

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

FORM 10-K

(Mark One)

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

**For the fiscal year ended January 2, 2016
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.)

16941 Keegan Avenue, Carson, CA 90746
(Address of Principal Executive Offices) (Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-Accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of July 4, 2015 was approximately \$39.5 million (based on the closing sales price of the registrant's common stock on that date). For the purposes of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 4, 2016, there were 34,621,055 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for the 2016 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as a part hereof.

U.S. AUTO PARTS NETWORK, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 2, 2016

TABLE OF CONTENTS

	<u>Page</u>
 <u>PART I</u> 	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>5</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>20</u>
Item 2. <u>Properties</u>	<u>20</u>
Item 3. <u>Legal Proceedings</u>	<u>20</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>20</u>
 <u>PART II</u> 	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>21</u>
Item 6. <u>Selected Financial Data</u>	<u>24</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>48</u>
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>49</u>
Item 9A. <u>Controls and Procedures</u>	<u>49</u>
Item 9B. <u>Other Information</u>	<u>50</u>
 <u>PART III</u> 	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>51</u>
Item 11. <u>Executive Compensation</u>	<u>51</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>51</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>51</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>51</u>
 <u>PART IV</u> 	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>52</u>

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. Unless otherwise stated, all amounts are presented in thousands.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

Overview

We are a leading online provider of automotive aftermarket parts and repair information. Our vision is that vehicle repairs and upgrades are easy and affordable. Our mission is to provide an exceptionally easy experience for our customers. Our mantra is "make it easy for our customers." Our five core values are: customer focus, teamwork, integrity, quality, and continuous improvement.

We operate under two reportable operating segments. The criteria we use to identify operating segments are primarily the nature of the products we sell or services we provide and the consolidated operating results that are regularly reviewed by our chief operating decision maker to assess performance and make operating decisions. The two reportable operating segments we identified are the core auto parts business ("Base USA") and an online automotive repair information source of which we are a majority stockholder ("AutoMD").

We principally sell our products, identified as stock keeping units ("SKUs"), to individual consumers through our network of websites and online marketplaces. Our user-friendly websites provide customers with a comprehensive selection of over 1.0 million SKUs with detailed product descriptions, attributes and photographs. We have developed a proprietary product database that maps our SKUs to product applications based on vehicle makes, models and years.

Our online sales channel and relationships with suppliers enable us to eliminate intermediaries in the traditional auto parts supply chain and to offer a broader selection of SKUs than can easily be offered by offline competition.

We were incorporated in California in 1995 as a distributor of aftermarket auto parts and launched our first website in 2000. We reincorporated in Delaware in 2006 and 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 on online marketplaces. Like most e-commerce retailers, our success depends on our ability to attract online consumers to our websites and convert them into customers in a cost-effective manner. Historically, marketing through search engine optimization provided the most efficient opportunity to reach online auto part buyers. In order to improve our business, we worked towards enhancing the process of consolidation and implementing improvements to our multiple websites in order to improve our search ranking through the increased use of paid search advertising and pursued opportunities in third-party online marketplaces. Our efforts to improve the website purchase experience for our online customers have included our efforts to:

(1) help our customers find the parts they want to buy through a customized and guided shopping experience specific to key part names; (2) increase order size across our sites through improved recommendation engines; and (3) provide leading customer service and product support.

We intend to continue to implement strategies designed to build and increase our customer lifetime value by focusing on increasing gross profit per transaction, transaction attachment rate, repeat purchases and conversion.

In October 2008, we acquired AutoMD.com for the purpose of developing content and a user community to educate consumers on maintenance and service of their vehicles. The site provides auto information, with tools for diagnosing car troubles, locating repair shops, estimating the cost of repairs, accessing recalls and technical service bulletins, reading do-it-yourself (“DIY”) repair guides, and getting questions answered in the automotive enthusiast community forum. Currently, AutoMD estimates auto repair costs to help consumers understand the costs and time involved in selected repairs and to improve the consumer’s experience when getting their vehicle serviced. In 2013, we launched our AutoMD *Insta-Quotes!* program. In locations where service shops were selected to participate in the AutoMD *Insta-Quotes!* program, AutoMD provides real-time price estimates specific to each participating shop. In locations without the AutoMD *Insta-Quotes!* program, AutoMD provides general estimates based on industry standard parts and labor data as available for the consumer’s location. In October 2014, we sold a noncontrolling interest in AutoMD to outside investors and certain of our existing shareholders. We are using this investment primarily to help grow the number of repair shops participating in the AutoMD *Insta-Quotes!* program, with the goal of establishing AutoMD as the preferred resource for vehicle repair information for consumers.

In August 2010, we acquired all of the issued and outstanding shares of Automotive Specialty Accessories and Parts, Inc. and its wholly-owned subsidiary Whitney Automotive Group, Inc. (referred to herein as “WAG”), at the time, the nation’s leading catalog and internet direct marketer of automotive aftermarket performance parts and accessories. The acquisition of WAG allowed us to expand our product line, which increased our ability to reach customers in the DIY automobile and off-road accessories market. 2015 marked the 100 year anniversary of JC Whitney and we celebrated this milestone with a centennial celebration and other promotional events throughout the year.

