gross Carrying Amount	Accum. Amort.	Net Carrying Amount	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount
Intangible assets subject to amortization:							
Websites	5 years	\$ 2,035	\$ (900)	\$ 1,135	\$ 2,035	\$ (594)	\$ 1,441
Internet platform intellectual property ⁽¹⁾	10 months	4,300	(4,300)	—	4,300	(1,984)	2,316
Product design intellectual property ⁽¹⁾	9 years	2,750	(340)	2,410	2,750	(116)	2,634
Customer relationships ⁽¹⁾	4 years		(583)	1,467	2,050	(197)	1,853
Assembled workforce	7 years	481	(252)	229	478	(182)	296
Favorable lease ⁽¹⁾	2.5 years	78	(40)	38	78	(14)	64
Sub-Total		11,694	(6,415)	5,279	11,691	(3,087)	8,604
Intangible assets not subject to amortization:							
Domain and trade names ⁽²⁾	Indefinite life	10,177	—	10,177	10,114	—	10,114
Total		\$21,871	\$ (6,415)	\$ 15,456	\$ 21,805	\$ (3,087)	\$ 18,718

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U.S. AUTO PARTS NETWORK, INC. NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- (1) Includes the intangible assets acquired in connection with the Acquisition.
(2) Includes domain names assigned a value of \$8.2 million purchased in connection with the Acquisition.

The following table summarizes the future estimated amortization expense for these assets over the next five years (in thousands):

2011	\$ 335
2012	1,344
2013	1,281
2014	881
2015	303
Thereafter	<u>1,135</u>
Total	<u>\$5,279</u>

Note 7—Borrowings

In August 2010, the Company executed a Loan and Security Agreement (the “Loan Agreement”) and other definitive documentation for a \$35 million secured credit facility (the “Facility”). Silicon Valley Bank (“Bank”) is the lender under the Facility. The Facility is comprised of a term loan in the original principal amount of \$25 million and a revolving line of credit with availability up to \$10 million. The Facility has a final maturity date of June 30, 2014, and borrowings under the Facility bear interest, at the election of the Company, at LIBOR (with a floor of 1.25%) plus a margin of from 2.00% to 3.00% per annum, or at the Wall Street Journal Prime Rate plus a margin of from 1.00% to 2.00% per annum, based upon the Company’s maximum funded debt ratio. An unused revolving line fee of 0.375% per annum is payable on the undrawn committed amount of the revolving line of credit. Interest on outstanding borrowings under the term loan and the revolving line of credit is payable no less than quarterly and the outstanding principal of the term loan is amortized over four years and payable quarterly, with any outstanding amount under the Facility to be paid in full on the final maturity date. Borrowings under the Facility are secured by liens over all assets of the Company, including shares of stock in each of the Company’s subsidiaries. Ten of the Company’s subsidiaries are acting as co-borrowers under the Facility.

The Loan Agreement requires the Company to comply with a number of restrictive covenants, including financial covenants related to maximum funded debt to consolidated EBITDA, liquidity, and consolidated fixed charge coverage ratios; negative pledge requirements; requirements to deliver quarterly and annual consolidated financial statements; requirements to maintain adequate insurances; prohibitions on changes in the business and disposition of the Company’s assets; and other customary covenants. The Loan Agreement also requires the Company to obtain a prior written consent from the Bank when the Company determines to pay any dividends on or make any distribution related to its common stock. The Loan Agreement includes usual and customary events of default and remedies for facilities of this nature. In February and October 2011, the Company and the Bank entered into Amendment No. 1 and Amendment No. 2, respectively, to Loan and Security Agreement and Limited Waiver (collectively, the “Amendments”). The Amendments waived the Company’s lack of compliance with the consolidated fixed charge coverage ratio covenant in the Loan Agreement as of January 1, 2011 and October 1, 2011 to more readily accommodate the Company’s integration of the WAG acquisition.

As of January 1, 2011, the required consolidated fixed charge coverage ratio was 1.10: 1.00 and the Company’s consolidated fixed charge coverage ratio was 0.60: 1.00. For purposes of calculating the consolidated fixed charge coverage ratio, the Amendment No. 1 amended the definition of “Consolidated EBITDA” to allow the Company to add back restructuring costs and transaction fees and expense related to the WAG acquisition to the extent paid on or before June 30, 2011 in an amount not to exceed \$5,000,000 and integration capital expenditures related to the WAG acquisition in an amount not to exceed \$5,000,000 in the aggregate for the fourth quarter ending January 1, 2011 and three consecutive fiscal quarters thereafter to the extent paid during such periods. As amended, the Company’s consolidated fixed charge coverage ratio was 1.25:1.00 and was in compliance.

As of October 1, 2011, the required consolidated fixed charge coverage ratio was 1.25:1.00 and the Company’s consolidated fixed charge coverage ratio was 0.92: 1.00. For purposes of calculating the consolidated fixed charge coverage ratio, the Amendment No. 2 amended the definition of “Consolidated EBITDA” to allow the Company to add back restructuring costs and transaction fees and expenses related to the WAG acquisition to the extent paid in the fiscal quarters ending January 1, 2011, April 2, 2011, July 2, 2011 or October 1, 2011 and integration capital expenditures related to the WAG acquisition in the fiscal quarters ending January 1, 2011, April 2, 2011, July 2, 2011 and October 1, 2011, to the extent paid during such periods. As amended, the Company’s consolidated fixed charge coverage ratio was 1.80:1.00 and was in compliance.

For the thirteen and thirty-nine weeks ended October 1, 2011, as amended by the Amendments, the Company was in compliance with all covenants under the credit facility.

The Loan Agreement, as amended by the Amendments, contains the following financial covenants:

- Maximum funded debt to consolidated EBITDA. A ratio of aggregate credit extensions outstanding to trailing 12 month consolidated EBITDA of not greater than the following:
 - 2.25:1.00 from effective date through quarter ending September 30, 2010
 - 2.00:1.00 for quarters ending December 31, 2010 through June 30, 2011
 - 1.50:1.00 for quarters ending September 30, 2011 through June 30, 2012
 - 1.00:1.00 for each quarter ending thereafter

Consolidated fixed charge coverage ratio for the period set forth below of not less than the ratio set forth below:

-
- 1.10:1.00 for two quarters ending December 31, 2010
 - 1.25:1.00 for three quarters ending March 31, 2011
 - 1.25:1.00 for four quarters ending June 30, 2011, September 30, 2011 and December 31, 2011

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U.S. AUTO PARTS NETWORK, INC.
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- 1.50:1.00 for each quarter ending thereafter
- Liquidity as follows:
 - Unrestricted cash and cash equivalents minus outstanding advances of at least \$7,500,000.

The Company's financial covenant ratios under the Loan Agreement as of October 1, 2011, as amended, were 1.30:1.00 for maximum funded debt to consolidated EBITDA and 1.80:1.00 for consolidated fixed charge coverage. As of October 1, 2011, the Company's liquidity was \$15,023,000.

The Company expects to be in compliance with the financial covenants in the Loan Agreement through the remaining term of the Loan Agreement, however, it is possible that a breach of the financial covenants may occur in the future, should the Company's forecasted EBITDA levels not be achieved. If the Company breaches any of the covenants under the Loan Agreement and is unable to obtain waivers from the Bank, the Bank will be able to exercise their rights and remedies under the Loan Agreement, including a call provision on outstanding debt, which would have a material adverse effect on the Company's business and financial condition.

At October 1, 2011, the LIBOR floor rate and the margin were 1.25% and 2.50% per annum, respectively. The Company had no borrowings on the revolving line of credit at October 1, 2011. The remaining term loan balance was \$19.4 million as of October 1, 2011 and is to be repaid according to the following schedule (in thousands):

Total	Payments Due by Period			
	2011	2012	2013	2014
\$19,438	\$1,563	\$6,250	\$6,875	\$4,750

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of our long-term debt under the facility approximated its carrying amount as of October 1, 2011.

Note 8—Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC Topic 718, *Stock Compensation* ("ASC 718"). 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 statements of operations as general and administrative, marketing, fulfillment or technology expense, based on employee departmental classifications.

Under these guidelines, 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. The determination of the fair value of share-based payment awards utilizing the Black-Scholes option pricing 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 October 1, 2011, the Company did not have an adequate history of market prices of its common stock as the Company recently became a public company, and as such, the Company estimates volatility 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. Due to the limited period of time our equity shares have been publicly traded, we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. 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. The Company considers many factors when estimating expected forfeitures, including employee class, economic environment, and historical experience. Share-based compensation expense recognized in our financial statements 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 options, we may be required to accelerate, increase or cancel any remaining unrecognized share-based compensation expense.

The Company also accounts for equity instruments issued in exchange for board services rendered by non-employee directors in accordance with the provisions of ASC 718.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from non-employees in accordance with ASC 505-50, *Equity-Based Payments to Non-Employees*. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more

U.S. AUTO PARTS NETWORK, INC.
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reliably measurable. The value of equity instruments issued for consideration for other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of 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.

Under the Company's 2007 Omnibus Incentive Plan, the Company granted stock options to purchase 40,000 shares of common stock during the thirteen weeks ended October 1, 2011 at a weighted-average grant date fair value of \$4.47. The Company granted stock options to purchase 700,000 shares of common stock during the thirty-nine weeks ended October 1, 2011 at a weighted-average grant date fair value of \$7.56. The Company had \$3.0 million of unrecognized share-based compensation expense related to stock options outstanding as of October 1, 2011, which expense is expected to be recognized over a weighted-average period of 2.23 years. During the thirteen weeks ended October 1, 2011, options to purchase 27,416 shares were exercised and the total intrinsic value of the exercised options was \$0.1 million. During the thirty-nine weeks ended October 1, 2011, options to purchase 98,407 shares were exercised and the total intrinsic value of the exercised options was \$0.4 million. The intrinsic value of stock options at the date of the exercise is the difference between the fair value of the stock at the date of exercise and the exercise price. At October 1, 2011, there were 2,653,167 shares of common stock available for future grants under this plan.

Under the Company's 2007 New Employee Incentive Plan, there were no stock options granted during the thirty-nine weeks ended October 1, 2011. The Company had \$0.1 million of unrecognized share-based compensation expense related to stock options outstanding under this plan as of October 1, 2011, which expense is expected to be recognized over a weighted-average period of 1.25 years. During the thirty-nine weeks ended October 1, 2011, there were no options exercised under this plan. At October 1, 2011, 750,000 shares of common stock were available for future grants under this plan.

Under the Company's 2006 Equity Incentive Plan, there were no stock options granted during the thirty-nine weeks ended October 1, 2011. The Company had no unrecognized share-based compensation expense related to stock options outstanding under this plan as of October 1, 2011. During the thirty-nine weeks ended October 1, 2011, there were no options exercised under this plan. As of October 1, 2011, there were 2,760,387 shares of common stock available for future grants under this plan.

On May 5, 2009, the Company issued warrants to purchase up to 30,000 shares of common stock, which warrants terminate seven years after their grant date. The warrants were issued in connection with the financial advisory services provided by a consultant to the Company. The warrants vest in thirty-six equal monthly increments of 833 shares each on the last calendar day of each calendar month commencing May 5, 2009. The re-measured fair value of these warrants was \$3.43 per share at October 1, 2011. On April 27, 2010, the Company issued additional warrants to purchase up to 20,000 shares of common stock to the same holder in connection with the financial advisory services provided to the Company. The warrants vest in twenty-four equal monthly increments of 833 shares each on the last calendar day of each calendar month commencing April 27, 2010. The re-measured fair value of these warrants was \$1.55 per share at October 1, 2011. The Company determined the fair value of the warrants using the Black-Scholes option pricing model based on the estimated fair value of the underlying common stock. There were no warrants exercised during the thirty-nine weeks ended October 1, 2011.

Note 9—Income Taxes

For the thirteen weeks ended October 1, 2011 and October 2, 2010, the effective tax rate for the Company was 0% and (533.2)%, respectively. For the thirty-nine weeks ended October 1, 2011 and October 2, 2010, the effective tax rate for the Company was (2.7)% and 1,081.3%, respectively. The Company's effective tax rate for the thirteen and thirty-nine weeks ended October 1, 2011 differed from the U.S. federal statutory rate primarily due to an increase in valuation allowance against pre-tax operating losses and recording of provision for increasing long-term deferred tax liabilities associated with indefinite-lived intangibles which could not be offset with the operating losses. The Company's effective tax rate for the thirteen and thirty-nine weeks ended October 2, 2010 differed from the U.S. federal statutory rate primarily as a result of the recording of an \$11.4 million valuation allowance against the Company's deferred tax assets.

As of October 1, 2011, the Company had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters. The Company's policy is to record accrued interest and penalties related to unrecognized tax benefits as income tax expense.

The Company is subject to U.S. federal income tax as well as income tax of foreign and state tax jurisdictions. The Company's foreign and state income tax returns are open to audit under the statute of limitations for the tax years 2006 through 2010. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

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U.S. AUTO PARTS NETWORK, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10—Comprehensive (Loss) Income

The Company reports comprehensive (loss) income in accordance with ASC Topic 220, *Comprehensive Income*, which defines comprehensive (loss) income as net (loss) income affected by non-stockholder changes in equity. Comprehensive loss for the thirteen and thirty-nine weeks ended October 1, 2011 and October 2, 2010 was as follows (in thousands):

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
Net loss	\$ (5,308)	\$ (13,039)	\$ (8,118)	\$ (11,030)
Foreign currency translation adjustments	34	135	19	149
Unrealized (loss) gain in investments	(16)	(54)	57	11
Comprehensive loss	<u>\$ (5,290)</u>	<u>\$ (12,958)</u>	<u>\$ (8,042)</u>	<u>\$ (10,870)</u>

Note 11—Net (Loss) Income Per Share

Basic net (loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is applicable only in periods of net income and is computed by dividing net income by the weighted average number of common shares outstanding for the period and potentially dilutive common stock equivalents outstanding for the period. Periods of net loss require the diluted computation to be the same as the basic computation. Due to the loss in the thirteen and thirty-nine weeks ended October 1, 2011, 1,338,450 and 1,558,237 shares, respectively, have been excluded from the computation of diluted net loss per share.

Net loss per share has been computed in accordance with ASC Topic 260, *Earnings Per Share*. The following table sets forth the computation of basic and diluted net loss income per share (in thousands, except share and per share data):

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
Net Loss Per Share				
Numerator:				
Net loss	\$ (5,308)	\$ (13,039)	\$ (8,118)	\$ (11,030)
Denominator:				
Weighted-average common shares outstanding (basic)	<u>30,571,472</u>	<u>30,357,988</u>	<u>30,521,529</u>	<u>30,225,194</u>
Weighted-average common shares outstanding (diluted)	<u>30,571,472</u>	<u>30,357,988</u>	<u>30,521,529</u>	<u>30,225,194</u>
Basic net loss per share	\$ (0.17)	\$ (0.43)	\$ (0.27)	\$ (0.36)
Diluted net loss per share	\$ (0.17)	\$ (0.43)	\$ (0.27)	\$ (0.36)

Potentially dilutive securities were not included in the calculation of diluted net income per share because these securities would be anti-dilutive due to the Company's stock price. The related securities are as follows (in common equivalent shares):

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
Warrants to purchase common stock	20,000	20,000	20,000	9,416
Options to purchase common stock	<u>2,674,709</u>	<u>1,559,619</u>	<u>1,970,680</u>	<u>1,432,762</u>
Total	<u>2,694,709</u>	<u>1,579,619</u>	<u>1,990,680</u>	<u>1,442,178</u>

Note 12—Deferred Compensation Plan

In January 2010, the Company adopted the U.S. Auto Parts Network, Inc. Management Deferred Compensation Plan (the "Deferred Compensation Plan"), for the purpose of providing highly compensated employees a program to meet their financial planning needs. The Deferred Compensation Plan provides participants with the opportunity to defer up to 90% of

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

their base salary and up to 100% of their annual earned bonus, all of which, together with the associated investment returns, are 100% vested from the outset. The Deferred Compensation Plan, which is designed to be exempt from most provisions of the Employee Retirement Security Act of 1974, is informally funded by the Company through the purchase of Company-owned life insurance policies with the Company as the owner and beneficiary, in order to preserve the tax-deferred savings advantages of a non-qualified plan. The Deferred Compensation Plan assets are the cash surrender value of the Company-owned life insurance policies and not associated with the deferred compensation liability. The deferred compensation liabilities (consisting of employer contributions, employee deferrals and associated earnings and losses) are general unsecured obligations of USAP. Liabilities under the Deferred Compensation Plan are recorded at amounts due to participants, based on the fair value of participants' selected investments. The Company may at its discretion contribute certain amounts to eligible employee accounts. In January 2010, the Company began to contribute 50% of the first 2% of participants' eligible contributions into their Deferred Compensation Plan accounts. In September 2010, the Company established and transferred its ownership to a rabbi trust to hold the Company-owned life insurance policies. As of October 1, 2011, the assets and associated liabilities of the Deferred Compensation Plan were \$0.4 million and are included in other non-current assets and non-current liabilities, respectively, in our condensed consolidated balance sheets. The associated liabilities mainly include the employee contributions of \$0.3 million and the Company contributions of \$0.1 million made as of October 1, 2011. Included in other income, the Company recorded a gain of \$11,000 and a gain of \$20,000 for the change in the cash surrender value of the Company-owned life insurance policies during the thirteen and thirty-nine weeks ended October 1, 2011, respectively. As of October 2, 2010, the assets and associated liabilities of the Deferred Compensation Plan were \$0.2 million. The associated liabilities mainly include the employee contributions of \$0.2 million and the employer contributions of \$30,000 made as of October 2, 2010. Included in other income, the Company recorded a gain of \$20,000 and a loss of \$10,000 for the change in the cash surrender value of the Company-owned life insurance policies during the thirteen and thirty-nine weeks ended October 2, 2010, respectively.

Note 13— Commitments and Contingencies

On September 22, 2011, the Company entered into a sublease agreement (the "Sublease") with Timec Company Inc. ("Timec") for the leasing of approximately 25,000 square feet of commercial office space located at 16941 Keegan Avenue, Carson, California 90746. The Sublease will enable the Company to consolidate its corporate office space from three buildings into one, and will allow the Company to consolidate its California fulfillment operations into one warehouse, which will reduce its monthly rent expense and potentially create warehouse operating efficiencies once the space consolidation has been completed. The Sublease has an initial term of 60 months (the "Initial Term"), and commences on November 1, 2011. Pursuant to the terms of the Sublease, effective the 42nd month of the Initial Term, we have the ability to terminate the Sublease in exchange for the payment of a termination fee. Additionally, we have the option to renew the Sublease at the end of the Initial Term for an additional 12 month period, as well as the option to renew the Sublease for an additional period thereafter through January 2020. Pursuant to the terms of the Sublease, the rent, including additional rent, shall be approximately \$26,300 per month for the first year, \$27,600 per month for the second year, \$29,100 per month for the third year, \$30,600 per month for the fourth year, and \$32,300 per month for the fifth year. Rent for any subsequent term, after the expiration of the Initial Term, will be negotiated in good faith between the parties. As of October 1, 2011, an aggregate of \$28,000, representing our security deposit and our first month's base rent, has been paid to Timec. Under the terms of the Sublease, we are required to maintain certain levels of insurance and are required to indemnify Timec for losses incurred that are related to our use or occupancy of the property.

Legal Matters

Parts Geek Litigation

In June 2009, the Company filed suit in the United States District Court for the Central District of California against Parts Geek LLC ("Parts Geek"), certain of its members and employees for misappropriation of trade secrets, breach of contract and unfair competition and requesting monetary damages and injunctive relief, and Parts Geek filed an answer in August 2009. In January 2010, the complaint was amended to include claims for copyright infringement and to add Lucas Thomason, a former employee, as an additional party. Parts Geek filed an answer and counterclaims to the amended complaint in February 2010. Each party filed a motion for summary judgment requesting that the Court rule on all claims made in this matter without sending the matter to a jury. In June 2010, the Court ruled on all claims in the matter, denying the Company's claims against Parts Geek and Lucas Thomason and denying Parts Geek's claims against the Company. The judge additionally denied Parts Geek's counterclaims against the Company. Parts Geek and Lucas Thomason petitioned the Court to order the Company to pay their legal fees and costs, the Court ordered the Company to do so and in August 2010 all parties stipulated that approximately \$1.1 million of legal fees and costs would be owed to Parts Geek and Lucas Thomason should the Company lose its appeal or win its appeal and lose in trial. A bond has been posted to guarantee payment of \$1.1 million plus interest, at a cost of approximately \$0.02 million to the Company. The Company is not required to pay the fees and costs at this time; they would be due if the Company loses its appeal and determines to not appeal beyond the 9th Circuit Court of Appeals, or if the Company wins on appeal but loses at trial once the case is remanded to the trial court and, in accordance with ASC 450-20 *Loss Contingencies* ("ASC 450-20"), the Company has not accrued for these fees

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and costs. The Company filed an appeal and filed its initial brief on January 21, 2011. The reply brief was filed March 21, 2011. The appeal has been fully briefed by all parties and scheduling of oral argument before the 9th Circuit Court of Appeals is pending. The Company has analyzed this matter in accordance with ASC 450-20 and, in accordance with the definition of probable loss described therein, it has concluded that no accrual is necessary at this time. In addition, the Company believes that any reasonably possible losses which may be incurred would not be material to the financial statements as a whole.

California Air Resources Board Inquiry

The Company received an inquiry by the California Air Resources Board (“CARB”) into sales of non-California compliant catalytic converters in the state of California via our stock-ship and drop-ship network. In March 2010, and again in June 2010, the Company met with CARB to discuss alleged sales of catalytic converters into California by the Company and third-party suppliers that are not compliant with California regulations. CARB informed the Company that penalties shall be assessed with regard to any non-compliant sales. On October 26, 2011, the Company and CARB entered into a settlement agreement related to this inquiry. Without admitting any liability, the Company agreed to pay a non-material cash penalty, subject to being offset by contributions from some of the Company’s third-party suppliers, in exchange for a release from CARB of the Company and such third-party suppliers.

Asbestos

WAG is a named defendant in several lawsuits involving claims for damages caused by installation of brakes during the late 1960’s and early 1970’s that contained asbestos. WAG marketed certain brakes, but did not manufacture any brakes. WAG maintains liability insurance coverage to protect its and the Company’s assets from losses arising from the litigation and coverage is provided on an occurrence rather than a claims made basis, and the Company is not expected to incur significant out-of-pocket costs in connection with this matter that would be material to its consolidated financial statements.

Note 14— Subsequent Events

On October 11, 2011, the Company, WAG, and Discovery Communications, LLC (“Discovery”) entered into a Buyout Agreement for the purpose of providing Discovery with an incentive to enter into a direct lease agreement with 111 East Wacker LLC (“East Wacker”) for WAG’s former corporate offices located in Chicago, Illinois. In connection with the Buyout Agreement, of the total obligation of \$1.5 million recorded in September 2011, the Company paid Discovery a lump sum payment of \$1.2 million, as well as a \$0.2 million commission to Discovery’s brokers in October 2011. The remaining balance is expected to be paid during the fourth quarter of fiscal 2011.

On October 14, 2011, the Company, WAG, East Wacker and Marketing Werks, Inc. (“Marketing Werks”) entered into a Lease, Sublease, and License Termination and Surrender Agreement (the “Termination Agreement”) for the purpose of terminating WAG’s sublease agreement with Marketing Werks, dated December 4, 2007, related to WAG’s former corporate offices in Chicago, Illinois.

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ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement

You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1 of this report. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC, including our Annual Report on Form 10-K for the year ended January 1, 2011 and subsequent reports on Forms 10-Q and 8-K, which discuss our business in greater detail. The section entitled “Risk Factors” set forth below, and similar discussions in our other SEC filings, describe some of the important risk factors that may affect our business, results of operations and financial condition in the future. You should carefully consider those risks, in addition to the other information in this report and in our other filings with the SEC, before deciding to purchase, hold or sell our common stock.

Overview

We are one of the largest online providers 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 Stock Keeping Units (“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.autopartswarehouse.com, www.partstrain.com, www.jcwhitney.com, www.stylintrucks.com, www.AutoMD.com and our corporate website is located at www.usautoparts.net. 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 Delaware 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. Additionally, in August 2010, through our acquisition of WAG, we expanded our product-lines and increased our customer reach in the do-it-yourself automobile and off-road accessories market. As a result, our business has grown since 2000, generating net sales of \$262 million for fiscal 2010.

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. As of the closing of this transaction, approximately 171 of the Access Worldwide 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. We had 1,042 employees in our Philippines operations as of October 1, 2011. In addition to our Philippines operations, we own a Canadian subsidiary to facilitate sales of our products in Canada which currently has no employees. 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.

Acquisitions. From time to time, we may acquire certain businesses, websites, domain names, or other assets. In the third quarter of fiscal 2009, we completed the acquisition of the assets of a small website and the related domain names which further expanded and enhanced our product offering and our ability to reach more customers. In the first quarter of fiscal 2010, we completed two additional website and domain name asset acquisitions, which we expect will increase our net sales and internet traffic. In August 2010, Go Fido, Inc., a wholly-owned subsidiary of ours, completed the purchase of all of the outstanding capital stock of WAG. WAG’s state-of-the-art facility in Illinois expands our distribution network and the merchandise WAG offers extends our go to market product-lines into all terrain vehicles, recreational vehicles and motorcycles, as well as provides us with deep product knowledge into niche segments like Jeep, Volkswagen and trucks. This expansion of our product line increases our customer reach in the do-it-yourself automobile and off-road accessories market. For additional information, see “*Note 5 – Business Combination*” of the Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report. We may pursue additional acquisition opportunities in the future to increase our share of the aftermarket auto parts market or expand our product offering.

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Executive Summary

We reported net sales for the quarter ended October 1, 2011 (“Q3 2011”) of \$78.6 million compared with the quarter ended October 2, 2010 (“Q3 2010”) net sales of \$72.3 million. Excluding \$19.2 million of revenues from the acquisition of WAG, net sales were \$59.4 million, an increase of 1.2% over Q3 2010 net sales. Q3 2011 net loss was \$5.3 million or \$0.17 per share, compared with Q3 2010 net loss of \$13.0 million or \$0.43 per share. Q3 2011 net loss included a net loss of \$5.5 million or \$0.18 per share related to WAG, of which \$3.8 million of the loss was attributable to restructuring and integration expenses. We generated Adjusted EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization plus current year’s stock compensation, legal settlement and costs to enforce intellectual property rights, and integration expenses related to acquisition) of \$3.1 million for Q3 2011, compared to \$4.1 million for Q3 2010. Excluding WAG’s Adjusted EBITDA of \$(0.9) million, which included the related \$3.8 million of restructuring and integration expenses, Adjusted EBITDA was \$4.0 million. Adjusted EBITDA is presented because such measure is used by rating agencies, securities analysts, investors and other parties in evaluating us. It should not be considered, however, as an alternative to operating income as an indicator of our operating performance or as an alternative to cash flows as measures of our overall liquidity as presented in our unaudited condensed consolidated financial statements. Further, Adjusted EBITDA measure shown for us may not be comparable to similarly titled measures used by other companies.

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 monitor the total number of orders as an indicator of future revenue trends. We recognize revenue associated with an order when the products have been delivered, consistent with our revenue recognition policy.

Average Order Value: Average order value represents our net 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, macro-economic conditions, and the general level of competition online.

The tables below reconcile net (loss) income to Adjusted EBITDA on both a consolidated basis and for US Auto Parts excluding the WAG acquisition for the periods presented (in thousands):

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-nine Weeks Ended October 1, 2011	Thirty-nine Weeks Ended October 2, 2010
Consolidated				
Net loss	\$ (5,308)	\$ (13,039)	\$ (8,118)	\$ (11,030)
Interest expense, net	283	187	719	132
Income tax provision	2	10,979	215	12,154
Amortization of intangibles	338	919	3,328	1,164
Depreciation and amortization	3,126	2,547	9,202	6,483
EBITDA	(1,559)	1,593	5,346	8,903
Share-based compensation	623	640	1,946	2,112
Legal settlement and costs to enforce intellectual property rights	211	306	443	2,199
Charge for change in revenue recognition	—	—	—	411
Add back restructuring	3,816	1,590	6,591	1,590
Adjusted EBITDA	\$ 3,091	\$ 4,129	\$ 14,326	\$ 15,215

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	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-nine Weeks Ended October 1, 2011	Thirty-nine Weeks Ended October 2, 2010
USAP excluding WAG				
Net income (loss)	\$ 214	\$ (10,136)	\$ 4,617	\$ (8,127)
Interest expense, net	280	139	719	83
Income tax provision	2	10,979	160	12,154
Amortization of intangibles	125	124	375	369
Depreciation and amortization	2,514	2,197	7,364	6,132
EBITDA	3,135	3,303	13,235	10,611
Share-based compensation	623	640	1,946	2,112
Legal settlement and costs to enforce intellectual property rights	211	306	443	2,199
Charge for change in revenue recognition	—	—	—	411
Adjusted EBITDA	\$ 3,969	\$ 4,249	\$ 15,624	\$ 15,333

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, uncollectible receivables, intangible and other long-lived assets and contingencies. 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 the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. There were no significant changes to our critical accounting policies during the thirty-nine weeks ended October 1, 2011, as compared to those policies disclosed in our Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

Recent Accounting Pronouncements

In December 2010, the FASB issued ASU 2010-29, an update to ASC 805. The amendments in ASU 2010-29 specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in ASU 2010-29 also expand the supplemental pro forma disclosures under ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We will apply the provisions of ASU 2010-29 to future acquisitions occur after January 2, 2011. We believe that the adoption will not have a material effect on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU 2011-04”), an update to ASC Topic 820, *Fair Value Measurement* (“ASC 820”). The amendments in ASU 2011-04 are the result of joint efforts by the FASB and International Accounting Standards Board (“IASB”) to develop a single, converged fair value framework and provide converged guidance how to measure fair value and on what disclosures to provide about fair value measurements. While ASU 2011-04 is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands ASC 820’s existing disclosure requirements for fair value measurements and makes other amendments. Many of these amendments were made to eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards (“IFRSs”). However, some could change how the fair value measurement guidance in ASC 820 is applied. For public entities, amendments are effective for interim and annual periods beginning after December 15, 2011. We will adopt the provisions of ASU 2011-04 on January 1, 2012, the starting date of its fiscal year ending December 29, 2012. We believe that the adoption will not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (“ASU 2011-05”), an update to ASC Topic 220, *Comprehensive Income* (“ASC 220”). The amendments in ASU 2011-05 revise the manner in which entities present comprehensive income in their financial statements by removing the presentation options in ASC 220 and requiring entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other

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comprehensive income, and a total amount for comprehensive income. The amendments in ASU 2011-5 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. We will adopt the provisions of ASU 2011-05 on January 1, 2012, the starting date of our fiscal year ending December 29, 2012. The adoption will have an impact on the presentation of other comprehensive income on our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment* (“ASU 2011-08”), an update to ASC Topic 350, *Intangibles – Goodwill and Other* (“ASC 350”). Under the amendments in ASU 2011-8, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in paragraph 350-20-35-4. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in paragraph 350-20-35-9. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. We adopted the provisions of ASU 2011-08 on October 2, 2011, the starting date of the fourth quarter of our fiscal year ending December 31, 2011. We believe that the adoption will not have a material effect on our consolidated financial statements.

Results of Operations

The following table sets forth certain unaudited statements of operations data for the periods indicated:

	Thirteen Weeks Ended <u>October 1, 2011</u>	Thirteen Weeks Ended <u>October 2, 2010</u>	Thirty-Nine Weeks Ended <u>October 1, 2011</u>	Thirty-Nine Weeks Ended <u>October 2, 2010</u>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	69.0	66.8	66.7	65.8
Gross profit	31.0	33.2	33.3	34.2
Operating expenses:				
Marketing	17.8	15.4	16.8	14.0
General and administrative	11.6	11.3	10.3	11.2
Fulfillment	5.7	5.7	5.6	5.6
Technology	2.1	2.3	2.2	2.1
Amortization of intangibles	0.4	1.3	1.3	0.6
Total operating expenses	37.6	35.9	36.2	33.6
(Loss) income from operations	(6.6)	(2.7)	(2.9)	0.6
Other income (expense):				
Other income	0.3	0.2	0.1	0.1
Interest expense	(0.4)	(0.3)	(0.3)	(0.1)
Total other (expense) income, net	(0.1)	(0.1)	(0.2)	0.0
(Loss) income before income taxes	(6.7)	(2.8)	(3.1)	0.6
Income tax provision	0.0	15.2	0.1	6.7
Net loss	(6.7)%	(18.0)%	(3.2)%	(6.1)%

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Thirteen and Thirty-Nine Weeks Ended October 1, 2011 Compared to Thirteen and Thirty-Nine Weeks Ended October 2, 2010

Net Sales and Gross Margin

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
	(in thousands)			
Net sales	\$ 78,593	\$ 72,349	\$ 249,839	\$ 181,828
Cost of sales	54,248	48,342	166,664	119,617
Gross profit	\$ 24,345	\$ 24,007	\$ 83,175	\$ 62,211
Gross margin	31.0%	33.2%	33.3%	34.2%

Net sales increased \$6.2 million or 8.6% for Q3 2011, compared to Q3 2010. Excluding the WAG acquisition, net sales increased \$0.7 million or 1.2% due to increased non-internet sales. E-commerce sales decreased \$0.3 million or 1.0% from Q3 2010. Our e-commerce channel includes a network of e-commerce websites, supported by our call-center sales agents who generate cross-sell and up-sell opportunities. The e-commerce sales represented approximately 80% of Q3 2011 total net sales, and the decrease in such sales for Q3 2011, compared to Q3 2010, was primarily attributable to a 4.5% decline in conversion rate, a 2.9% decline in revenue capture, which is the amount of dollars retained by us after taking into consideration any credit card declines, returns and product fulfillment, and a 0.8% decline in average order value partially offset by a 9.7% increase in unique visitors. Our conversion rate is the ratio of visitors who convert into placed orders.

Net sales increased \$68.0 million or 37.4% for the thirty-nine weeks ended October 1, 2011 ("YTD Q3 2011"), compared to the thirty-nine weeks ended October 2, 2010 ("YTD Q3 2010"). Excluding the WAG acquisition, net sales increased \$14.5 million or 8.6% primarily due to an \$11.7 million or 9.1% increase in e-commerce sales. The increase in e-commerce sales mainly resulted from a 9.0% increase in unique visitors, a 0.9% increase in conversion rate and a 0.6% increase in revenue capture partially offset by a 2.2% decline in average order value.

Gross profit increased \$0.3 million or 1.4% during Q3 2011, compared to Q3 2010. Excluding the WAG acquisition, gross profit was \$19.2 million for Q3 2011 and Q3 2010. Gross profit increased \$21.0 million or 33.7% during YTD Q3 2011, compared to YTD Q3 2010. Excluding the WAG acquisition, gross profit increased \$4.1 million or 7.1% primarily due to increased sales across all sales channels.

Gross margin decreased 2.2% to 31.0% of net sales during Q3 2011, compared with Q3 2010. Excluding the WAG acquisition, gross margin was 32.4% and 32.7% of net sales for Q3 2011 and Q3 2010, respectively. Gross margin decreased 0.9% to 33.3% of net sales during YTD Q3 2011, compared to YTD Q3 2010. Excluding the WAG acquisition, gross margin decreased 0.4% to 33.7% of net sales, compared to YTD Q3 2010. Gross margin was unfavorably impacted by a shift from body to engine parts and increased freight expenses.

Marketing Expense

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
	(in thousands)			
Marketing expense	\$ 14,002	\$ 11,145	\$ 41,953	\$ 25,496
Percent of net sales	17.8%	15.4%	16.8%	14.0%

Online advertising (which includes catalog costs) expense was \$7.0 million or 9.7% and \$21.6 million or 9.4% of internet net sales for Q3 2011 and YTD Q3 2011, respectively. Excluding the WAG acquisition, online advertising expense was 7.6% of internet net sales, up 0.3% from Q3 2010 and 7.0% of internet net sales, up 0.2% from YTD Q3 2010. Marketing expense (excluding online advertising expense) was \$7.0 million or 8.9% and \$20.4 million or 8.2% of net sales for Q3 2011 and YTD Q3 2011, respectively. Excluding the WAG acquisition, marketing expense was 8.3% of net sales, up 1.3% from Q3 2010 and 7.7% of net sales, up 0.6% from YTD Q3 2010. The increase was primarily due to higher amortization from software deployments this year and additional marketing services.

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General and Administrative Expense

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
	(in thousands)			
General and administrative expense	\$ 9,096	\$ 8,156	\$ 25,739	\$ 20,288
Percent of net sales	11.6%	11.3%	10.3%	11.2%

General and administrative expense increased \$1.0 million or 11.5% and \$5.3 million or 26.9% for Q3 2011 and YTD Q3 2011, compared to Q3 2010 and YTD Q3 2010, respectively. Excluding the WAG acquisition and the legal settlement and costs to protect our intellectual property, general and administrative expense was \$4.5 million or 7.5% of net sales, down from 8.8% for Q3 2010 and \$14.5 million or 7.9% of net sales, down from 9.3% for YTD Q3 2010. The decrease in both periods reflects fixed cost leverage from higher sales.

Fulfillment Expense

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
	(in thousands)			
Fulfillment expense	\$ 4,449	\$ 4,102	\$ 14,048	\$ 10,269
Percent of net sales	5.7%	5.7%	5.6%	5.6%

Fulfillment expense increased \$0.3 million or 8.5% and \$3.8 million or 36.8% in Q3 2011 and YTD Q3 2011, compared to Q3 2010 and YTD Q3 2010, respectively. Excluding the WAG acquisition, fulfillment expense was \$3.7 million or 6.3% of net sales, up from 5.8% for Q3 2010 and \$11.4 million or 6.2% of net sales, up from 5.7% for YTD Q3 2010. The increase was primarily due to higher depreciation and amortization expense from software deployments.

Technology Expense

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
	(in thousands)			
Technology expense	\$ 1,676	\$ 1,665	\$ 5,531	\$ 3,841
Percent of net sales	2.1%	2.3%	2.2%	2.1%

Technology expense increased \$11,000 or 0.7% and \$1.7 million or 44% in Q3 2011 and YTD Q3 2011, compared to Q3 2010 and YTD Q3 2010, respectively. Excluding the WAG acquisition, technology expense was \$1.2 million or 2.0% of net sales in Q3 2011, consistent with 2.0% for Q3 2010 and \$3.7 million or 2.0% of net sales in YTD Q3 2011, consistent with 2.0% for YTD Q3 2010.

Amortization of Intangibles

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
	(in thousands)			
Amortization of Intangibles	\$ 338	\$ 919	\$ 3,328	\$ 1,164
Percent of net sales	0.4%	1.3%	1.3%	0.6%

Amortization of intangibles decreased by \$0.6 million for Q3 2011, compared to Q3 2010, and increased by \$2.2 million for YTD Q3 2011, compared to YTD Q3 2010. Such changes in both periods were primarily due to completion of accelerated amortization of certain intangibles acquired from WAG in the second quarter of fiscal 2011.

Interest Expense

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
	(in thousands)			
Interest expense	\$ (291)	\$ (214)	\$ (758)	\$ (214)

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Interest expense increased \$77,000 and \$0.5 million in Q3 2011 and YTD Q3 2011, compared to Q3 2010 and YTD Q3 2010, respectively, primarily due to the interest on the long-term debt of \$25 million borrowed in August 2010. The outstanding long-term debt was \$19.4 million at October 1, 2011.

Income Tax Provision

	Thirteen Weeks Ended October 1, 2011	Thirteen Weeks Ended October 2, 2010	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
			(in thousands)	
Income tax provision	\$ 2	\$ 10,979	\$ 215	\$ 12,154

For Q3 2011 and Q3 2010, our effective tax rate was 0% and (533.2)%, respectively. For YTD Q3 2011 and YTD Q2 2010, our effective tax rate was (2.7)% and 1,081.3%, respectively. Our effective tax rate for Q3 2011 and YTD Q3 2011 differed from the U.S. federal statutory rate primarily due to an increase in valuation allowance against pre-tax operating losses and recording of provision for increasing long-term deferred tax liabilities associated with indefinite-lived intangibles which could not be offset with the operating losses. Our effective tax rate for Q3 2010 and YTD Q3 2010 differed from the U.S. federal statutory rate primarily as a result of the recording of an \$11.4 million valuation allowance against our deferred tax assets. As of October 1, 2011, we had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters.

Liquidity and Capital Resources

Sources of Liquidity

During the thirty-nine weeks ended October 1, 2011, we funded our operations with cash and cash equivalents generated from operations, credit facilities and capital lease financings. We had cash and cash equivalents of \$15.1 million as of October 1, 2011, representing a \$2.5 million decrease from \$17.6 million of cash and cash equivalents as of January 1, 2011. The decrease in cash and cash equivalents was primarily due to capital expenditures and pay down of long-term debt partially offset by operating cash flows and proceeds from redemption of our ARPS. We had no balance outstanding under our bank line of credit at any time during the thirty-nine weeks ended October 1, 2011.

On May 2, 2011, we filed a shelf registration statement covering the offer and sale of up to \$200 million of common stock with the SEC. The shelf registration was declared effective by the SEC on August 10, 2011. We have no immediate plans or current commitments to sell this common stock. The terms of any offering under our shelf registration statement will be determined at the time of the offering and disclosed in a prospectus supplement filed with the SEC.

Cash Flows

The following table summarizes the key cash flow metrics from our unaudited condensed consolidated statements of cash flow for the thirty-nine weeks ended October 1, 2011 and October 2, 2010, respectively (in thousands):

	Thirty-Nine Weeks Ended October 1, 2011	Thirty-Nine Weeks Ended October 2, 2010
Net cash provided by operating activities	\$ 10,400	\$ 1,608
Net cash used in investing activities	(8,333)	(28,686)
Net cash (used in) provided by financing activities	(4,498)	25,316
Effect of exchange rate changes on cash	(13)	51
Net decrease in cash and cash equivalents	\$ (2,444)	\$ (1,711)

Operating Activities

Net cash provided by operating activities increased by \$8.8 million for the thirty-nine weeks ended October 1, 2011, as compared to the thirty-nine weeks ended October 2, 2010, largely due to a decrease in cash used for purchase of inventory offset by timing of payments on accounts payable and collection on accounts receivable and other receivables related to the WAG acquisition.

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Investing Activities

Net cash flows used in investing activities decreased by \$20.4 million for the thirty-nine weeks ended October 1, 2011, as compared to the thirty-nine weeks ended October 2, 2010, primarily due to decreased investment in short-term marketable securities and business acquisitions.

Financing Activities

Net cash used in financing activities increased by \$29.8 million for the thirty-nine weeks ended October 1, 2011, as compared to the thirty-nine weeks ended October 2, 2010, primarily due to decreased proceeds from long-term debt under our credit facility.

Funding requirements

As of October 1, 2011, our working capital was \$12.4 million. 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.

In August 2010, we and Silicon Valley Bank (“Bank”) entered into a Loan and Security Agreement (the “Loan Agreement”) and other definitive documentation for a \$35 million secured credit facility (the “Facility”). The Facility is comprised of a term loan in the original principal amount of \$25 million and a revolving line of credit with availability up to \$10 million. The Facility has a final maturity date of June 30, 2014, and borrowings under the Facility bear interest, at our election, at LIBOR (with a floor of 1.25%) plus a margin of from 2.00% to 3.00% per annum, or at the Wall Street Journal Prime Rate plus a margin of from 1.00% to 2.00% per annum, based upon our maximum funded debt ratio. An unused revolving line fee of 0.375% per annum is payable on the undrawn committed amount of the revolving line of credit. Interest on outstanding borrowings under the term loan and the revolving line of credit is payable no less than quarterly, and the outstanding principal of the term loan amortizes over four years and is payable quarterly, with any outstanding amount under the Facility to be paid in full on the final maturity date. Borrowings under the Facility are secured by liens over all our assets, including shares of stock in each of our subsidiaries. Ten of our subsidiaries are acting as co-borrowers under the Facility. At October 1, 2011, the LIBOR floor rate and the margin were 1.25% and 2.50% per annum, respectively. We had no borrowings on the revolving line of credit at any time during the thirty-nine weeks ended October 1, 2011. The remaining term loan balance was \$19.4 million as of October 1, 2011 and is to be repaid according to the following schedule (in thousands):

Total	Payments Due by Period			
	2011	2012	2013	2014
\$19,438	\$1,563	\$6,250	\$6,875	\$4,750

The Loan Agreement requires us to comply with a number of covenants, including financial covenants related to maximum funded debt to consolidated EBITDA, liquidity, and consolidated fixed charge coverage ratios; negative pledge requirements; requirements to deliver quarterly and annual consolidated financial statements; requirements to maintain adequate insurances; prohibitions on changes in the business and disposition of our assets; and other customary covenants. The Loan Agreement also requires us to obtain a prior written consent from the Bank when we determine to pay any dividends on or make any distribution related to our common stock. The Loan Agreement includes usual and customary events of default and remedies for facilities of this nature. In February 2011 and October 2011, we and the Bank entered into Amendment No. 1 and Amendment No. 2, respectively, to Loan and Security Agreement and Limited Waiver (collectively, the “Amendments”). The Amendments waived our lack of compliance with the consolidated fixed charge coverage ratio covenant in the Loan Agreement as of January 1, 2011 and October 1, 2011. The Amendments also amended the definition of “Consolidated EBITDA” to more readily accommodate our integration of the WAG acquisition. For the thirteen and thirty-nine weeks ended October 1, 2011, we were in compliance with all covenants under the credit facility, as amended by the Amendments. We expect to be in compliance with the financial covenants through the remaining term of the Loan Agreement. See “*Note 7 – Borrowings*” of the Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report for details on the Loan Agreement.

In September 2011, we recorded contract cancellation costs of \$1.5 million in general and administrative expenses due to the termination of WAG’s sublease agreement related to its former corporate offices in Chicago, Illinois. Of the total, \$1.4 million of the contract cancellation costs was paid during October 2011 and the remaining balance is expected to be paid during the fourth quarter of fiscal 2011. See “*Note 14- Subsequent Events*” of the Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report for details on the sublease termination.

We anticipate that funds generated from operations and cash on hand will be sufficient to meet our working capital needs, expected capital expenditures and the servicing of the debt 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

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than anticipated net sales, additional acquisitions, increased expenses, continued or worsened economic conditions, or other events, including those described in “Risk Factors”, included in Part II, Item 1A of this report, may cause us to seek debt or equity financings in the future. 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. As of October 1, 2011, our \$2.1 million (fair value) of ARPS investments remained classified as long-term investments as a result of failed auctions and market liquidity issues. We may not have immediate access to those funds.

We also plan to continue our technology investments in an effort to improve our websites, operating systems, and backend platforms.

Debt and Available Borrowing Resources

Short-term debt increased by \$0.1 million as of October 1, 2011 from that as of January 1, 2011. Long-term debt decreased by \$4.8 million as of October 1, 2011 from that as of January 1, 2011. The net decrease was primarily due to the \$4.6 million payment made on our long-term debt under the credit facility during the thirty-nine weeks ended October 1, 2011.

Our debt-equity ratio was calculated as the carrying value of debt divided by the carrying value of equity. As of October 1, 2011 and January 1, 2011, our debt-equity ratio was 0.29 and 0.33, respectively, due to borrowings under our credit facility.

As of October 1, 2011, an unused revolving line of credit with availability up to \$10 million was available to us to obtain short-term and long-term financings if we need additional liquidity.

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 October 1, 2011 (in thousands):

Contractual Obligations:	Payment Due By Period				
	Total	2011	2012-2013	2014-2015	Thereafter
Principal payments on long-term debt ⁽¹⁾	19,438	1,563	13,125	4,750	
Interest payments on long-term debt ⁽²⁾	1,187	182	928	77	
Operating lease obligations ⁽³⁾	5,466	356	2,616	1,937	557
Capital lease obligations ⁽⁴⁾	201	42	159		

⁽¹⁾ Amounts represent the expected principal cash payments relating to our long-term debt and do not include any fair value adjustments or discounts and premiums.

⁽²⁾ Amounts represent the expected interest cash payments relating to our long-term debt. The interest rate at October 1, 2011 was used to calculate the expected future interest payments.

⁽³⁾ Commitments under operating leases relate primarily to our lease on our principal facility in Carson, California, our distribution center in Chesapeake, Virginia, LaSalle, Illinois, and Independence, Ohio, and our call center in the Philippines.

⁽⁴⁾ Commitments under capital leases relate to equipment lease agreements.

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. Engine parts and performance parts and accessories have historically experienced higher sales in the summer 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 during the reporting periods in any given years.

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 affected by inflation in the future.

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

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 U.S. interest rates and conditions in the credit markets. We also have some exposure related to foreign currency fluctuations. We do not have 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 and mutual funds that hold debt securities.

Interest Rate Risk. Our investment securities generally consist of high-grade ARPS. As of October 1, 2011, our long-term investments included \$2.1 million (fair value) of investments in ARPS, which consisted of high-grade (A or AAA rated) collateralized debt obligations issued by municipalities and state agencies. Our ARPS have an interest rate that is reset in short intervals through auctions. The current conditions in the global credit markets have prevented some investors from liquidating their holdings of ARPS 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.

In February 2008, we were informed that there was insufficient demand at auctions for four of our high-grade ARPS, 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. For the period between June 30, 2008 through October 1, 2011, we received partial redemptions at par on all four ARPS totaling \$5.6 million. The remaining principal balance on our ARPS was \$2.1 million as of October 1, 2011.

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. At this time, management has not obtained sufficient evidence to conclude that these investments are other-than-temporarily 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 indefinitely. We do not expect to have a need to access these funds for operational purposes for the foreseeable future. We plan to continue to monitor and evaluate these investments on an ongoing basis for impairment. 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. However, due to the illiquidity in the market, we have recorded \$34,000 of unrealized losses on our investment portfolio as of October 1, 2011.

As of October 1, 2011, we had a balance of \$19.4 million outstanding under a term loan under our credit facility with Silicon Valley Bank. The interest rate on this loan is computed at a LIBOR loan rate, adjusted by features specified in our loan agreement. At our current debt level as of October 1, 2011, a 100 basis point increase in interest rates would not materially affect our earnings and cash flows. If, however, we are unable to meet the covenants in our loan agreement, we would be required to renegotiate the terms of credit under the loan agreement, including the interest rate. There can be no assurance that any renegotiated terms of credit would not materially impact our earnings. In February 2011 and October 2011, we and the Bank entered into Amendment No. 1 and Amendment No. 2, respectively, to Loan and Security Agreement and Limited Waiver (collectively, the "Amendments"). The Amendments waived our lack of compliance with the consolidated fixed charge coverage ratio covenant in the Loan Agreement as of January 1, 2011 and October 1, 2011. The Amendments also amended the definition of "Consolidated EBITDA" to more readily accommodate our integration of the WAG acquisition. For the thirteen and thirty-nine weeks ended October 1, 2011, the Company was in compliance with all covenants under the credit facility, as amended by the Amendments. We expect to be in compliance with the financial covenants through the remaining term of the Loan Agreement.

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. Our financial reporting currency is the U.S. Dollar and changes in exchange rates significantly affect our reported results and consolidated trends. For example, if the U.S. Dollar weakens year-over-year relative to currencies in our international locations, our consolidated net sales, gross profit, and operating expenses will be higher than if currencies had remained constant. Likewise, if the U.S. Dollar strengthens year-over-year relative to currencies in our international locations, our consolidated net sales, gross profit and operating expenses will be lower than if currencies had remained constant. Our operating expenses in the Philippines are generally paid in Philippine Pesos, and as the exchange rate fluctuates, it adversely or favorably impacts our operating results. In light of the above, we believe that a fluctuation of 10% in the Peso/U.S. Dollar exchange rate would

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have had approximately a \$0.9 million impact on our operating expenses for the thirty-nine weeks ended October 1, 2011. Our Canadian website sales are denominated in Canadian Dollars; however, fluctuations in exchange rates from these operations are only expected to have a nominal impact on our operating results due to the relatively small number of sales generated in Canada. We believe it is important to evaluate our operating results and growth rates before and after the effect of currency changes.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by Rule 13a – 15(b) of the Securities Exchange Act of 1934, as amended (the “1934 Act”), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act, as of the end of the period covered by this report.

Disclosure controls and procedures provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, our CEO and CFO have concluded that, as of such date, our disclosure controls and procedures were effective to meet the objectives for which they were designed.

Changes in Internal Control Over Financial Reporting

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Inherent Limitations on Internal Controls

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures 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.

PART II. Other Information

ITEM 1. Legal Proceedings

The information set forth under “*Note 13 – Commitments and Contingencies*” of the Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, is incorporated herein by reference.

ITEM 1A. Risk Factors

Our business is subject to a number of risks which are discussed below. Other risks are presented elsewhere in this report and in our other filings with the SEC. We have marked with an asterisk () those risk factors that reflect substantive changes from the risk factors included in the Annual Report on Form 10-K that we filed with the SEC on March 17, 2011. 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 report on Form 10-K and our subsequent reports on Forms 10-Q and 8-K, and amendments thereto, before deciding to buy, sell or hold our common stock. If any of the following known or unknown risks or uncertainties actually occurs with material adverse effects on us, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price for our common stock will likely decline and you may lose all or part of your investment.*

Risks Related To Our Business

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, and currently represents only a small part. Our success will depend in part on our ability to attract new customers and to convert 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. 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, it could result in fewer consumers clicking through to our websites, and 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

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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.

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

As part of our growth strategy, we acquired WAG on August 12, 2010 and we expect that we will selectively pursue additional acquisitions of businesses, technologies or services in order to expand our capabilities, enter new markets or increase our market share. In conjunction with the acquisition of WAG, we recorded a significant valuation allowance against our deferred tax asset, and have incurred greater than usual legal and accounting fees, as well as general and administrative expenses. Additionally, because the acquisition of WAG was a stock purchase, we may incur liability for acts taken prior to our acquisition that may involve costly litigation. Integrating any newly acquired businesses' websites, technologies or services is likely to be expensive and time consuming. For example, our acquisition of All OEM Parts, Inc., the Partsbin.com, Inc., and other affiliated companies (collectively "Partsbin"), resulted in significant costs, including a material impairment charge, a write-down of goodwill associated with the acquisition, 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. Our integration activities in connection with our acquisitions have also caused a substantial diversion of our management's attention. If we are unable to successfully complete the integration of acquisitions, including WAG, we may not realize the anticipated synergies from such acquisitions, we may take impairment charges and write-downs associated with such acquisitions, and our business and results of operations could suffer. In connection with the acquisition of WAG, we have incurred acquisition and integration related costs of \$6.6 million during the thirty-nine weeks ended October 1, 2011. To finance any future acquisitions, it may also be necessary for us to raise additional capital through public or private financings or to obtain additional bank financing. 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 assumption of debt and unforeseen liabilities (including our becoming involved in litigation relating to any business we acquire) and significant adverse accounting charges, any of which could substantially harm our business, financial condition and results of operations.

We may not be able to successfully acquire new businesses or integrate acquisitions, which could cause our business to suffer.

We may not be able to successfully complete potential strategic acquisitions if we cannot reach agreement on acceptable terms or for other reasons. If we buy a company or a division of a company, we may experience difficulty integrating that company's or division's personnel and operations, which could negatively affect our operating results. In addition:

- the key personnel of the acquired company may decide not to work for us;
- customers of the acquired company may decide not to purchase products from us;
- we may experience business disruptions as a result of information technology systems conversions;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, and financial reporting;
- we may be held liable for environmental, tax or other risks and liabilities as a result of our acquisitions, some of which we may not have discovered during our due diligence;
- we may intentionally assume the liabilities of the companies we acquire, which could materially and adversely affect our business;
- our ongoing business may be disrupted or receive insufficient management attention;
- we may not be able to realize the cost savings or other financial benefits or synergies we anticipated, either in the amount or in the time frame that we expect; and
- we may incur debt or issue equity securities to pay for any future acquisition, the issuance of which could involve the imposition of restrictive covenants or be dilutive to our existing stockholders.

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****Our operations are restricted by our credit facility.***

Our credit facility includes a number of restrictive covenants. These covenants could impair our financing and operational flexibility and make it difficult for us to react to market conditions and satisfy our ongoing capital needs and unanticipated cash requirements. Specifically, such covenants restrict our ability and, if applicable, the ability of our subsidiaries to, among other things:

- incur additional debt;
- make certain investments and acquisitions;
- enter into certain types of transactions with affiliates;
- use assets as security in other transactions;
- pay dividends on our capital stock or repurchase our equity interests;
- sell certain assets or merge with or into other companies;
- guarantee the debts of others;
- enter into new lines of business;
- pay or amend our subordinated debt; and,
- form any joint ventures or subsidiary investments.

In addition, our current credit facility requires us to satisfy certain financial covenants. These financial covenants and tests could limit our ability to react to market conditions or satisfy extraordinary capital needs and could otherwise restrict our financing and operations.

Our ability to comply with the covenants and other terms of our debt obligations will depend on our future operating performance. If we fail to comply with such covenants and terms, we would be required to obtain waivers from our lenders to maintain compliance with our debt obligations. As of January 1, 2011 and October 1, 2011, in connection with our credit facility, our consolidated fixed charge coverage ratio was lower than the ratio required by the covenants in the credit facility. In February 2011 and October 2011, we and the Bank entered into Amendment No. 1 and Amendment No. 2, respectively, to Loan and Security Agreement and Limited Waiver (collectively, the "Amendments"). The Amendments waived our lack of compliance with the consolidated fixed charge coverage ratio covenant in the Loan Agreement as of January 1, 2011 and October 1, 2011. The Amendments also amended the definition of "Consolidated EBITDA" to more readily accommodate our integration of the WAG acquisition. If we are unable to obtain any necessary waivers and the debt is accelerated, a material adverse effect on our financial condition and future operating performance would result. Additionally, our indebtedness could have important consequences, including the following:

- We will have to dedicate a portion of our cash flow to making interest and principal payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions or other general corporate purposes.
- Certain levels of indebtedness may make us less attractive to potential acquirers or acquisition targets.
- Certain levels of indebtedness may limit our flexibility to adjust to changing business and market conditions, and make us more vulnerable to downturns in general economic conditions as compared to competitors that may be less leveraged.
- As described in more detail above, the documents providing for our indebtedness contain restrictive covenants that may limit our financing and operational flexibility.

Furthermore, our ability to satisfy our debt service obligations will depend, among other things, upon fluctuations in interest rates, our future operating performance and ability to refinance indebtedness when and if necessary. These factors depend partly on economic, financial, competitive and other factors beyond our control. We may not be able to generate sufficient cash from operations to meet our debt service obligations as well as fund necessary capital expenditures and general operating expenses. In addition, if we need to refinance our debt, or obtain additional financing or sell assets or equity to satisfy our debt service obligations, we may not be able to do so on commercially reasonable terms, if at all.

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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. 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:

- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations and infrastructure;
- 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 and relative weakness in the U.S. Dollar.

****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 52.6% of our total product purchases during the thirty-nine weeks ended October 1, 2011. 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. 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 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 economic 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.

****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 thirty-nine weeks ended October 1, 2011, our product purchases from a single supplier represented 16.5% of our total product purchases. If we do not maintain our existing relationships with this supplier and our other 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.

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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.

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 harm our reputation and 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 due to 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.

If commodity prices such as fuel, plastic and steel continue to increase, our margins may shrink.

Our third party delivery services have increased fuel surcharges from time to time, and such increases negatively impact our margins, as we are generally unable to pass all of these costs directly to consumers. Increasing prices in the component materials for the parts we sell may impact the availability, the quality and the price of our products, as suppliers search for alternatives to existing materials and as they increase the prices they charge. We cannot ensure that we can recover all the increased costs through price increases, and our suppliers may not continue to provide the consistent quality of product as they may substitute lower cost materials to maintain pricing levels, all of which may have a negative impact on 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, theft, 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 and alternate arrangements may increase the cost of fulfillment. 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 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

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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.

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 do-it-yourself or do-it-for-me customer segments. Current or potential competitors include the following:

- national auto parts retailers such as Advance Auto Parts, AutoZone, Napa Auto Parts, CarQuest, O'Reilly Automotive and Pep Boys;
- large online marketplaces such as Amazon.com and eBay;
- other online retailers;
- local independent retailers or niche auto parts online retailers; and
- wholesale aftermarket 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 sales, lower 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.

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.

Challenges by Original Equipment Manufacturers ("OEMs") to the validity of the aftermarket auto parts industry and claims of intellectual property infringement could adversely affect our business and the viability of the aftermarket auto parts industry.

Original equipment manufacturers have attempted to use claims of intellectual property infringement against manufacturers and distributors of aftermarket products to restrict or eliminate the sale of aftermarket products that are the

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subject of the claims. The OEMs have brought such claims in federal court and with the United States International Trade Commission. We have received in the past, and we anticipate we may in the future receive, communications alleging that certain products we sell infringe the patents, copyrights, trademarks and trade names or other intellectual property rights of OEMs or other third parties. For instance, after the three and a half years of litigation and related costs and expenses, on April 16, 2009, we entered into a settlement agreement with Ford Motor Company and Ford Global Technologies, LLC that ended the two legal actions that were initiated by Ford against us. The United States Patent and Trademark Office records indicate that OEMs are seeking and obtaining more design patents than they have in the past. To the extent that the OEMs are successful with intellectual property infringement claims, we could be restricted or prohibited from selling certain aftermarket products which could have an adverse effect on our business. 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.

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 such as our proprietary back-end order processing and fulfillment code and process 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, our proprietary rights may be infringed or misappropriated, and we could be required to incur significant expenses to preserve them. For instance, on June 25, 2009, we filed a lawsuit in United States District Court, Central District of California against PartsGeek LLC, its members and several of its employees, alleging, among other things, misappropriation of trade secrets, breach of contract and unfair competition. We are requesting both monetary and injunctive relief. The outcome of such litigation is uncertain, and the cost of prosecuting the litigation may have an adverse impact on our earnings. We have common law trademarks, as well as pending federal trademark registrations for several marks and three registered marks. Even if we obtain approval of such pending registrations, the resulting registrations may not adequately cover our intellectual property 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.autopartswarehouse.com, www.partstrain.com, www.jcwhitney.com, and www.stylintrucks.com, and have invested time and money in the purchase of domain names and other intellectual property, which may be impaired if we cannot protect such intellectual property. 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.

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, which 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 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 to compete with us, whether lawfully or not, we may lose an important competitive advantage and our business could be harmed.

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 although we have created proprietary programs. 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

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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 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, including parts obtained overseas, 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.

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 highly skilled executive, 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.

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, transactions 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.

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Risks Related To Our Common Stock

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, ranging from a high of \$12.61 per share to a low per share of \$1.00. 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. Due to the inherent uncertainties of litigation, we cannot predict the ultimate outcome of any such litigation if it were initiated. The initiation of any such litigation or an unfavorable result could have a material adverse effect on our financial condition and results of operation.

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

As of October 1, 2011, our executive officers and directors and entities that are affiliated with them beneficially owned in the aggregate approximately 45.9% 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 significantly influence 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.

Our future operating results may fluctuate and may fail to meet market expectations.

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. 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 without significant price increases or reduced service levels;
- 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;
- our ability to successfully integrate our acquisitions;
- 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;
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure; and
- the impact of adverse economic conditions on retail sales, in general.

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****If we fail to maintain an effective system of internal control over financial reporting 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.***

While management has concluded that our internal controls over financial reporting were effective as of October 1, 2011, we have in the past, and could in the future, have a material weakness or significant deficiency in our control over financial reporting or fail to comply with Section 404 of the Sarbanes-Oxley Act of 2002. If we fail to properly maintain an effective system of internal control over financial reporting, it 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.

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 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.

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.

General Market and Industry Risk

Economic conditions have had, and may continue to 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 has been and may continue to 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. Consumers also defer purchases of new vehicles, which immediately impacts performance parts and accessories, which are generally purchased in the first six months of a vehicle's lifespan. In addition, during economic downturns some competitors may become more aggressive in their pricing practices, which would adversely impact our gross margin and could cause large fluctuations in our stock price. Certain suppliers may exit the industry which may impact our ability to procure parts and may adversely impact gross margin as the remaining suppliers increase prices to take advantage of limited competition.

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Vehicle miles driven, vehicle accident rates and insurance companies' willingness to accept a variety of types of replacement parts in the repair process have fluctuated and may decrease, which could result in a decline of our revenues and negatively affect our results of operations.

We and our industry depend on the number of vehicle miles driven, vehicle accident rates and insurance companies' willingness to accept a variety of types of replacement parts in the repair process. Decreased miles driven reduce the number of accidents and corresponding demand for crash parts, and reduce the wear and tear on vehicles with a corresponding reduction in demand for vehicle repairs and replacement or hard parts, all of which may reduce our revenues and adversely impact our 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.

****Negative conditions in the global credit markets may impair the liquidity of a portion of our investments portfolio, and adversely affect our results of operations and access to financing.***

Our investment securities consist of high-grade auction rate preferred securities ("ARPS"). As of October 1, 2011, our long-term marketable securities were comprised of \$2.1 million (par value) of high-grade (AAA rated) ARPS issued primarily by closed 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 ARPS. In response to the credit situation, in February 2008, we instructed our investment advisor to liquidate all our investments in closed end funds and move these funds into money market investments but there was insufficient demand at auction for our remaining four high-grade ARPS, representing approximately \$7.8 million at that time. As a result, these affected securities currently are not liquid, and have been reclassified as long-term investments. For the period between June 30, 2008 through October 1, 2011, an additional \$5.6 million of our investments in ARPS were redeemed but we do not know when we will have access to the capital in these remaining 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. As of October 1, 2011, management concluded that these remaining investments were temporarily impaired and has recognized an unrealized loss in other comprehensive income totaling \$21,000. Management is not sure that these investments 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 additional impairment charge.

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, Kansas, Tennessee and Virginia and, through our acquisition of WAG, in Illinois and Ohio. 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

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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.

****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 and certain environmental laws. 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. For example, California has enacted legislation banning the sale of catalytic converters that do not meet California emissions regulations, and the current federal administration has indicated that 13 additional states will be allowed to enact their own legislation that mirrors the California legislation. During 2010 and in early 2011, we met with the California Air Resources Board ("CARB") to discuss alleged sales of catalytic converters into California by us and our third-party suppliers that are not compliant with California regulations. CARB informed us that penalties may be assessed with regard to any non-compliant sales and, on October 26, 2011, we and CARB entered into a settlement agreement related this inquiry. Without admitting any liability, we agreed to pay a non-material cash penalty, which was offset by contributions from some of our third-party suppliers, in exchange for a release from CARB of us and such third-party suppliers. 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 or our business in general, 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.

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We may be affected by global climate change or by legal, regulatory, or market responses to such change.

The growing political and scientific sentiment is that global weather patterns are being influenced by increased levels of greenhouse gases in the earth's atmosphere. This growing sentiment and the concern over climate change have led to legislative and regulatory initiatives aimed at reducing greenhouse gas emissions. For example, proposals that would impose mandatory requirements on greenhouse gas emissions continue to be considered by policy makers in the United States. Laws enacted that directly or indirectly affect our suppliers (through an increase in the cost of production or their ability to produce satisfactory products) or our business (through an impact on our inventory availability, cost of sales, operations or demand for the products we sell) could adversely affect our business, financial condition, results of operations and cash flows. Significant increases in fuel economy requirements or new federal or state restrictions on emissions of carbon dioxide that may be imposed on vehicles and automobile fuels could adversely affect demand for vehicles, annual miles driven or the products we sell or lead to changes in automotive technology. Compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, could require additional expenditures by us or our suppliers. Our inability to respond to changes in automotive technology could adversely impact the demand for our products and our business, financial condition, results of operations or cash flows.

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.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. (Removed and Reserved)

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

The following exhibits are filed herewith.

<u>Exhibit No.</u>	<u>Description</u>
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
10.61	Sublease Agreement dated September 22, 2011 by and between the Company and Timec Company Inc.
10.67	Buyout Agreement dated October 11, 2011 by and between the Company, Whitney Automotive Group Inc., and Discovery Communications, LLC
10.68*	U.S. Auto Parts Network Inc. Director Payment Election Plan
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
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

+ 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.

** Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 8, 2011

U.S. AUTO PARTS NETWORK, INC.
(Registrant)

By _____ /S/ SHANE EVANGELIST
Shane Evangelist
Chief Executive Officer
(Principal Executive Officer)

By _____ /S/ THEODORE R. SANDERS
Theodore R. Sanders
Chief Financial Officer
(Principal Accounting Officer)

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EXHIBIT INDEX

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AGREEMENT OF SUBLEASE

THIS AGREEMENT OF SUBLEASE (this “Sublease”) is made and entered into as of September 22, 2011 by and between **TIMEC COMPANY INC.**, a Delaware corporation, with an address at 16941 Keegan Avenue, Carson, CA 90746 (“Sublandlord”), and **U.S. AUTO PARTS NETWORK, INC.**, a Delaware corporation, with an address at 17150 South Margay Avenue, Carson, CA 90746 (“Subtenant”).

BACKGROUND

A. Sublandlord has entered into a lease with Microtek Lab, Inc., a California corporation (“Landlord”) dated August 24, 2009, as amended by that certain First Amendment of Lease and Consent to Sublease dated on or about the date of this Sublease (as so amended, herein referred to as the “Lease”), for certain office space consisting of an entire 2-story office building containing approximately 50,000 rentable square feet of space (collectively the “Demised Premises”), being located on approximately three (3) acres of land and having an address of 16941 Keegan Avenue, Carson, CA 90746 (the “Building”). A true and correct copy of the Lease, from which certain business terms irrelevant to this Sublease have been excised, is attached hereto as **Exhibit B** and hereby made a part hereof.

B. Subtenant desires to sublease from Sublandlord a portion of the Demised Premises consisting of approximately 25,000 rentable square feet of space on the second (2nd) floor of the Building, as shown on the floor plan attached hereto as **Exhibit A** and hereby made a part hereof (the “Sublet Premises”) and Sublandlord is agreeable to the making of such sublease on the terms and conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the rents herein reserved and the covenants hereinafter expressed, and intending to be legally bound, Sublandlord and Subtenant agree as follows:

1. Sublease; Term; Renewal Options; Sublandlord’s Termination Right .

1.1 Sublandlord hereby demises and sublets to Subtenant, who hereby subleases and takes from Sublandlord, the Sublet Premises for a term (the “Term”) beginning on the date on which Sublandlord delivers written notice to Subtenant that the Sublet Premises has been vacated by Sublandlord’s employees (the “Sublease Commencement Date”) and ending (unless sooner terminated in accordance with the terms of this Sublease or the Lease) on (a) if the Sublease Commencement Date falls on or before the 15th day of a calendar month, the last day of the sixtieth (60th) consecutive calendar month thereafter, or (b) if the Sublease Commencement Date falls after the 15th day of a calendar month, the last day of the sixty-first (61st) consecutive calendar month thereafter (the “Sublease Termination”).

Date”). Sublandlord presently estimates that the Sublease Commencement Date will occur on or about the sixtieth (60th) day after the date of full execution of this Sublease.

1.2 **First Renewal Option.** Subtenant is hereby granted the option to extend the Term of this Sublease, with respect to all of the Sublet Premises as then constituted, in “as-is” condition, for one (1) consecutive additional period of one (1) year commencing on the day following the Sublease Termination Date (the “First Renewal Term”), on the following terms and conditions:

(i) No Event of Default shall exist, either at the time of Subtenant’s giving of its renewal notice to Sublandlord or at the commencement of the First Renewal Term (unless Sublandlord elects, in its sole discretion, to waive such condition);

(ii) Sublandlord shall have made a good faith determination that Subtenant remains creditworthy;

(iii) Subtenant shall not have previously assigned this Sublease or sublet all or any portion of the Sublet Premises (except to a Related Party, as hereinafter defined);

(iv) Subtenant shall have delivered to Sublandlord written notice of Subtenant’s election to exercise this option (the “First Renewal Notice”) not less than 240 days nor more than 395 days prior to the Sublease Termination Date (time being of the essence, and Subtenant’s failure to timely deliver such renewal notice being agreed to constitute Subtenant’s irrevocable waiver of this renewal option); and

(v) all Sublease terms for the First Renewal Term shall be the same as specified for the initial Term of this Sublease, except that (a) there shall be no further option to renew or extend the Term of this Sublease except as provided under Section 1.3 hereof, (b) there shall be no allowances or inducements payable by Sublandlord during the First Renewal Term, and (c) Base Rent payable during the First Renewal Term shall be agreed upon by the parties in good faith negotiations commencing with reasonable promptness after Sublandlord’s receipt of the First Renewal Notice; provided, however, that if the parties have not agreed in writing as to the rate or rates of Base Rent that will be payable during the First Renewal Term within ninety (90) days after Sublandlord’s receipt of the First Renewal Notice, then Sublandlord may terminate such negotiations by written notice delivered to Subtenant on or after that date and prior to the parties’ execution of such written agreement confirming the Base Rent, whereupon Subtenant’s election to extend the Term for the First Renewal Term shall be null and void and the Term shall expire on the Sublease Termination Date.

1.3 **Second Renewal Option.** Provided that Subtenant timely exercises its option for the First Renewal Term, Subtenant is hereby also granted the option to extend the Term of this Sublease, with respect to all of the Sublet Premises as then constituted, in “as-is” condition, for one (1)

consecutive additional period commencing on the day following the last day of the First Renewal Term and ending on January 24, 2020 (the "Second Renewal Term"), on the following terms and conditions:

(i) No Event of Default shall exist, either at the time of Subtenant's giving of its renewal notice to Sublandlord or at the commencement of the Second Renewal Term (unless Sublandlord elects, in its sole discretion, to waive such condition);

(ii) Sublandlord shall have made a good faith determination that Subtenant remains creditworthy;

(iii) Subtenant shall not have previously assigned this Sublease or sublet all or any portion of the Sublet Premises (except to a Related Party);

(iv) Subtenant shall have delivered to Sublandlord written notice of Subtenant's election to exercise this option (the "Second Renewal Notice") not less than 240 days nor more than 395 days prior to the last day of the First Renewal Term (time being of the essence, and Subtenant's failure to timely deliver the Second Renewal Notice being agreed to constitute Subtenant's irrevocable waiver of this renewal option); and

(v) all Sublease terms for the Second Renewal Term shall be the same as specified for the First Renewal Term of this Sublease, except that (a) there shall be no further option to renew or extend the Term of this Sublease, (b) there shall be no allowances or inducements payable by Sublandlord during the Second Renewal Term, and (c) Base Rent payable during the Second Renewal Term shall be agreed upon by the parties in good faith negotiations commencing with reasonable promptness after Sublandlord's receipt of the Second Renewal Notice; provided, however, that if the parties have not agreed in writing as to the rate or rates of Base Rent that will be payable during the Second Renewal Term within ninety (90) days after Sublandlord's receipt of the Second Renewal Notice, then Sublandlord may terminate such negotiations by written notice delivered to Subtenant on or after that date and prior to the parties' execution of such written agreement confirming the Base Rent, whereupon Subtenant's election to extend the Term for the Second Renewal Term shall be null and void and the Term shall expire on the last day of the First Renewal Term; and

(vi) Sublandlord and Subtenant shall promptly execute and deliver to one another an amendment to this Sublease, in reasonable form prepared by Sublandlord and acceptable to Subtenant in its reasonable discretion, confirming Subtenant's exercise of its option hereunder and the Base Rent payable during the Second Renewal Term. Notwithstanding anything to the contrary contained in this Section 1.3, the failure of the parties to execute such amendment shall not be deemed to rescind Subtenant's notice of its exercise of the Second Renewal Option, and Subtenant shall remain bound by the terms of this Section 1.3.

1.4 **Sublandlord's Termination Right.** Notwithstanding anything to the contrary elsewhere contained in this Sublease, Subtenant hereby grants to Sublandlord the right and option to terminate this Sublease on the terms and conditions herein set forth. Solely in the event that the Building is sold at any time during the Term hereof, as the same may be extended or renewed, and the new owner of the Building has requested that Sublandlord agree to the premature termination of the Lease, Sublandlord shall have the right, exercisable by delivery of written notice of termination to Subtenant, to unilaterally terminate this Sublease effective as of a date to be stated in such notice of termination (the "End Date"), which End Date shall not be earlier than the one hundred eightieth (180th) day after the date on which Subtenant receives such notice. Upon Sublandlord's timely exercise of this option, the Term shall end at 11:59 p.m. on the End Date and Subtenant shall vacate the Sublet Premises on or before the End Date, leaving same in the condition required under the terms of this Sublease and all Rent will be adjusted as of the End Date. On or before the End Date, Sublandlord shall pay to Subtenant the sum of Two Hundred Thousand Dollars (\$200,000.00), which Subtenant acknowledges to be full, fair and sufficient consideration for the termination option herein granted to Sublandlord.

1.5 **Subtenant's Option to Terminate.** Subtenant shall have the right and option to terminate this Sublease on the terms and subject to the conditions herein set forth (the "Termination Option") effective as of the last day of the forty-second (42nd) consecutive calendar month after the month in which the Sublease Commencement Date occurs (the "End Date"), by delivery of written notice of termination to Sublandlord not later than six (6) months prior to the End Date (time being of the essence). Subtenant's notice exercising the Termination Option shall be irrevocable and, in order to be valid, must be accompanied by Subtenant's good bank check for the "Termination Fee" (as defined below). In calculating the Termination Fee, it will be assumed that the "Sublease Costs" (as defined below) were financed at a fixed interest rate of ten percent (10%) per annum with a sixty (60) month self-amortizing loan paid in sixty (60) equal monthly installments commencing on with a payment due on the Sublease Commencement Date, and the "Termination Fee" will be the sum of (a) the principal balance that would remain outstanding under that loan following payment of the forty-second (42nd) of such monthly installments plus (b) One Hundred Thousand Dollars (\$100,000.00). The term "Sublease Costs" means the sum of the following: (i) the Abated Rent (defined in Section 4(a) hereof) and (ii) all leasing commissions paid by Sublandlord in connection with this Sublease. Notwithstanding anything to the contrary herein set forth, at Sublandlord's option Subtenant's termination of this Sublease pursuant to this Section 1.5 shall be ineffective if an Event of Default exists either at the time of Subtenant's exercise of the Termination Option or at the End Date. Failure of Subtenant to timely exercise the Termination Option ("exercise" meaning both the giving of the requisite notice and the payment in full of the

Termination Fee) shall constitute Subtenant's irrevocable waiver of its right to exercise the Termination Option.

1.6 **Subtenant's Right of First Offer.** Provided that no Event of Default then exists under this Sublease, in the event that Sublandlord desires to sublease the first floor of the Demised Premises (the "First Floor") at any time during the Term, the First Renewal Term or the Second Renewal Term, Sublandlord shall give Subtenant written notice thereof ("Sublandlord's Notice"), whereupon Subtenant may elect to commence negotiations with Sublandlord respecting the terms of Subtenant's possible sublease of the First Floor, which terms shall reasonably reflect the current sublease market conditions in comparable buildings in the vicinity of the Building at that time (taking into account all appropriate factors), by delivering written notice to Sublandlord stating Subtenant's desire to do so ("Subtenant's Election Notice"). Subtenant's Election Notice must be delivered to Sublandlord within ten (10) business days after Subtenant receives Sublandlord's Notice (time being of the essence) or Subtenant shall be deemed to have irrevocably waived its rights under this Section 1.6. Upon receipt of Subtenant's Election Notice, the parties shall negotiate the terms of the proposed sublease in good faith; provided, however, if the parties have not executed a sublease respecting the First Floor within ninety (90) days after Sublandlord's receipt of Subtenant's Election Notice, then Sublandlord may terminate negotiations with Subtenant by written notice delivered to Subtenant on or after that date and prior to the parties' execution of such sublease, whereupon Subtenant's rights under this Section 1.6 shall be null and void. Subtenant acknowledges and agrees that any sublease executed by the parties pursuant to the right of first offer herein granted shall be subject to Landlord's approval, and each such sublease shall contain a provision substantially identical to Section 17 of this Sublease. Landlord's approval of this Sublease and the right of first offer herein set forth does not constitute Landlord's approval of any sublease entered into pursuant to this right of first offer.

2. **Confirmation.** After the Sublease Commencement Date, at the option of either party the parties will execute and deliver to one another a writing in reasonable form that confirms both the Sublease Commencement Date and the Sublease Termination Date.

3. **Use; Maximum Occupancy.** Subtenant shall not use the Sublet Premises for any purposes other than general and executive offices. Subtenant shall not permit the Sublet Premises to be occupied by more than 125 persons at any time.

4. **Rent.** Subtenant shall pay to Sublandlord during the Term an annual rental equal to the sum of the following (the following sums, together with all other sums payable by Subtenant under the terms of this Sublease, being herein collectively referred to as "Rent"):

(a) Base Rent. Annual base rent ("Base Rent") in the following sums (as used in the following chart, "SCD" means "Sublease Commencement Date" and "STD" means "Sublease Termination Date"):

First 12 months after SCD	\$150,000.00 per annum; \$12,500.00 per month
Months 13 through 24 after SCD	\$165,000.00 per annum; \$13,750.00 per month
Month 25 through 36 after SCD	\$183,000.00 per annum; \$15,250.00 per month
Months 37 through 48 after SCD	\$201,300.00 per annum; \$16,775.00 per month
Months 49 after SCD through STD	\$221,430.00 per annum; \$18,452.50 per month

Subtenant agrees to pay to Sublandlord equal monthly installments of the Base Rent at Sublandlord's address stated above, or such other address of which Sublandlord may from time to time notify Subtenant. Such monthly installments shall be payable in advance, on or before the first (1st) day of each calendar month (without offset, deduction, notice or demand except as otherwise set forth in the Lease or this Sublease) commencing as of the Sublease Commencement Date. Rent for any fractional month at the beginning or end of the Sublease Term shall be prorated based on actual days. Notwithstanding the foregoing, (a) simultaneously with Subtenant's execution and delivery of this Sublease, Subtenant shall pay the first full month's Base Rent payable during the Term, and (b) no Base Rent shall be payable or otherwise accrue hereunder on account of the first (1st) full calendar month after the Sublease Commencement Date, the eleventh (11th) full calendar month after the Sublease Commencement Date or the twelfth (12th) full calendar month after the Sublease Commencement Date (such abated Base Rent is herein referred to as the "Abated Rent").

(b) Additional Rent. Subtenant shall pay to Sublandlord on the first day of each month during the Term, at the office of Sublandlord or at such other place as Sublandlord may designate, concurrent with Subtenant's payment of Base Rent (without regard to any abatement of Base Rent above provided), and without demand, offset or deduction, the sum of \$10,000.00 per month (the "Additional Rent"), as payment in full to Sublandlord of Subtenant's share of the following sums payable by Sublandlord under the terms of the Lease:

(i) all sums payable by Sublandlord on account of its maintenance and repair obligations under Section 7.1(a) of the Lease; provided, however, that (A) if any of such costs are attributable solely to office space within the Demised Premises solely occupied by Sublandlord's employees, Sublandlord shall pay 100% thereof, and (B) if any of such costs are attributable solely to a portion or portions of the Demised Premises entirely included within the Sublet Premises, Subtenant shall pay 100% thereof;

(ii) all sums payable by Sublandlord on account of service contracts maintained by Sublandlord pursuant to Section 7.1(b) of the Lease;

(iii) Lessee's Capital Item Reimbursement Obligation payable pursuant to Section 7.1(d) of the Lease;

(iv) Real Property Taxes payable pursuant to Section 10.2 of the Lease (Subtenant agrees that it shall have no right to contest Real Property Taxes pursuant to Section 65 of the Addendum attached to the Lease);

(v) all sums payable by Sublandlord on account of utilities under Section 11 of the Lease (provided, that (A) if any of such costs are separately submetered and attributable solely to office space within the Demised Premises solely occupied by Sublandlord's employees, Sublandlord shall pay 100% thereof, and (B) if any of such costs are separately submetered and attributable solely to a portion or portions of the Demised Premises entirely included within the Sublet Premises, Subtenant shall pay 100% thereof); and

(vi) Lessor's insurance premiums payable pursuant to Section 8.1 of the Lease.

(c) Furniture Rent. Subtenant shall have the use of certain furniture contained within the Sublet premises pursuant to the following terms:

(i) In addition to the Base Rent and all other Rent obligations of Subtenant pursuant to this Sublease, Sublandlord hereby leases to Subtenant and Subtenant hereby rents from Sublandlord, for the Term, (A) those certain items of furniture owned by Sublandlord and located in the Sublet Premises as of the Sublease Commencement Date (the "Sublandlord Furniture"), and (B) those certain items of furniture owned by Landlord and located in the Sublet Premises as of the Sublease Commencement Date (the "Landlord Furniture"). The parties will perform an inventory of the Sublandlord Furniture and the Landlord Furniture (collectively, the "Furniture") promptly after execution of this Sublease. The inventory of the Sublandlord Furniture will be attached to this Sublease as **Exhibit C** and incorporated into this Sublease by reference. The inventory of the Landlord Furniture will be attached to this Sublease as **Exhibit D** and incorporated into this Sublease by reference. Subtenant receives no right of ownership in the Furniture by virtue of Subtenant's use of the Furniture; the Furniture will not be deemed Subtenant's Personal Property.

(ii) Subtenant shall pay to Sublandlord on the first day of each month during the Term, concurrent with Subtenant's payment of Base Rent (without regard to any abatement of Base Rent above provided), without demand, offset or deduction, the sum of \$400.00 per month as Rent for the Sublandlord Furniture and \$100.00 per month as Rent for the Landlord Furniture (the "Furniture Rent").

(iii) The Sublandlord Furniture shall be returned to Sublandlord in good condition upon termination of the Term, subject to reasonable wear and tear.

(iii) At the end of the Term (or any extension of the Term or termination of this Sublease), Subtenant will deliver the Furniture to Sublandlord in the condition it was received on the date of occupancy, reasonable wear and tear excepted. For purposes of the preceding sentence the term “deliver” means that when Subtenant vacates the Subleased Premises the Furniture will remain in the Sublet Premises. Subtenant will not remove the Furniture or any items of Furniture from the Sublet Premises without the express prior written permission of Sublandlord (and also the prior written permission of Landlord if any of the Furniture desired to be removed is the property of Landlord).

(iv) Sublandlord is responsible for insuring the Furniture against loss or damage. Subtenant will, however, be liable for the repair or, if necessary, replacement of any of the Furniture damaged by Subtenant or any of its employees, agents or invitees. Subtenant shall be responsible for performing all needed maintenance and repair of the Furniture during the Term at Subtenant’s expense.

5. **Personal Property Taxes.** Subtenant shall pay to the taxing authority prior to delinquency all taxes assessed against or levied upon its occupancy of the Sublet Premises or upon the fixtures, furnishings, equipment and all other personal property of Subtenant located in the Sublet Premises.

6. **Condition of Sublet Premises; Subleasehold Improvements; Maintenance; Restoration.**

6.1 Subtenant shall accept possession of the Sublet Premises in its “as-is” condition, without warranty and without any obligation by Sublandlord to perform any alterations, improvements, redecorating or other work therein or to provide any construction or monetary allowance with respect thereto, except that Sublandlord, at Sublandlord’s sole cost, shall (a) construct demising walls (in compliance with all applicable building and life safety codes) to enclose the three (3) presently undemised staircases that provide access to the Sublet Premises, (b) construct a Schlage-controlled glass door to provide access to the Sublet Premises from the main stairway that connects the Sublet Premises to the main ground floor Building lobby (the “Lobby Door”) and (c) remove from the Sublet Premises all cubicles that are contained in the Sublet Premises on the date of execution of this Sublease.

6.2 All improvements to the Sublet Premises shall be made by Subtenant at the Subtenant’s expense and in accordance with all requirements of the Lease (exclusive of the Lessee Improvements Work Letter attached to the Lease, which the parties agree does not form a part of this Sublease because the work contemplated to be performed thereunder has already been constructed).

Subtenant shall not install or construct improvements, demolish, or alter in any fashion the Sublet Premises or any part thereof without Sublandlord's and Landlord's prior written approval (Sublandlord and Landlord have given their written approval to those certain plans and specifications prepared for Subtenant by Design SK, Scott K. Leleieur Architect, dated August 17, 2011, labeled Proposed Floor Plan and attached herewith as Exhibit A.

6.3 All voice and data equipment, lines and conduit installed in the Sublet Premises by Subtenant shall be entirely separate from Sublandlord's voice and data equipment, lines and conduit, and shall not share the equipment closets utilized by Sublandlord for its voice and data equipment and connections unless a given equipment closet contains the initial data entry point into the Building.

6.4 Notwithstanding anything to the contrary contained in the Lease, including, without limitation, Section 7.1(a) of the Lease, Subtenant shall be solely responsible for the repair and maintenance of all alterations, improvements and equipment installed by Subtenant in the Sublet Premises during the Term, to Sublandlord's reasonable satisfaction and in fulfillment of Sublandlord's obligations with respect to such items under Section 7.1(a) of the Lease.

6.5 Notwithstanding anything to the contrary contained in the Lease, Subtenant agrees that it shall, upon the expiration of the Term or earlier termination of this Sublease, remove from the Sublet Premises all of Subtenant's alterations and improvements that Landlord then requires to be removed, and all equipment installed by Subtenant (including lines and conduit installed in the walls and ceilings), in good and workmanlike fashion, and shall restore the Sublet Premises to the condition that existed on the Sublease Commencement Date (collectively, the "Restoration Work"), in default of which Sublandlord shall do so, in which latter event Subtenant shall reimburse to Sublandlord on demand Subtenant's Portion (hereinafter defined) of the costs incurred by Sublandlord on account of such work. Provided that no Event of Default then exists, Sublandlord shall reimburse to Subtenant Fifty Thousand Dollars (\$50,000.00) of the documented out-of-pocket cost of the Restoration Work ("Sublandlord's Contribution"), which sum Sublandlord shall pay to Subtenant within thirty (30) days after receipt from Subtenant of Subtenant's written request accompanied by evidence reasonably satisfactory to Sublandlord that Subtenant has incurred the sums sought to be reimbursed (such request must be delivered to Sublandlord within 180 days after the Restoration Work is completed, time being of the essence). All costs of the Restoration Work in excess of such contribution by Sublandlord ("Subtenant's Portion") shall be borne solely by Subtenant. It is agreed by the parties that the cost of purchasing and installation of cubicles by Subtenant shall not be included in the cost of the Restoration Work.

6.6 Notwithstanding the foregoing, prior to commencing any improvements or alterations of any kind within the Sublet Premises that Landlord has required to be removed at the end of the Term or upon earlier termination of this Sublease, Subtenant shall furnish to Sublandlord evidence

satisfactory to Sublandlord of the cost of such work (such as contractors' written estimates or guaranteed maximum priced contracts), and Subtenant shall deposit with Sublandlord a sum equal to the aggregate cost that will be incurred by Subtenant in constructing such improvements or alterations, less Sublandlord's Contribution (the "Improvement Escrow"). Within thirty (30) days after completion of the improvements or alterations in question, Subtenant shall furnish Sublandlord with paid invoices, cancelled checks or other evidence reasonably required by Sublandlord in order to confirm the actual cost to Subtenant of constructing such improvements or alterations, and the Improvement Escrow shall be increased or decreased as necessary to equal such actual cost. Sublandlord shall hold the Improvement Escrow in escrow (in a non-interest-bearing account, and comingled with Sublandlord's other funds), and shall refund same to Subtenant after the expiration of the Term or earlier termination of this Sublease and upon Subtenant's fulfillment of its obligations under Section 6.5 hereof to Sublandlord's reasonable satisfaction or, if Subtenant fails to fulfill its obligations under Section 6.5 hereof to Sublandlord's reasonable satisfaction, Sublandlord may apply the Improvement Escrow to the costs incurred by Sublandlord in performing such work.

6.7 Subtenant shall have the right to appropriate lobby directory signage in the Building directory as well as signage located at Subtenant's entry door on its floor, subject to Sublandlord's reasonable prior approval and at Subtenant's sole cost and expense. Additionally, subject to Sublandlord's reasonable prior approval and at Subtenant's sole cost and expense, Subtenant shall have the right to post its name on one of the main ground floor exterior lobby doors and also on the wall adjacent to the Lobby Door (defined in Section 6.1), facing the main ground floor exterior lobby doors.

7. Use of Main Building Lobby.

7.1 During the Term, as the same may be extended or renewed, Subtenant's business invitees may enter the Building through the main ground floor lobby and may access the Sublet Premises through the Lobby Door (defined in Section 6.1). Sublandlord shall cause the reception desk in the main Building lobby to be continuously staffed by a receptionist between the hours of 9:00 AM and 5:00 PM, Pacific Time, Monday through Friday (holidays excepted), who shall announce the arrival of Subtenant's invitees by telephone call to the Premises. Sublandlord's employees (other than those engaged in facilities management functions) shall not have a key card or combination (as the case may be) permitting them to open the Lobby Door. In consideration of such access and the services of Sublandlord's receptionist, Subtenant shall pay to Sublandlord as Rent the sum of \$40,000.00 per annum throughout the Term, in equal monthly installments of \$3,333.33 per month, concurrent with Subtenant's payment of Base Rent (without regard to any abatement of Base Rent above provided), without demand, offset or deduction. Subtenant agrees that it shall instruct Subtenant's employees and contractors not to enter the Sublet Premises through the Lobby Door at any time, and only to enter the Premises through

the doors providing direct access to the Premises from the upper level of the Building car park; provided, however, that Sublandlord acknowledges that Subtenant's employees may have need to enter or exit through the Lobby from time to time.

7.2 In addition, Subtenant shall have use of the conference room that adjoins the Lobby (the "Conference Room") from time to time on the terms set forth in this Section 7.2. The Conference Room shall be provided by Sublandlord for use by Subtenant on an advance reservation basis at no charge other than Landlord's actual cleaning charges directly relating to the cleaning of the Conference Room if necessitated in Landlord's reasonable judgment due to Subtenant's failure to leave the Conference Room at the close of its meeting in the same clean, tidy order that existed prior to Subtenant's entry, with all trash and waste placed in proper receptacles (which cleaning charges shall be paid to Sublandlord within thirty (30) days after billing). Throughout the Term of this Sublease (as the same may be extended or renewed) the Conference Room may be reserved by Subtenant from time to time, for a maximum aggregate of ten (10) hours in any calendar month, by Subtenant giving Sublandlord at least ten (10) days advance written notice. Subtenant acknowledges that its right to reserve the Conference Room is subject and subordinate to Sublandlord's needs, and that Sublandlord may cancel any reservation of the Conference Room made by Subtenant by giving Subtenant at least three (3) business days prior written notice of cancellation (Sublandlord may not cancel Subtenant's reservation by giving less than three (3) business days prior written notice of cancellation).

8. **Terms of Lease Incorporated**. This Sublease is subject and subordinate to all of the terms and conditions of the Lease, each of which is hereby incorporated herein by reference and made a part hereof. The parties agree, with respect to the Lease, as follows:

8.1 The terms, covenants and conditions contained in the Lease shall, as between Sublandlord and Subtenant, constitute the terms, covenants and conditions of this Sublease, except to the extent that this Sublease expressly provides that any thereof are inapplicable to Subtenant, and Subtenant agrees to assume and be bound by the terms and conditions of the Lease other than the Excluded Provisions (hereinafter defined) and to perform all of those duties, responsibilities and obligations of Sublandlord thereunder (the "Lease Obligations"), in each case substituting "Sublandlord" for "Landlord", "Subtenant" for "Tenant", "Sublet Premises" for "Premises", "Sublease" for "Lease" and, as the context requires, other words of similar import for the appropriate definition in this Sublease. Subtenant shall hold Sublandlord harmless from any damage, responsibility or liability which Sublandlord may incur by virtue of Subtenant's failure to perform any of the Lease Obligations. Sections 5, 25, 30.3, 37, 39, 52, 53, 54, 55, 57, 65, 66, 67, 69, 71, 74, 75 of the Lease and the Lessee Improvements Work Letter attached to the Lease (which does not apply because the improvements to be constructed thereunder have been completed) (collectively, the "Excluded Provisions"), are specifically excluded from

the Lease Obligations, shall not be binding upon or benefit Subtenant and are not incorporated into the terms of this Sublease. Supplementing the foregoing, the parties specifically agree that in no event shall Subtenant be entitled to, or claim, any of the rights and options conferred upon Sublandlord under the Lease, including without limitation: the right to any alteration or redecoration allowances, or allowances of any other nature whatsoever, or any right or claim to any insurance proceeds, condemnation awards, rights to non-disturbance agreements, options to renew, options to expand, rights to erect exterior signage, any right of early termination or any right or option similar or dissimilar to any of the foregoing.

8.2 Subtenant shall not do or permit to be done, with respect to the Sublet Premises or Subtenant's interest in this Sublease, any act or thing which will constitute a breach or violation of any of the terms, covenants or conditions of the Lease.

8.3 Subtenant shall fully and faithfully observe and perform, with regard to the Sublet Premises and Subtenant's interest in this Sublease, all of the duties and obligations contained in the terms, covenants and conditions of the Lease to be observed or performed by Sublandlord as tenant under the Lease.

8.4 Sublandlord, in its relations with Subtenant hereunder, shall have all of the rights and remedies afforded to Landlord in its relations with Sublandlord as tenant as set forth in the Lease. Without limiting the generality of the foregoing, (i) the consent of Sublandlord shall be required for any action of Subtenant which, pursuant to the Lease, would require the consent of Landlord as to the tenant, and (ii) Sublandlord shall have the same right to prescribe regulations as to Subtenant's use and occupancy of the Sublet Premises as is afforded Landlord in the Lease.

8.5 Sublandlord is hereby released and relieved of (i) all of the obligations of Landlord as set forth in the Lease, and (ii) any liability to Subtenant for any default by Landlord under the Lease or any failure by Landlord to perform any of its obligations thereunder. Unless directly caused by the negligence or willful misconduct of Sublandlord or its employees or contractors, Sublandlord shall not be responsible for any failure or interruption of any such services or facilities; and Subtenant agrees that no failure to furnish, or interruption of, any such services or facilities shall give rise to (i) any abatement, diminution or reduction of Subtenant's obligations hereunder, (ii) any constructive eviction, whether in whole or in part, or (iii) any liability on the part of Sublandlord. If there shall be any failure to furnish, or interruption of any of, such services or facilities and Subtenant gives notice thereof to Sublandlord, Sublandlord shall, to the extent permitted under the Lease, make reasonable and diligent efforts to cause Landlord under the Lease to furnish the same, but Sublandlord need not bring any action or proceeding against the Landlord under the Lease in connection therewith.

8.6 Subtenant acknowledges that the rights granted to it under this Sublease are not in any sense greater or broader than the rights granted to Sublandlord as tenant under the Lease. As

between Sublandlord and Subtenant, in the event of any conflict between the terms of this Sublease and the terms of the Lease, the terms of the Lease shall govern and control except to the extent that this Sublease expressly provides that any thereof are inapplicable to Subtenant.

8.7 In the event that Sublandlord shall Default in its obligations under the Lease, then Landlord, at its option and without being obligated to do so, may require Subtenant to attorn to Landlord in which event Landlord shall undertake the obligations of Sublandlord under this Sublease from the time of the exercise of said option to the termination of the Sublease but Landlord shall not be liable for any prepaid Rent nor any Security Deposit paid by Subtenant, nor shall Landlord be liable for any other Defaults of Sublandlord under the Sublease.

9. **Insurance.**

9.1 **Subtenant's Insurance.** Subtenant shall maintain the same types and amounts of insurance as are required to be maintained by the tenant under the Lease, in accordance with all requirements as are set forth in the Lease, with Sublandlord, Landlord and such other parties as Landlord may require named as additional insureds under Subtenant's liability and all risk insurance policies.

9.2 **Waiver of Subrogation.** Notwithstanding anything to the contrary elsewhere contained in this Sublease, each of Sublandlord and Subtenant hereby waives any and all rights of recovery, claims, actions or causes of action against the other, and each hereby releases the other from any and all liability or responsibility to it or to anyone claiming by, through or under it, by way of subrogation or otherwise, for any loss or damage that may occur to the Premises, the Property, or any improvements thereto, or to any personal property of Sublandlord or Subtenant, arising from or out of any cause that (a) would be insured against under the terms of any property insurance required to be carried under this Sublease, or (b) is insured against under the terms of any property insurance actually carried by the waiving party, regardless of whether such insurance is required hereunder. Sublandlord and Subtenant shall each cause their respective insurers to include such a provision in their respective policies. The foregoing waiver shall apply regardless of the cause or origin of the claim, including, but not limited to, the negligence of a party or that party's agents, officers, members, employees or contractors. The foregoing waiver shall not apply if it would have the effect, but only to the extent of such effect, of invalidating any insurance coverage of Sublandlord or Subtenant.

10. **Subtenant's Defaults; Sublandlord's Remedies.**

10.1 **Defaults.** The occurrence of any one or more of the following events shall constitute an "**Event of Default**" under this Sublease:

10.1.1 Subtenant does not timely pay in full when due any installment or payment of Rent owing hereunder; or

10.1.2 Subtenant violates or fails to perform or otherwise breaks any covenant, agreement or condition contained in this Sublease (or in the provisions of the Lease incorporated herein), or any other obligation of Subtenant to Sublandlord; or

10.1.3 Subtenant does not occupy the Sublet Premises within sixty (60) days after the Sublease Commencement Date; or

10.1.4. Subtenant removes or attempts to remove Subtenant's property from the Sublet Premises other than (i) in the ordinary course of business or (ii) in order to replace the subject furniture or equipment, in either case without having first paid to Sublandlord in full all Rent and any other charges that may be due or in arrears at that time; or

10.1.5 Any act or omission on the part of Subtenant or its employees, agents, invitees or contractors that results in a "Default" by Sublandlord under the terms of the Lease; or

10.1.6 Subtenant becomes the subject of commencement of an involuntary case under the federal bankruptcy law as now or hereafter constituted, or there is filed a petition against Subtenant seeking reorganization, arrangement, adjustment or composition of or in respect of Subtenant under the federal bankruptcy law as now or hereafter constituted, or under any other applicable federal or state bankruptcy, insolvency, reorganization or other similar law, or seeking the appointment of a receiver, liquidator or assignee, custodian, trustee, sequestrator (or other similar official) of Subtenant or any substantial part of its property, or seeking the winding-up or liquidation of its affairs and such involuntary case or petition is not dismissed within sixty (60) days after the filing thereof, or if Subtenant commences a voluntary case or institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it, under the federal bankruptcy laws as now or hereafter constituted, or any other applicable federal or state bankruptcy, reorganization or insolvency or other similar law, or consents to the appointment of or taking possession by a receiver or liquidator or assignee, trustee, custodian, sequestrator (or other similar official) of Subtenant or of any substantial part of its property, or makes any assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due, or fails to generally pay its debts as they become due, or if Subtenant, its partners, shareholders, or any committee thereof takes any action in contemplation of any of the foregoing.

10.2 **Sublandlord's Remedies**. Upon the occurrence of an Event of Default, and at the sole option of Sublandlord, Sublandlord may exercise any or all of the rights and remedies contained in Sections 13.2 and 13.4 of the Lease with respect to a Default under the Lease, with all references to "Lessor" in such sections being deemed references to Sublandlord, with all references to "Lessee" in such sections being deemed references to Subtenant, and with all references to the "Premises" in such sections being deemed references to the Sublet Premises.

10.3 **Notice of Default.** Except as to Events of Default under Sections 10.1.3, 10.1.4, 10.1.5 or 10.1.6, Sublandlord shall not exercise any right or remedy provided for in this Sublease or allowed by law because of any Event of Default of Subtenant, unless Sublandlord shall have first given written notice of such Event of Default, and (i) Subtenant shall have failed to pay the sum or sums due within a period of ten (10) days thereafter if such default consists of the failure to pay money, or (ii) if such default consists of something other than the failure to pay money, Subtenant shall have failed within thirty (30) days after such notice from Sublandlord to correct such default, or if such default is not susceptible of being corrected within the aforesaid thirty (30) days, after such timely commencement Subtenant fails actively and diligently in good faith to proceed with and continue to the correction of the default until it shall be fully corrected; provided, however, that Sublandlord shall not be required to give, and Subtenant shall not be entitled to the benefit of, any such notice or grace period more than one (1) time in any period of twelve (12) consecutive calendar months for any monetary defaults.

11. **Notices.** All statements, notices or other communications given hereunder shall be deemed sufficiently given or rendered only if in writing and sent by United States registered or certified mail, return receipt requested, postage prepaid, or by a nationally recognized and receipted overnight courier service guaranteeing next business day delivery to the respective addresses set forth below:

If to Subtenant:

U.S. Auto Parts
16941 Keegan Avenue
Carson, CA 90746
Attention: Legal Department

If to Sublandlord:

TIMEC Company, Inc.
1330 Post Oak Boulevard, Suite 1600
Houston, Texas 77056
Attention: James Fairbairn

The addresses to which all notices are to be sent may be changed by the parties from time to time by giving notice of such change in the matter prescribed in this Section 11.

12. **Indemnification.** Subtenant shall defend, indemnify, save and hold harmless (“Indemnify”) Sublandlord, Sublandlord’s agents, employees, officers, directors, shareholders and partners, Landlord, and Landlord’s agents, employees, officers, directors, shareholders and partners from and against all liabilities, obligations, damages, penalties, claims, causes of action, costs, charges and expenses, including reasonable attorneys’ fees, court costs, administrative costs, and costs of appeals which may be imposed upon or incurred by or asserted against any of them by reason of any of the following which shall occur during the Term of this Sublease, or during any period of time prior to the Sublease Commencement Date when Subtenant may have been given access to or possession of all or

any portion of the Sublet Premises: (i) any liability arising out of, involving, or in connection with the use and/or occupancy of the Sublet Premises by Subtenant or its agents, contractors, subcontractors, servants, employees, licensees or invitees, (ii) any work or act done in, on or about the Sublet Premises or elsewhere in the Building at the direction of or caused by Subtenant, its agents, contractors, subcontractors, servants, employees, licensees or invitees, (iii) any act or omission on the part of Subtenant or any of its agents, contractors, subcontractors, servants, employees, sublessees, licensees or invitees, (iv) any accident, injury or damage to any persons or property occurring in, on or about the Sublet Premises or any part thereof, unless caused by the act or omission of Sublandlord or its agents, contractors, subcontractors, servants, or employees, (v) Subtenant's failure to perform any of the obligations imposed on it under this Sublease (through incorporation of the Lease or otherwise), and (vi) any termination of the Lease resulting from a default by Subtenant under this Sublease. The obligation of Subtenant to Indemnify contained in this Section 12 shall not be limited by any limitation on the amount or type of damages, compensation or benefits payable by or for Subtenant, its agents or contractors under workers' or workman's compensation acts, disability benefit acts or other employee benefits acts, or under any other insurance coverage Subtenant may obtain or be required to obtain or pay the costs thereof. In no event shall the foregoing obligation to Indemnify extend to claims arising directly from or out of the negligence or willful misconduct of Sublandlord or its servants, employees, contractors or agents.

13. Assumption of Risk; Release.

(a) Subtenant, as a material part of the consideration to Sublandlord, hereby assumes all risk of damage to property or loss of property in, from, upon, or about the Sublet Premises from any source and to whomsoever belonging, and Subtenant hereby waives all claims in respect thereof against Sublandlord except claims arising directly from or out of the negligence or willful misconduct of Sublandlord, its servants, agents or employees. Without limiting the foregoing, (a) Subtenant hereby releases Sublandlord, its agents and employees from any damage to property of Subtenant or of others entrusted to employees of Landlord, and (b) Subtenant agrees that none of Sublandlord, its agents or employees, or Landlord or its agents or employees shall be liable for and Subtenant hereby releases them from (i) the loss or damage to any property of Subtenant or others by theft or otherwise, or (ii) any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, electrical disturbance, water, rain or snow or leaks from any part of the Building or from the pipes, appliances or plumbing works or from the roof, street, or sub-surface or from any other place or by dampness or by any other cause of whatsoever nature (whether similar or dissimilar to those above specified), unless directly caused by the negligence or willful misconduct of the released party.

(b) Neither Subtenant nor its agents or employees shall be liable for and Sublandlord hereby releases them from (a) any damage to property of Sublandlord or of others entrusted to employees of Landlord, (b) the loss or damage to any property of Sublandlord or others by theft or otherwise, or (c) any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, electrical disturbance, water, rain or snow or leaks from any part of the Building or from the pipes, appliances or plumbing works or from the roof, street, or sub-surface or from any other place or by dampness or by any other cause of whatsoever nature (whether similar or dissimilar to those above specified), unless directly caused by the negligence or willful misconduct of Subtenant, its agents, servants or employees.

14. **Quiet Enjoyment.** Subject to the terms of the Lease, Sublandlord covenants that Subtenant, on paying the Rent and all other charges or payments herein reserved or payable and on keeping, observing and performing all the other terms, covenants, conditions, provisions and agreements herein contained on the part of Subtenant to be kept, observed and performed, shall, during the Term, peaceably and quietly have, hold and enjoy the Sublet Premises subject to the terms, covenants, conditions, provisions and agreements hereof.

15. **Subleases and Assignment.**

15.1 Subtenant shall not sell, mortgage or assign this Sublease, or sublease any part or all of the Sublet Premises, without prior written consent of both Landlord and Sublandlord; such consent shall be at the sole discretion of Landlord and Sublandlord. Any attempt by Subtenant to mortgage, assign or sublease without the prior written consents of Landlord and Sublandlord, shall be void and of no effect. Such consent, if given, will not be deemed consent to any further subletting or assignment. If Subtenant assigns this Sublease or subleases any part of the Sublet Premises as herein provided, Subtenant shall not be released from its obligations under this Sublease, notwithstanding any subsequent assignment, sublease, amendment, modification, supplement or extension thereafter made with or consented to respect to this Sublease by Sublandlord. Without limiting the generality of the foregoing, Subtenant expressly acknowledges that Sublandlord may withhold its consent to any proposed sublease or assignment if the proposed sublessee or assignee has previously been approached by Sublandlord or its broker, or has previously contacted either, to discuss the possible sublease of space in the Building by Sublandlord to such entity.

15.2 Notwithstanding the foregoing, no prior approval of Sublandlord shall be required for the subletting of all or a portion of the Sublet Premises or assignment of this Sublease to any corporation or other entity which is a parent or wholly-owned subsidiary of, or under common control with, the Subtenant (a "Related Party"), except that no subletting or assignment to a Related Party shall be made unless the Subtenant shall have provided to the Sublandlord such information as the Sublandlord

shall reasonably require such as, but not limited to, satisfactory evidence as to the relationship as parent, affiliate or subsidiary of the proposed subtenant or assignee, and evidence of the Related Party's then current net worth.

15.3 As a condition to Sublandlord's consent to any subletting, assignment or other transfer referred to in this Section 15, if the sublease, assignment or other transfer provides that the subtenant, assignee or other transferee thereunder is to pay any amount in excess of the sum of the Rent and other charges due under this Sublease, plus Subtenant's expenses on account of such assignment or sublease (which shall be limited to Subtenant's reasonable advertising costs, brokerage commissions, and legal fees incurred in connection with the assignment or sublease, and reasonable allowances provided by Subtenant to the assignee or subtenant, which expenses, for purposes of hereof, shall be amortized on a straight-line basis, without interest, over the term of the subletting, assignment or other transfer) (such excess being herein referred to as "Profit"), whether such Profit be in the form of an increased monthly or annual rental, a lump sum payment, or any other form (and if sublet space does not constitute the entire Sublet Premises, the existence of such Profit shall be determined on a pro rata basis), fifty percent (50%) of the Profit shall be payable to Sublandlord immediately upon Subtenant's receipt thereof, as Additional Rent.

16. **Security**. Simultaneously with Subtenant's execution and delivery of this Sublease, Subtenant shall pay to Sublandlord the sum of **\$15,125.00**, to be held as collateral security for the payment by Subtenant of the Rent and for the faithful performance by Subtenant of all other covenants and agreements of Subtenant under this Sublease. If Subtenant defaults under this Sublease at any time, Sublandlord may use, apply or retain the whole or any part of the security deposited to the extent necessary to cure said default and to reimburse to Sublandlord expenses incurred by Sublandlord on account of such default (including, without limitation, Sublandlord's reasonable attorneys' fees). It is understood that the security deposit is not to be considered as the last rental due under this Sublease. If, at any time or from time to time during the Term of this Sublease, Sublandlord applies all or a portion of this deposit to cure Subtenant's default, Subtenant shall pay to Sublandlord, within five (5) days after demand by Sublandlord, the amount necessary to restore the security deposit to the full sum set forth above (Subtenant's failure to timely make such payment in full being deemed a failure to timely pay Rent owing under this Sublease). The amount of such security deposit, without interest, less any portion thereof properly applied by Sublandlord hereunder and not yet reimbursed by Subtenant as herein required, shall be returned by Sublandlord to Subtenant within sixty (60) days after the expiration of the Term and Subtenant's tender to Sublandlord of possession of the Sublet Premises in the condition herein required.

17. **Landlord Approval**. This Sublease shall not be effective until (i) executed by Sublandlord and Subtenant, and (ii) approved by Landlord. If Landlord shall refuse to consent to this Sublease,

Sublandlord shall not be obligated to take any action to obtain such consent. If Landlord has not consented to this Sublease within thirty (30) days after the date of full execution hereof by Sublandlord and Subtenant, this Sublease shall thereupon be void and of no effect.

18. **Brokers.** Subtenant represents and warrants to Sublandlord that it has not dealt with any broker, agent, finder or other person in the negotiation for or the obtaining of this Sublease other than Sublandlord's broker, Colliers International ("Broker"), and agrees to indemnify and hold Sublandlord harmless from any and all costs (including attorney's fees) and liability for commissions or other compensation claimed by any such broker, agent, finder or other person other than Broker, employed by it or claiming to have been engaged by it in connection with this Sublease. Sublandlord agrees to pay any fee or commission owing Broker on account of this Sublease pursuant to a separate written agreement.

19. **Miscellaneous.**

19.1 Time is of the essence of this Sublease and of the performance by Subtenant and Sublandlord of each and every term and condition of this Sublease and of each and every term and condition of the Lease which the Subtenant and Sublandlord have herein agreed to keep and perform.

19.2 This Sublease contains all of the agreements between Sublandlord and Subtenant and may not be modified except by a written instrument duly executed by the parties.

19.3 Subject to the provision of Section 15, the terms and conditions of this Sublease shall extend to and be binding upon the heirs, successors and assigns of the respective parties.

19.4 Failure on the part of either party to complain of any act or failure of the other party, or to declare the other party in default, irrespective of how long such failure continues, shall not constitute a waiver by either Sublandlord or Subtenant of its respective rights hereunder. A giving of consent by Sublandlord or Subtenant in any one instance shall not limit or waive the necessity of obtaining such consent in the future.

19.5 The captions contained in this Sublease are for convenience of reference only, and shall not be deemed a part of the text of this Sublease, or to provide any interpretation thereof.

19.6 If any term or provision of this Sublease or of the Lease, as the same applies to Sublandlord and Subtenant, shall be held invalid or unenforceable, the remainder of the Sublease and the Lease, as applicable, shall not be affected thereby, and each term and provision of this Sublease and the Lease, as applicable, shall be valid and enforceable to the full extent permitted by law.

19.7 The word "person" as used herein shall mean any natural person, partnership, corporation, or any other form of business or legal entity.

19.8 All words or terms used in this Sublease, regardless of the number or gender in which they are used, shall be deemed to include any other number and any other gender as the context may require.

19.9 Each party represents and warrants to the other that it has dealt with no broker, agent, or other intermediary who might be entitled to receive a commission in connection with the existence, execution or delivery of this Sublease, and each shall indemnify, defend and hold the other harmless from and against any breach of such respective representations and warranties.

19.10 As a material inducement to Sublandlord to enter into this Sublease, it is acknowledged and agreed by Subtenant that none of the current or future officers, shareholders, members or partners of Sublandlord shall have any personal liability (primary, secondary or otherwise) to Subtenant for any of the obligations of Sublandlord under this Sublease, and that Subtenant's recourse to Sublandlord for all claims under this Lease shall be strictly limited to assets of Sublandlord at the entity level.

19.11 The parties hereto acknowledge and agree that nothing contained in this Sublease is intended to create between them a joint venture or a partnership of any kind, and the relationship between them evidenced by this Sublease is as sublandlord and subtenant only.

19.12 This Sublease and its terms and conditions shall be governed by the laws of the State of California.

19.13 Sublandlord shall be given keys (or equivalent) to all locks on doors within or providing access to the Sublet Premises.

19.14 Subtenant and its employees shall only use the upper level of the car park that serves the Building. Sublandlord shall make available to Subtenant one hundred ten (110) parking spaces in the upper level. Each parking space shall be provided on a non-exclusive, non-reserved basis and shall be rent-free. In addition to the foregoing, Sublandlord shall provide three (3) reserved parking spaces on the lower level of the Building car park, to be utilized solely by Subtenant's business invitees.

19.15 Subtenant shall observe such rules and regulations as may be promulgated by Sublandlord or Landlord from time to time by written notice to Subtenant and which, in Sublandlord's or Landlord's reasonable judgment, are desirable for the general safety, comfort and convenience of occupants and subtenants of the Building. All rules and regulations shall be deemed a part of this Sublease, as conditions, with the same effect as though written herein, and Subtenant covenants that they shall be faithfully observed by Subtenant, Subtenant's employees, and all those visiting the Sublet Premises or claiming under Subtenant.

[The remainder of this page is intentionally left blank.]

19.16 The Sublet Premises may only be used for general office purposes and uses appurtenant thereto, consistent with the terms of the Lease, and may not be used for retail sales purposes of any sort.

19.17 This Sublease supersedes that certain sublease between Sublandlord and Subtenant dated as of August 17, 2011, which prior sublease the parties hereby declare to be null and void and of no further force or effect.

IN WITNESS WHEREOF, this Sublease has been duly executed by Sublandlord and Subtenant, as of the date first above written.

U.S. AUTO PARTS NETWORK, INC.

By: /s/ Theodore R. Sanders

Name: Theodore R. Sanders

Title: CFO

TIMEC COMPANY INC.

By: /s/ Jim Fairbairn

Name: Jim Fairbairn

Title: President

Exhibit "A"

Floor Plan of Sublet Space

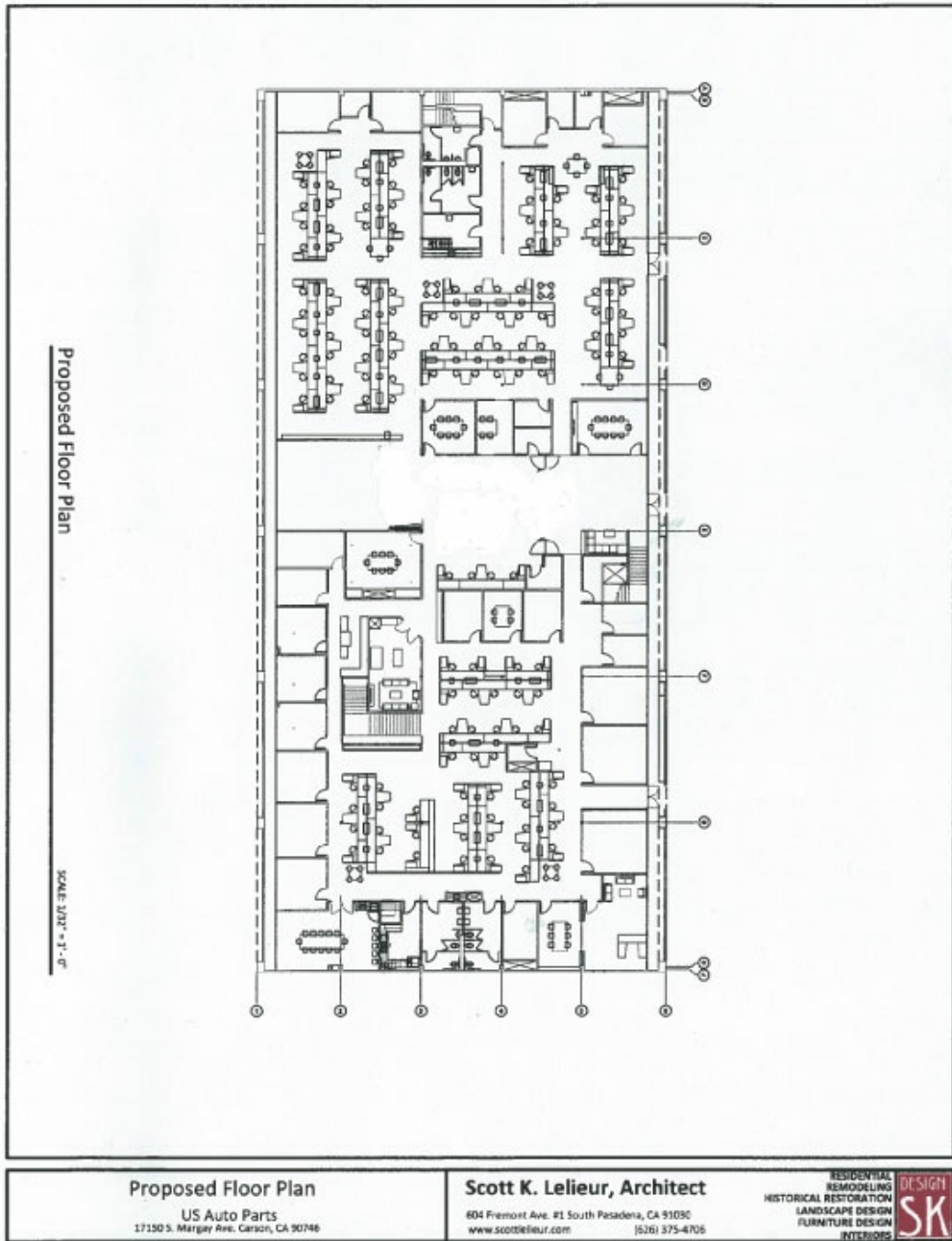


Exhibit "B"

Lease

Exhibit "C"

Sublandlord Furniture

Room	Desk	Visitor Chair	Conf Chair	Table	Bookcase	Whiteboard	File Cabinet	Short File Cab	Short Bookcase	Large Conf Table	Credenza	Refrigerator	Couch	Sitting Chair	Coffee Table	DBI Door Tail Cab	
210-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
209-	-	-	8-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
208 L	-	2	-	-	1	1	2	1	-	-	-	-	-	-	-	-	-
K	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
204	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
203 U	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
202 U	-	3	-	1	-	-	-	-	-	1	-	-	-	-	-	-	-
201	-	3	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
222C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
222B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
222A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
222	-	2	-	-	-	1	1	-	-	-	-	-	-	-	-	-	-
223	-	-	-	-	-	1	1	-	-	1	-	-	-	-	-	-	-
221	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
224	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
211 U	-	6	-	1	-	1	1	-	-	-	-	-	-	-	-	-	-
214 U	-	5	-	1	-	1	1	-	-	-	-	-	-	-	-	-	-
215	-	4	-	1	-	1	1	-	-	-	-	-	-	-	-	-	-
216	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
217	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
218	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
219 L	-	2	-	-	-	1	1	-	-	-	-	-	-	-	-	-	-
220 L	-	2	-	-	-	1	1	-	1	1	-	-	-	-	-	-	-
226	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-
224	-	-	-	-	-	1	1	-	-	-	-	-	-	-	-	-	-
225	1	27	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
232	-	-	-	1	-	1	1	-	-	-	-	-	-	-	-	-	-
233	-	-	-	2	-	1	1	-	-	-	-	-	-	-	-	-	-
231 L	-	-	-	-	-	1	2	-	-	-	-	-	-	-	-	-	-
230	-	-	-	-	-	1	1	-	-	-	-	-	-	-	-	-	-
229 L	-	-	-	-	-	1	1	-	-	1	-	-	-	-	-	-	-
228 L	-	-	-	-	-	1	1	-	2	-	-	-	-	-	-	-	-
235a	-	2	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-
235b	-	4	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-
238	-	-	-	-	-	1	1	-	-	-	-	-	-	-	-	-	-
239	-	-	-	-	-	1	1	-	-	1	-	-	-	-	-	-	-
243	-	-	-	-	-	1	1	-	-	-	-	-	-	-	-	-	-
244	1	15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LL (Micro)	12	77	14	11	11	11	14	3	4	4	5	3	0	0	0	0	3

Exhibit "D"

Landlord Furniture

Schedule D Sublandlord (TSA R&E/TIMEC)		Room	Desk	Chair	Conf Chair	Table	Bookcase	Whiteboard	File Cabinet	Short File Cab	Short Bookcase	Large Conf Table	Credenza	Refrigera tor	Couch	Sitting Chair	Coffee Table	Dbl Door Tail Cab	
		210 U		2			1						1				2		1
		209																	
		208																	
K		204			11									1					
		203		2															
		202		2			1												
		201 U		2			1			1									
		222C U		1			1			2		1							
		222B U		2			2			2			1 Overhead						
		222A U		2						2									
		222 L		2			1			1									
		223 U		2															
		221			9														
		224																	
		211																	
		214																	
		215 L		2			1			1									
		216 U		2			2			1									
		217																	
		218 L		2						2		1							
		219																	
		220																	
		226																	
		224																	
		246																	
		225																	
		232 L		3															
		233																	
		231		1															
		230 L		2						1									
		229		2															
		228		2															
		235a L		2															
		235b		2															
		238 L		2															
		239																	
		243																	
		244																	
		Subtotal	16	37	28	20	11	10	1	17	5	2	3	1	1	2	1	1	0

BUYOUT AGREEMENT

This **BUYOUT AGREEMENT** (herein, "Agreement"), is made as of the 10th day of October, 2011 ("Effective Date"), by and between **DISCOVERY COMMUNICATIONS, LLC**, a Delaware limited liability company, having an address at One Discovery Place, Silver Spring, Maryland 20910 ("Discovery"), **US AUTO PARTS NETWORK, INC.**, ("US Auto"), the sole owner of Whitney Automotive Group, Inc., a Delaware corporation and J.C. Whitney & Co., having corporate offices at 16941 Keegan Avenue, Carson, CA 90746, and **WHITNEY AUTOMOTIVE GROUP, INC.**, a Delaware corporation ("Whitney"), having corporate offices at 16941 Keegan Avenue, Carson, CA 90746, with reference to the following facts:

RECITALS

A. **111 EAST WACKER LLC**, a Delaware limited liability company, having an address at 111 East Wacker Drive, Suite 1220, Chicago, Illinois 60601, Attn: Property Manager ("Landlord"), as successor-in-interest to Lincoln-Carlyle Illinois Center, L.L.C., and **MARKETING WERKS, INC.**, an Illinois corporation ("Tenant") are respectively the current landlord and the current tenant under that certain agreement of lease dated as of February 24, 2005, (the "Original Lease"), as amended by that certain First Amendment to Lease dated as of May 17, 2006 (the "First Amendment", the Original Lease, as so amended, being hereinafter referred to as the "Master Lease").

B. Pursuant to the Master Lease, Landlord currently leases to Tenant, and Tenant currently leases from Landlord, a portion of the thirtieth (30th) floor (the "Premises") in the building known as and located at 111 East Wacker Drive, Chicago, Illinois (the "Building")

C. Tenant subleased all the Premises to Whitney for a term expiring January 31, 2017 pursuant to a Sublease dated December 4, 2007 ("Sublease"). Landlord consented to the Sublease pursuant to an Agreement dated on or around December 4, 2007 between Landlord, Tenant and J.C. Whitney & Co. ("Consent").

D. Pursuant to a License Agreement dated May 6, 2008 ("License") Landlord licensed to J.C. Whitney & Co., Inc. certain space on the roof of the Building (and in the core areas of the Building between the roof of the Building and the Premises (collectively "Licensed Space") for installation, maintenance and repair of supplemental air conditioning equipment and related piping, cabling, conduits and facilities ("Roof Facilities").

E. Whitney has succeeded to the interests of J.C. Whitney & Co., Inc. under the Sublease, Consent and License. On or about August 2, 2010, Whitney became a wholly owned subsidiary of US Auto.

F. Landlord is willing to negotiate a direct lease with Discovery (the "New Lease") and to terminate the Master Lease and the Sublease. The New Lease will be conditioned upon, among other matters, the execution and delivery of this Agreement. Discovery will have the right to terminate the New Lease if all of the conditions precedent to the New Lease are not satisfied on or before November 1, 2011.

G. As a partial inducement for Discovery to effectuate the New Lease (which will in turn result in the termination of the Master Lease and Sublease), US Auto and Whitney each agrees that: (i) the Premises will be, upon the termination of the Master Lease and its surrender to Landlord, in the condition required by this Agreement, (ii) US Auto shall make the Lump Sum Payment (defined herein) to Discovery as set forth herein, (iii) US Auto shall pay certain broker commissions as set forth herein due

under or attributable to the New Lease, and (iv) US Auto and Whitney shall transfer certain personal property to Discovery, all on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the Premises and other good and valuable consideration, the mutual receipt and legal sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Termination of Lease and Sublease, Surrender of Premises. US Auto shall cause Whitney to execute and perform under that certain Lease and Sublease Termination and Surrender Agreement in the form attached hereto as Exhibit A and US Auto, Whitney and Tenant shall vacate and surrender the Premises, the Licensed Space and the Roof Facilities to Landlord in the condition represented below, within one (1) business day of being notified by Discovery that it has waived the conditions precedent to the effectiveness of the New Lease ("Surrender Date"); it being acknowledged that Discovery desires the Surrender Date to occur as soon as possible, but in all events prior to November 1, 2011. US Auto and Whitney each agrees that all of its tenant improvements (including, but not limited to, all cabling, rooftop cooling equipment, IT equipment rack, patch panels and horizontal structured cabling from the patch panels to the work area outlets, lighting fixtures, partition and demising walls, doors, floor, window and wall coverings, cabinetry and millwork) shall be at surrender of the Premises in good working order and condition. In furtherance and not in limitation of the foregoing requirements, the Premises, the Licensed Space and the Roof Facilities shall each be, at the minimum, in substantially in the condition observed by Discovery's representative on or about May 12, 2011. US Auto and Whitney each represents that: (i) Whitney has paid \$53,779.00 as the base rent, operating expenses and all other amounts due under the Sublease for the month of October, 2011; (ii) Whitney has vacated the Premises before the date hereof, and (iii) the Premises, the Licensed Space and the Roof Facilities are: (1) free and clear of any other tenants, subtenants, occupants and rights of possession other than those of Tenant and Whitney, (2) broom clean and in occupiable condition and repair, reasonable wear and tear excepted, (3) free of debris, (4) free and clear of all personal property not transferred to Discovery pursuant to Section 4 below, and (5) free of damage to the Premises caused by US Auto's and/or Whitney's removal of any furniture, equipment, and other personal property from the Premises.

2. Discovery's Inspection of Premises. As of the Surrender Date, US Auto shall re-confirm that the Premises, the Licensed Space and the Roof Facilities are in the condition represented in Section 1 above. Discovery shall have the opportunity to inspect the Premises, the Licensed Space and the Roof Facilities on or before the Surrender Date to confirm that they are in the required condition and that all of the personal property to be transferred to Discovery pursuant to Section 4 below is in the Premises or the Licensed Space, as applicable, and to provide notice to US Auto, Whitney and Landlord of its approval. If Discovery inspects the Premises, the Licensed Space and the Roof Facilities and approves the condition thereof, it may so notify US Auto, Whitney and Landlord (the date Discovery sends such notice, the "Premises Notice Date").

3. Lump Sum Payment: October, 2011 Rent. US Auto and/or Whitney shall continue to perform under its Sublease and shall pay when due the rent and any other amounts due under the Sublease, including but not limited to the rentals due for the month of October, 2011. On the Surrender Date, US Auto shall pay Discovery, in immediately available federal funds (i.e. wire transfer), the amount of One Million Two Hundred Ten Thousand Nine Hundred Thirty-Eight and no/100 Dollars (\$1,210,938.00) (the "Lump Sum Payment"). The failure by US Auto to make the Lump Sum Payment to Discovery as above required shall be a breach hereof, and Discovery shall be entitled to terminate this Agreement, among other remedies available at law or in equity, or may grant US Auto an extension of time in which to make the Lump Sum Payment (which extension of time, if any, must be granted by Discovery in writing and may be withheld, conditioned or delayed in Discovery's sole and absolute discretion).

4. Personal Property. On the Surrender Date, US Auto and Whitney each shall be deemed to have conveyed title to the personal property listed on Schedule 4 attached hereto under the terms and conditions of that Bill of Sale (the "Bill of Sale") attached hereto as Exhibit B, which Bill of Sale shall be signed and dated as of the Surrender Date and delivered to Discovery. The failure by either US Auto or Whitney to execute and deliver to Discovery the Bill of Sale as above required shall be a breach hereof, and Discovery shall be, among other remedies available at law or in equity, entitled to terminate this Agreement. US Auto and Whitney each agrees to indemnify and hold Discovery harmless from and against any and all costs, claims, losses, liabilities, demands, suits, judgments and expenses (including, without limitation, reasonable attorneys' fees and disbursements) arising from Whitney's and/or US Auto's failure to timely perform their obligations under this Agreement.

5. Leasing Commission. Concurrent with its payment of the Lump Sum Payment, US Auto shall pay directly to Jones Lang LaSalle the commission due and payable to Jones Lang LaSalle in connection with the New Lease, in the amount of \$203,367.38. US Auto shall defend, indemnify and hold harmless Discovery from and against any claims brought by Jones Lang LaSalle for broker's or finder's fees or commissions in connection with the negotiation, execution or consummation of the New Lease.

6. Acknowledgement and Release. Upon Discovery's receipt of payment of the Lump Sum Payment, upon Jones Lang LaSalle's receipt of the leasing commission, and US Auto's and Whitney's conveyance of title to the personal property on Schedule 4 to Discovery, Discovery shall execute an Acknowledgement and Release of US Auto and Whitney for each of their obligations under this Agreement in form and substance reasonably satisfactory to Discovery.

7. Notices. All statements, notices and other communications given pursuant to this Agreement must be in writing and must be delivered personally with receipt acknowledged, or sent by a nationally recognized reputable overnight courier (against a receipt of delivery), addressed to the parties at their addresses set forth above, or at such other address as any party may designate upon not less than 10 days prior notice given in accordance with this paragraph. Any such communication shall be deemed delivered when personally delivered, or on the date received or rejected as indicated by the receipt if sent by overnight courier.

8. Jury Waiver. **US AUTO, WHITNEY AND DISCOVERY EACH IRREVOCABLY WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT.** No waiver by either party of any failure or refusal by the other party to comply with its obligations hereunder shall be deemed a waiver of any other or subsequent failure or refusal to so comply.

9. Entire Agreement. This Agreement constitutes the entire agreement of the parties hereto with respect to the matters stated herein, and may not be amended or modified unless such amendment or modification shall be in writing and shall have been signed by the party against whom enforcement is sought. This Agreement supersedes and revokes all previous negotiations, arrangements, representations and information, whether oral or in writing, between the parties and their respective representatives or any other person purporting to represent the parties with respect to the subject matter of this Agreement.

10. Governing Law. This Agreement shall be construed and governed by the laws of the State of Illinois. If any provision of this Agreement shall be invalid or unenforceable, the remainder of this Agreement or the application of such provision other than to the extent that it is invalid or unenforceable shall not be affected, and each provision of this Agreement shall remain in full force and effect notwithstanding the invalidity or unenforceability of such provision, but only to the extent that application and/or enforcement, as the case may be, would be equitable and consistent with the intent of the parties in entering into this Agreement.

11. Miscellaneous. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and permitted assigns. This Agreement shall not be binding upon the parties hereto until the same shall have been executed and delivered by each of the parties hereto. This Agreement may be signed in counterpart or duplicate copies or via fax. Any signed counterpart or duplicate copy or executed facsimile copy shall be equivalent to a signed original for all purposes. Although each party covenants to provide to the others signed original counterparts of this Agreement, any failure to deliver such originals shall not affect the enforceability of facsimile counterpart of this Amendment. "Including" means "including without limitation." Each party represents and warrants to the other that as of the date hereof, (a) such party has the full power, capacity, authority and legal right to execute and deliver this Agreement, (b) the person executing this Agreement for such party has the full right and authority to do so and to bind such party; (c) such party has obtained any and all consents or approvals of any third party necessary for this Agreement; and (d) this Agreement violates no agreement, document, instrument, or judgment by which such party is bound.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

US AUTO:

US AUTO PARTS NETWORK, INC.,
a Delaware corporation

By: /s/ SHANE EVANGELIST
Name: SHANE EVANGELIST
Title: C.E.O.

WHITNEY:

WHITNEY AUTOMOTIVE GROUP, INC.,
a Delaware corporation

By: /s/ AARON E. COLEMAN
Name: AARON E. COLEMAN
Title: C.O.O.

DISCOVERY:

DISCOVERY COMMUNICATIONS, LLC,
a Delaware limited liability company

By: /s/ Brad Singer
Name: Brad Singer
Title: Chief Financial Officer

Schedule 4
Transferred Personal Property

<u>ITEM:</u>	<u>QUANTITY:</u>
All tenant improvements, including, but not limited to, all cabling, wall and window coverings, rooftop cooling equipment, IT equipment rack, patch panels and horizontal structured cabling from the patch panels to the work area outlets, partition walls, doors, floor, window and wall coverings, cabinetry and millwork.	
Reception Desk	1
5 shelf book shelf	1
Large cubicle	56
Green padded chair	40
Green Mesh Chair	45
2 Drawer rolling cabinet/padded top	89
3 drawer filing cabinet	86
White Wheeled carts	2
4 drawer filing cabinet	11
Coat Rack	4
Kidney Bean table	13
3 drawer moving cabinet	8
Maroon & wood arm chairs	5
Orange Padded chairs	39
Office set up (desktop & overhead)	14
Green arm chair	18
Old office desk chair	12
White round table	1
Conference credenza	1
Conference table	1
Grey Padded Chairs	14
Easels	2
Loveseat	2
Oamce Arm chair	16
Black Mesh Chair	6
Small Cubicle	22
Blue Padded Chair	2
Black Arm Chair	7
Divider Screens	6
Wood 2 Drawer cabinet	1
Mini Cubicles	4
Green & Black Chairs	2
2 Drawer filing cabinet	2

Executive office set-up (glass table w/ matching credenzas)	2
Glass side table	1
Couch	1
Side Table	7
Red leather desk chair	1
Side board/Wardrobe	1
Wood Table	1
Small sideboard	1
Large sideboard	1
Blacke Easy chair	2
Shredder	1
Leather reception Chairs	3
End Table	1
Coffee table	1
Conference sidebar	1
Conference table (folding)	12
Black conference chairs	19
Grey Desk Chair	1

EXHIBIT A

Form of Lease and Sublease Termination and Surrender Agreement

LEASE, SUBLEASE AND LICENSE TERMINATION AND SURRENDER AGREEMENT

LEASE, SUBLEASE AND LICENSE TERMINATION AND SURRENDER AGREEMENT (this "Agreement") made as of the 10th day of October, 2011 ("Effective Date"), by and between **111 EAST WACKER LLC**, a Delaware limited liability company having an address at 111 East Wacker Drive, Suite 1220, Chicago, Illinois 60601, Attn: Property Manager ("Landlord"), and **MARKETING WERKS, INC.**, an Illinois corporation having an address at 1 Prudential Plaza, 130 East Randolph Street, 20 Floor, Chicago, Illinois 60601, Attn: Julie Guida ("Tenant"), **WHITNEY AUTOMOTIVE GROUP, INC.**, a Delaware corporation successor to J.C. Whitney & Co., ("Whitney") having corporate offices at 16941 Keegan Avenue, Carson, CA 90746, Attn: General Counsel, and **U.S. AUTO PARTS NETWORK, INC.**, a Delaware corporation, as the parent of, and having the same address as Whitney ("US Auto").

RECITALS

Landlord, as successor-in-interest to Lincoln-Carlyle Illinois Center, L.L.C., and Tenant are respectively the current landlord and the current tenant under that certain agreement of lease dated as of February 24, 2005, (the "Original Lease"), as amended by that certain First Amendment to Lease dated as of May 17, 2006 (the "First Amendment", the Original Lease, as so amended, being hereinafter referred to as the "Master Lease").

Pursuant to the Master Lease, Landlord currently leases to Tenant, and Tenant currently leases from Landlord, a portion of the thirtieth ("30") floor (the "Premises") in the building known as and located at 111 East Wacker Drive, Chicago, Illinois (the "Building") for a term expiring on January 31, 2017 (the "Expiration Date").

Tenant subleased all the Premises to Whitney for a term expiring January 31, 2017 pursuant to a Sublease dated December 4, 2007 ("Sublease"). Landlord consented to the Sublease pursuant to an Agreement dated on or around December 4, 2007 between Landlord, Tenant and Whitney ("Consent").

Pursuant to a License Agreement dated May 6, 2008 ("License") Landlord licensed to Whitney certain space on the roof of the Building (and in the core areas of the Building between the roof of the Building and the Premises (collectively "Licensed Space") for installation, maintenance and repair of supplemental air conditioning equipment and related piping, cabling, conduits and facilities ("AC Facilities").

Whitney has succeeded to the interests of J.C. Whitney & Co., Inc. under the Sublease, Consent and License. On or about August 2, 2010, Whitney became a wholly owned subsidiary of US Auto. US Auto and Whitney are herein collectively referred to as "Subtenant."

Discovery Communications, LLC, a Delaware limited liability company ("Discovery") and Landlord are negotiating a new lease for the Premises ("New Lease") which New Lease will be conditioned upon satisfaction or waiver of the following conditions: (i) the execution and delivery of this Agreement by Landlord, Tenant and Subtenant ("Master Lease Termination Condition"), (ii) the full execution and delivery of an agreement ("Discovery Agreement") between Discovery and Subtenant regarding the conveyance by Subtenant to Discovery of the AC Facilities and certain furniture, fixtures and equipment on the Premises and the payment by US Auto to Discovery and/or Discovery's real estate broker of certain monies to fund the costs incurred by Discovery in connection with the New Lease ("Discovery Agreement Documentation Condition"), (iii) the full performance by Subtenant of its (and their) obligations under the Discovery Agreement ("US Auto Performance Condition"), and (iv) Subtenant vacating and delivering possession of the Premises and Licensed Space to Landlord in the condition required by Section 4 of this Agreement (the "Surrender Condition"). The execution and delivery of the New Lease by Landlord and Discovery and the satisfaction or waiver of the Master Lease

Termination Condition, the SNDA Condition and the Discovery Agreement Documentation Condition are herein referred to as the "Document Conditions". The parties acknowledge that the conditions listed in (ii) and (iii) above are held by Discovery alone and may be waived by Discovery in its sole discretion. The US Auto Performance Condition and the Surrender Condition are herein referred to as the "Performance Conditions". The Document Conditions and the Performance Conditions are herein referred to as the "Lease Conditions".

The New Lease will provide Discovery with the following rights to terminate the New Lease:

1. if the Document Conditions have not been satisfied or waived, a right exercisable on or before October 27, 2011, and prior to (but not after) satisfaction and/or waiver of the Document Conditions ("Document Termination Right") to terminate the New Lease; and
2. if the Document Conditions have been met but the Performance Conditions have not been satisfied on or before the earlier of (A) two (2) business days after Discovery notifies Landlord, Tenant and Whitney that the Document Conditions have been satisfied and/or waived ("Document Conditions Notice") and (B) November 1, 2011, a right exercisable prior to (but not after) satisfaction of the Performance Conditions ("Performance Termination Right") to terminate the New Lease.

The Document Condition Notice, the Document Termination Right and Performance Termination Right are to be exercised by electronic notice delivered to Landlord, Tenant and US Auto at the respective addresses set forth on Attached Exhibit A.

To effectuate the New Lease, Landlord, Tenant and Subtenant desire to provide for the termination of the Master Lease, Sublease and License prior to the Expiration Date on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the mutual receipt and legal sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Unless otherwise defined herein, all capitalized terms used herein shall have the meanings ascribed to them in the Master Lease.

2. Subject to Section 3 below, on the date ("Termination Date") that the Lease Conditions are satisfied, as evidenced by electronic notice from Landlord and Discovery to Tenant and US Auto at the addresses set forth on attached Exhibit A, Tenant grants and surrenders unto Landlord all of Tenant's right, title, property, claim, term of years and interest in, to and under the Master Lease (and in, to and under the leasehold estate created thereby) and the Premises and the Master Lease shall terminate effective as of the Termination Date with the same force and effect as if the Termination Date were the date set forth in the Master Lease as the Expiration Date thereof. Subtenant consents to the termination of the Master Lease as provided in this Agreement. Each party additionally acknowledges and agrees that if the Master Lease terminates pursuant to this Section 2, the Sublease shall terminate effective as of the Termination Date with the same force and effect as if the Termination Date were the date set forth in the Sublease as the expiration date for the term of the Sublease. Landlord and Subtenant agree that if the Master Lease terminates pursuant to this Agreement, the License shall terminate on the Termination Date with the same force and effect as if the Termination Date were the date set forth in the License as the expiration date for the term of the License.

3. Landlord may terminate this Agreement by written or electronic notice to Tenant and US Auto respectively (such electronic notice to be given at the electronic addresses set forth on Exhibit A to

this Agreement) if Discovery exercises either the Document Termination Right or the Performance Termination Right. In such event the Master Lease, the Sublease, the Consent and the License shall continue in full force and effect and this Agreement (other than Section 5) shall be null and void.

4. On or before the date ("Performance Date") which is one (1) business day after receipt of Document Condition Notice and notice from Discovery of satisfaction or waiver of the US Auto Performance Conditions and provided Discovery has not notified Subtenant of the exercise of the Performance Termination Right, (i) Subtenant shall surrender and deliver the Premises and Licensed Space to Landlord, each in the Delivery Condition, as defined below, (ii) Subtenant shall have removed all of its or US Auto's furniture, equipment, and other personal property from the Premises that is not being conveyed to Discovery pursuant to the Discovery Agreement (collectively, the "Personalty") and repaired any material damage to the Premises caused by the removal of the Personalty and (iii) Subtenant shall perform its other obligations under the Discovery Agreement. The parties acknowledge and agree that the surrender and delivery of possession of the Premises to Landlord as required under this Section 4 shall be deemed the surrender and delivery of possession of the Premises to Tenant under the terms and conditions of the Sublease and the surrender and delivery of possession of the Premises by Tenant to Landlord under the terms and conditions of the Master Lease. Any Personalty in the Premises after the Termination Date shall: (a) be deemed abandoned and (b) automatically pass to Landlord. Nothing in this Agreement shall limit Tenant's and Subtenant's obligations under the Master Lease, Sublease and Consent to remove the Personalty from the Premises whether before or after the Termination Date. As used herein, "Delivery Condition" means (A) the Premises are (i) vacant and free and clear of any other tenants, subtenants, occupants and right of possession, (ii) broom clean and free of debris and (iii) in the condition existing on the Effective Date, normal wear and tear and nonmaterial damage caused by the removal of Personalty, as defined below, excepted and (B) the Licensed Space is in the condition existing on the Effective Date, normal wear and tear excepted with the AC Facilities intact. Subtenant shall not remove the AC Facilities from the Licensed Space.

5. Subtenant acknowledges that time is of the essence in the performance of all Performance Obligations. If the Document Conditions are satisfied but Subtenant fails to timely perform the Performance Conditions and Discovery exercises the Performance Termination Right, Whitney shall reimburse Landlord and Tenant for all reasonable attorneys fees and costs incurred in connection with the negotiation and documentation of this Agreement and Landlord for negotiation and documentation of the New Lease.

6.(a) If the Master Lease is terminated pursuant to this Agreement, Tenant releases and discharges Landlord from all actions, causes of actions, liabilities, obligations, claims and demands whatsoever that Tenant ever had, now has or hereafter can, shall or may have against Landlord arising out of or relating to the Master Lease, Consent and/or Tenant's occupancy of the Premises, from the beginning of the world through and including the Termination Date. If the Master Lease is terminated pursuant to this Agreement, Subtenant releases and discharges Landlord from all actions, causes of actions, liabilities, obligations, claims and demands whatsoever that Subtenant ever had, now has or hereafter can, shall or may have against Landlord arising out of or relating to the Master Lease, Consent and License and/or Subtenant's occupancy of the Premises and Licensed Space, from the beginning of the world through and including the Termination Date.

(b) If the Master Lease is terminated pursuant to this Agreement, Landlord releases and discharges Tenant and Subtenant from all actions, causes of actions, liabilities, obligations, claims and demands whatsoever that Landlord ever had, now has or hereafter can, shall or may have against Tenant and/or Subtenant arising out of or relating to the Master Lease, Consent and License and/or Tenant's or Subtenant's occupancy of the Premises or Licensed Space, from the beginning of the world through and including the Termination Date, except that nothing contained herein shall be deemed to constitute a release or discharge of Tenant or Subtenant from (i) Tenant's or Subtenant's obligations and liabilities under this Agreement, (ii) Tenant's obligations and liability under the Master Lease and Consent, as modified by this Agreement, that

are outstanding and unsatisfied as of the Termination Date, (iii) Subtenant's obligations and liability under the License, Consent and Sublease, as modified by this Agreement, that are outstanding and unsatisfied as of the Termination Date, (iv) any and all indemnities set forth in the License, Master Lease, Consent or Sublease in favor of Landlord that, pursuant to the License, Master Lease, Consent, Sublease and/or this Agreement, expressly survive the expiration or termination of the License, Master Lease, Consent or Sublease, (v) any and all indemnities in favor of Landlord set forth in this Agreement, and (vi) any liability for third party claims including mechanics liens.

(c) If the Master Lease is terminated pursuant to this Agreement, Tenant and Subtenant release and discharge each other from all actions, causes of actions, liabilities, obligations, claims and demands whatsoever that the releasing party ever had, now has or hereafter can, shall or may have against the other arising out of or relating to the Sublease and/or Tenant's or Subtenant's occupancy of the Premises, from the beginning of the world through and including the Termination Date, except that nothing contained herein shall be deemed to constitute a release or discharge of (i) Tenant's or Subtenant's obligations and liabilities under this Agreement, (ii) Tenant's obligations and liabilities under the Sublease, as modified by this Agreement, that are outstanding and unsatisfied as of the Termination Date, (iii) Subtenant's obligations and liabilities under the Sublease, as modified by this Agreement, that are outstanding and unsatisfied as of the Termination Date, (iv) any and all indemnities set forth in the Sublease in favor of Tenant or Subtenant that, pursuant to the Sublease and/or this Agreement, expressly survive the expiration or termination of the Sublease, (v) any and all indemnities in favor of Tenant or Subtenant set forth in this Agreement, and (vi) any liability for third party claims including mechanics liens.

(d) If the Master Lease is terminated pursuant to this Agreement, then notwithstanding anything to the contrary contained in the Master Lease or Sublease, there shall be

no further readjustment of the Tax Adjustment or Expense Adjustment for the calendar year ending December 31, 2010 or for the period from January 1, 2011 through the Termination Date. Tenant and Subtenant waive any refund or credit that might otherwise be due Tenant or Subtenant for such periods and Landlord and Tenant waive any funds Landlord or Tenant might have been due by reason of any such readjustment.

(e) If the Document Conditions are satisfied, Subtenant agrees to indemnify and hold Tenant and Landlord harmless from and against any and all third party costs, claims, losses, liabilities, demands, suits, judgments and expenses (including, without limitation, reasonable attorneys' fees and disbursements) arising from Subtenant's and/or US Auto's failure to timely perform the Performance Conditions.

7. Tenant acknowledges that Landlord has performed all of Landlord's obligations under the Master Lease and Consent to be performed prior to the date hereof. Subtenant acknowledges that Tenant has performed all of Tenant's obligations under the Sublease to be performed prior to the date hereof. Subtenant acknowledges that Landlord has performed all of Landlord's obligations under the License. All of the terms, covenants and conditions of the License, Master Lease and Consent and Sublease as modified by this Agreement shall remain in full force and effect and are ratified and confirmed in all respects.

8. The parties represent and warrant as follows which representations and warranties shall survive the Termination Date and, if applicable the Holdover Date:

(a) Tenant and Subtenant each represent and warrant to Landlord and to each other that it neither consulted nor negotiated with any broker or finder with regard to this Agreement. Tenant and Subtenant each agree to indemnify, defend and save Landlord and the other party harmless from and against any and all liability, damages, settlement payments, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses incurred in defending any

action or claim or in enforcing this indemnity) arising out of any claim or action for fees or commissions from any broker or like person who claims to have dealt with the indemnifying party in connection with this Agreement.

(b) Each party represents and warrants to the other that (i) such party has the full power, capacity, authority and legal right to execute and deliver this Agreement, (ii) the person executing this Agreement for such party has the full right and authority to do so and to bind such party; (iii) such party has obtained any and all consents or approvals of any third party (including the lenders to such party) necessary for this Agreement; (iv) this Agreement violates no agreement, document, instrument, or judgment by which such party is bound; and (v) except for the Sublease and Landlord's mortgage of the Building (and related assignment(s) of leases), such party has made no assignment, sublease, transfer, conveyance, or other disposition of the License, Master Lease or Sublease, any interest in the License, Master Lease or Sublease, or any claim, demand, obligation, liability, action, or cause of action arising from the License, Master Lease or Sublease.

(c) Tenant and Subtenant each represent to Landlord that it has consulted with its attorneys regarding the terms, covenants, conditions and waivers set forth in this Agreement.

Tenant, Subtenant, and Landlord each agree to indemnify and hold the other harmless from and against any and all third party costs, claims, losses, liabilities, demands, suits, judgments, and expenses (including, without limitation, reasonable attorneys' fees and disbursements) arising out of any false representations and misrepresentations made by it with respect to its undertakings under this Agreement.

9. Except as provided otherwise in Sections 2 and 3 of this Agreement, all statements, notices and other communications given pursuant to this Agreement must be in writing and must be delivered personally with receipt acknowledged, or sent by a nationally recognized reputable overnight courier (against a receipt of delivery), or by registered mail, return receipt requested, addressed to the

parties at their addresses set forth above, or at such other address as any party may designate upon not less than 10 days prior notice given in accordance with this paragraph. Any such communication shall be deemed delivered when personally delivered, or on the date received or rejected as indicated by the receipt if sent by overnight courier or by the return receipt if sent by mail.

10. LANDLORD, TENANT AND SUBTENANT EACH IRREVOCABLY WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT. No waiver by either party of any failure or refusal by the other party to comply with its obligations hereunder shall be deemed a waiver of any other or subsequent failure or refusal to so comply.

11. This Agreement constitutes the entire agreement of the parties hereto with respect to the matters stated herein, and may not be amended or modified unless such amendment or modification shall be in writing and shall have been signed by the party against whom enforcement is sought. This Agreement supersedes and revokes all previous negotiations, arrangements, representations and information, whether oral or in writing, between the parties and their respective representatives or any other person purporting to represent the parties with respect to the subject matter of this Agreement.

12. This Agreement shall be construed and governed by the laws of the State of Illinois. If any provision of this Agreement shall be invalid or unenforceable, the remainder of this Agreement or the application of such provision other than to the extent that it is invalid or unenforceable shall not be affected, and each provision of this Agreement shall remain in full force and effect notwithstanding the invalidity or unenforceability of such provision, but only to the extent that application and/or enforcement, as the case may be, would be equitable and consistent with the intent of the parties in entering into this Agreement.

13. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and permitted assigns. This Agreement shall not be binding upon the parties hereto until the same shall have been executed and delivered by each of the

parties hereto. This Agreement may be signed in counterpart or duplicate copies or via fax. Any signed counterpart or duplicate copy or executed facsimile copy shall be equivalent to a signed original for all purposes. Although each party covenants to provide to the others signed original counterparts of this Agreement, any failure to deliver such originals shall not affect the enforceability of facsimile counterpart of this Amendment. "Including" means "including without limitation." Landlord, Tenant and Whitney agree that this Agreement shall not be recorded.

14. Section 34 of the Master Lease ("Exculpatory Provisions"): (a) is incorporated in this Agreement by reference, but wherever it refers to the Master Lease it shall be deemed to refer also to this Agreement; and (b) shall apply to all claims of Tenant or Subtenant against Landlord or Tenant, respectively, and all obligations of Landlord or Tenant, under this Agreement.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

111 EAST WACKER, LLC, a Delaware limited liability company

By: Parkway Chicago, LLC, a Delaware limited liability company, its sole member

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

MARKETING WERKS, INC., an Illinois corporation

By: _____

Name: Julie Guida

Title: Vice President

WHITNEY AUTOMOTIVE GROUP, INC., a Delaware corporation

By: _____

Name: _____

Title: _____

U.S. AUTO PARTS NETWORK, INC., a Delaware corporation

By: _____

Name: _____

Title: _____

Exhibit A

Electronic Notice Address

For Landlord: jbuckley@pky.com
with a copy to: damburg@ouldratner.com

For Tenant: jquida@marketingwerks.com
with a copy to: mfriman@mbflegal.com

For Subtenant: bstevenson@usautoparts.com

Each party may change its electronic notice address on not less than ten (10) days prior written notice delivered to the other parties hereto and to Discovery at such notice to be given in the manner set forth in Section 9. Notice to Discovery shall be given in the manner set forth in Section 9 at the following address: Discovery Communications, LLC, One Discovery Place, Silver Spring, Maryland 20910, attention Larry Laque and Sumeet Seam, Esq. with electronic addresses as follows: Sumeet_Seam@discovery.com and Larry_Laque@discovery.com.

EXHIBIT B

Form of Bill of Sale

BILL OF SALE

US AUTO PARTS NETWORK, INC., a Delaware corporation and **WHITNEY AUTOMOTIVE GROUP, INC.**, a Delaware corporation (collectively, “**Seller**”), in consideration of the sum of Ten and No/100 Dollars (\$10.00), in hand paid, and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, does hereby sell, assign, transfer, and set over to DISCOVERY COMMUNICATIONS, LLC, a Delaware limited liability company (“**Purchaser**”), the following personal property (“**Personal Property**”): all Seller’s property described on Schedule 1 attached hereto. Seller shall be responsible for payment of all any sales or other taxes which may be payable with respect to this transfer.

Seller hereby represents and warrants that it has good and marketable title to all such Personal Property, free of any liens or encumbrances, and has the right to transfer its right, title and interest in such Personal Property pursuant hereto, and Seller will defend Purchaser’s title to said Personal Property against all and every person and person whomsoever. Seller makes no representation whatsoever regarding the condition or merchantability of the Personal Property.

EXECUTED this 11th day of October , 2011.

SELLER:

US AUTO PARTS NETWORK, INC., a Delaware corporation

By: /s/ SHANE EVANGELIST

Name: SHANE EVANGELIST

Title: C.E.O.

WHITNEY AUTOMOTIVE GROUP, INC., a Delaware corporation

By: /s/ AARON E. COLEMAN

Name: AARON E. COLEMAN

Title: C.O.O.

Schedule 1 to Bill of Sale

Personal Property

<u>ITEM:</u>	<u>QUANTITY:</u>
All tenant improvements, including, but not limited to, all cabling, wall and window coverings, rooftop cooling equipment, IT equipment rack, patch panels and horizontal structured cabling from the patch panels to the work area outlets, partition walls, doors, floor, window and wall coverings, cabinetry and millwork.	
Reception Desk	1
5 shelf book shelf	1
Large cubicle	56
Green padded chair	40
Green Mesh Chair	45
2 Drawer rolling cabinet/padded top	89
3 drawer filing cabinet	86
White Wheeled carts	2
4 drawer filing cabinet	11
Coat Rack	4
Kidney Bean table	13
3 drawer moving cabinet	8
Maroon & wood arm chairs	5
Orange Padded chairs	39
Office set up (desktop & overhead)	14
Green arm chair	18
Old office desk chair	12
White round table	1
Conference credenza	1
Conference table	1
Grey Padded Chairs	14
Easels	2
Loveseat	2
Oamce Arm chair	16
Black Mesh Chair	6
Small Cubicle	22
Blue Padded Chair	2
Black Arm Chair	7
Divider Screens	6
Wood 2 Drawer cabinet	1
Mini Cubicles	4
Green & Black Chairs	2
2 Drawer filing cabinet	2
Executive office set-up (glass table w/ matching credenzas)	2

Glass side table	1
Couch	1
Side Table	7
Red leather desk chair	1
Side board/Wardrobe	1
Wood Table	1
Small sideboard	1
Large sideboard	1
Blacke Easy chair	2
Shredder	1
Leather reception Chairs	3
End Table	1
Coffee table	1
Conference sidebar	1
Conference table (folding)	12
Black conference chairs	19
Grey Desk Chair	1

EXHIBIT A

U.S. AUTO PARTS NETWORK, INC.
DIRECTOR PAYMENT ELECTION PLAN

APPROVED BY THE BOARD OF DIRECTORS: JULY 26, 2011

ARTICLE I
DEFINITIONS

- 1.1 “*Board*” shall mean the Board of Directors of the Company.
- 1.2 “*Common Stock*” shall mean the common stock of the Company.
- 1.3 “*Company*” shall mean U.S. Auto Parts Network, Inc., a Delaware corporation.
- 1.4 “*Covered Period*” shall mean the period beginning with the first day of the Window Period following the annual meeting of the Company’s stockholders for any given Year, through the day immediately preceding the first day of the Window Period following the annual meeting of the Company’s stockholders for the immediately following Year.
- 1.5 “*Director*” shall mean any member of the Board who is not also an employee of the Company or an affiliate within the meaning of Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.
- 1.6 “*Election Plan*” shall mean this U.S. Auto Parts Network, Inc. Director Payment Election Plan.
- 1.7 “*Equity Compensation*” shall have the meaning set forth in Section 2.1.
- 1.8 “*Fees*” shall mean amounts earned for serving as a member of the Board, including any committees of the Board, that in the absence of the Election Plan are payable in cash.
- 1.9 “*Market Value Per Share*” shall mean, if the Common Stock is listed on any established stock exchange or traded on any established market, the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in such source as the Board deems reliable. Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Market Value Per Share shall be the closing sales price on the last preceding date for which such quotation exists. In the absence of such markets for the Common Stock, the Market Value Per Share shall be determined by the Board in good faith.
- 1.10 “*Omnibus Plan*” shall mean the U.S. Auto Parts Network, Inc. 2007 Omnibus Incentive Plan, as it may be amended from time to time.

1.11 “*Payment Date*” shall have the meaning set forth in Section 3.1.

1.12 “*Trading Policies*” shall mean, collectively, the Company’s Statement of Company Policy Regarding Insider Trading and any similar or successive policy or policies of the Company governing transactions in the Company’s securities by the Company’s employees, officers and directors.

1.13 “*Window Period*” shall mean any period during which trading in Company securities by the Company’s employees, officers and directors is generally permitted under the Trading Policies, as determined by the Company.

1.14 “*Year*” shall mean a calendar year.

ARTICLE II PAYMENT ELECTION

2.1 A Director may elect, beginning on the first day of the Window Period following the annual meeting of the Company’s stockholders for each Year and ending on the last day of such Window Period, to receive, in lieu of cash, all or a specified percentage of all Fees to be earned during the Covered Period in which such election occurs in shares of Common Stock (such amount referred to herein as “*Equity Compensation*”).

2.2 The election to receive Equity Compensation shall be designated by submitting an election in the form attached hereto as **Appendix A** to the Secretary of the Company. In the event that a Director fails to submit a valid election form prior to 5:00 p.m. Pacific Standard Time on the last day of the Window Period following the annual meeting of the Company’s stockholders for any applicable Year, then such Director shall automatically be deemed to have elected to receive no Equity Compensation for the applicable Covered Period.

2.3 The election shall be irrevocable during each applicable Covered Period.

ARTICLE III PAYMENT OF EQUITY COMPENSATION

3.1 The Company shall issue to each Director who has elected to receive Equity Compensation, on the date Fees become payable on a quarterly basis during the applicable Year in accordance with the Company’s normal payment practices (each such date, the “*Payment Date*”), a number of shares of Common Stock equal to (i) the cash value of any Equity Compensation payable to such Director on the applicable Payment Date, divided by (ii) the Market Value Per Share on the applicable Payment Date. If the aforementioned calculation would result in the issuance of any fractional share, the Company shall, in lieu of issuing any fractional share, pay cash equal to the product of such fraction multiplied by the Market Value Per Share on the applicable Payment Date.

3.2 The shares of Common Stock issued pursuant to Section 3.1 shall be issued pursuant to the Omnibus Plan and shall be subject to all of the terms and conditions set forth therein. The

Company shall make available under the Omnibus Plan, as and when required, a sufficient number of shares of Common Stock to meet the needs of the Election Plan; *provided, however*, that the Company shall not be required to register under the Securities Act of 1933, as amended, any Common Stock issued or issuable pursuant to the Election Plan.

3.3 The Company may require a Director, as a condition of having Common Stock issued pursuant to the Election Plan, (i) to give written assurances satisfactory to the Company as to the Director's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of participating in this Election Plan; and (ii) to give written assurances satisfactory to the Company stating that the Director is acquiring the Common Stock under the Election Plan for the Director's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (i) the issuance of the Common Stock under the Election Plan has been registered under a then currently effective registration statement under the Securities Act of 1933, as amended, or (ii) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates representing Common Stock issued under the Election Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws.

ARTICLE IV ADMINISTRATION

4.1 The Company shall administer the Election Plan at its expense. The Company shall have the exclusive discretion and authority to construe and interpret the Election Plan and to decide any and all issues arising in connection with the operation of the Election Plan. All decisions made by the Company with respect to any issues hereunder shall be final and binding on all parties.

4.2 The Election Plan may be amended, suspended or terminated in whole or in part from time to time by the Board. No Common Stock may be issued under the Election Plan while the Election Plan is suspended or after it is terminated.

4.3 Nothing in the Election Plan or any other instrument executed hereunder shall confer upon any Director any right to continue to serve the Company or shall affect the right of the Company to terminate the service of a Director pursuant to the Bylaws of the Company and any applicable provisions of the Delaware General Corporation Law.

4.4 The Election Plan shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, without regard to principles of conflict of law.

APPENDIX A

U.S. AUTO PARTS NETWORK, INC.
DIRECTOR PAYMENT ELECTION PLAN

ELECTION FORM

Pursuant to the U.S. Auto Parts Network, Inc. (the "**Company**") Director Payment Election Plan (the "**Election Plan**"), I, hereby elect, for the period beginning with the first day of the Window Period (as defined in the Election Plan) following the annual meeting of the Company's stockholders held on June 2, 2011 (the "**2011 Annual Meeting**"), through the day immediately preceding the first day of the Window Period following the annual meeting of the Company's stockholders in 2012 (the "**Covered Period**"), to receive amounts earned for serving as a member of the Company's Board of Directors (the "**Board**"), including any committees of the Board (collectively, the "**Covered Fees**") as follows:

- I elect to receive % (up to 100%) of my Covered Fees earned during the Covered Period in shares of the Company's Common Stock; or
- I elect to continue to receive 100% of my Covered Fees earned during the Covered Period in cash.

This election is effective for the Covered Period if received by the last day of the Window Period following the 2011 Annual Meeting, on or before 5:00 p.m., Pacific Standard Time. ***After such date, I understand that this election is irrevocable and cannot be changed for the Covered Period.***

I understand that this election applies to all amounts earned for serving as a member of the Board otherwise payable to me in cash during the Covered Period, including any fees for serving as a member of a Board committee.

By executing this election form, I hereby acknowledge that the issuance of the Company's Common Stock pursuant to the Election Plan may have tax consequences pursuant to the Internal Revenue Code of 1986, as amended, and/or under local, state or international tax laws. I further acknowledge that with respect to this election, I am relying solely and exclusively on my own professional tax and investment advisors and I am not relying, in any manner, on the Company or any of its employees or representatives. I understand and agree that any and all tax consequences resulting from this election are solely and exclusively my responsibility and I have no expectation or understanding that the Company or any of its employees or representatives will pay or reimburse me for such taxes or other items.

By executing this election form, I hereby acknowledge that I have been provided with a copy of and have read and understood the Election Plan, and agree to all the terms and conditions of the Election Plan as described therein.

Signed: _____

Dated: _____

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Shane Evangelist, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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;

(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: November 8, 2011

/s/ SHANE EVANGELIST
Shane Evangelist
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Theodore R. Sanders, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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;

(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: November 8, 2011

/s/ THEODORE R. SANDERS

Theodore R. Sanders
Chief Financial Officer

(Principal Financial Officer)

**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 Quarterly Report of U.S. Auto Parts Network, Inc. (the "Company") on Form 10-Q for the quarter ended October 1, 2011 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: November 8, 2011

/s/ SHANE EVANGELIST

Shane Evangelist
Chief Executive Officer

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of U.S. Auto Parts Network, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

**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 Quarterly Report of U.S. Auto Parts Network, Inc. (the "Company") on Form 10-Q for the quarter ended October 1, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Theodore R. Sanders, 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: November 8, 2011

/s/ THEODORE R. SANDERS

Theodore R. Sanders
Chief Financial Officer

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of U.S. Auto Parts Network, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.