Our flagship websites are located at www.autopartswarehouse.com, www.carparts.com, www.jcwhitney.com and www.AutoMD.com and our corporate website is located at www.usautoparts.net.

We report on a 52/53-week fiscal year, ending on the Saturday nearest the end of December. References to 2015 relate to the 52-week fiscal year ended January 2, 2016. References to 2014 relate to the 53-week fiscal year ended January 3, 2015. References to 2013 relate to the 52-weeks ended December 28, 2013.

Our Products

We offer a broad selection of aftermarket auto parts. We continually refine our product offering by introducing new brands and parts categories, while discontinuing low-selling brands and SKUs. We broadly classify our products into three subcategories by function: collision parts serving the body repair segment, engine parts to serve the replacement/wear parts market and performance parts and accessories.

Collision Parts. The collision parts category is primarily comprised of parts for the exterior of an automobile. Our parts in this category are typically replacement parts for original body parts that have been damaged as a result of a collision or through general wear and tear. The majority of these products are sold through our websites. In addition, we sell an extensive line of mirror products, including our own private-label brand called Kool-View™, which are marketed and sold as aftermarket replacement parts and as upgrades to existing parts.

Engine Parts. The engine parts category is comprised of engine and chassis components as well as other mechanical and electrical 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.

Performance Parts and Accessories. 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.

Our Sales Channels

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

Online Sales Channel. Our online sales channel consists of our e-commerce websites, online marketplaces and online advertising. Our e-commerce channel includes a network of e-commerce websites, supported by our call-center sales agents. We also sell our products through online marketplaces, including third-party auction sites and shopping portals, which provide

us with access to additional consumer segments. The majority of our online sales are to individual consumers. We sell online advertising and sponsorship positions on our e-commerce websites to highlight vendor brands and offer complementary products and services that benefit our customers. Advertising is targeted to specific sections of the websites and can also be targeted to specific users based on the vehicles they drive. Advertising partners primarily include part vendors, national automotive aftermarket brands, and automobile manufacturers.

Offline Sales Channel. We sell and deliver to collision repair shops from our Chesapeake, Virginia warehouse facility. We also market our Kool-Vue™ products nationwide to auto parts wholesale distributors and serve consumers by operating a retail outlet store in LaSalle, Illinois.

Our Fulfillment Operations

We fulfill customer orders using two primary methods: (1) stock-and-ship, where we take physical delivery of merchandise and store it in one of our distribution centers until it is shipped to a customer, and (2) drop-ship, where merchandise is shipped directly to customers from our suppliers. We believe that the flexibility of fulfilling orders using two different fulfillment methods allows us to offer a broader product selection, helps optimize product inventory and enhances our overall business profitability.

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

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

Suppliers

We source our products from two primary regions: (1) our private label product sourced primarily through manufacturers and distributors in the Asia-Pacific region, and (2) our branded product sourced primarily through drop-ship manufacturers and distributors located in the United States.

Private Label Product. Our private label suppliers offer products which are generally less expensive and we believe provide better value for our consumers. As a result, our mix shift towards private label product has continued to increase on a year-over-year basis. We stock-and-ship our private label products in our distribution centers. We currently have over 50,000 private label SKUs in our product selection.

Branded Product. We have developed and implemented application programming interfaces with the majority of our branded, drop ship suppliers that allow us to electronically transmit orders, check inventory availability, and receive the shipment tracking information which is easily passed on to our customers. We are a significant customer for many of our drop-ship vendors and have long standing relationships and contracts with many of these suppliers. For the fiscal year ended January 2, 2016, three of our drop-ship vendors accounted for approximately 11% of our total product purchases. We currently have over 1.0 million branded SKUs in our product selection.

Marketing

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

International Operations

In April 2007, we established offshore operations in the Philippines. Our offshore operations allow us to access a workforce with the necessary technical skills at a significantly lower cost than comparably experienced U.S.-based professionals. Our offshore operations are responsible for a majority of our website development, catalog management, and back office support. Our offshore operations also house our main call center. We had 768 employees in the Philippines as of January 2, 2016. In addition to our operations in the Philippines, we have a Canadian subsidiary; the subsidiary currently has no operations or employees. We primarily source our private label product from suppliers in the Asia-Pacific region.

Competition

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

- national auto parts retailers such as Advance Auto Parts, AutoZone, Napa Auto Parts, CarQuest, O’Reilly Automotive and Pep Boys;
- large online marketplaces such as Amazon.com and sellers on eBay;
- other online retailers of automotive products and auto repair information websites;
- local independent retailers or niche auto parts retailers;
- wholesale aftermarket auto parts distributors such as LKQ Corporation; and
- manufacturers, brand suppliers and other distributors selling online directly to consumers.

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

Government Regulation

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

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

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, and such trends may have a material impact on our financial condition and results of operations in subsequent periods.

Employees

As of January 2, 2016, we had 316 employees in the United States and 768 employees in the Philippines for a total of 1,084 employees. None of our employees are represented by a labor union, and we have never experienced a work stoppage.

Available Information

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

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks which are discussed below. Other risks are presented elsewhere in this report and in our other filings with the SEC. You should consider carefully the following risks in addition to the other information contained in this report and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K, and any 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 of the overall aftermarket auto parts market. 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. Specific factors that could discourage or 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 have in the past, and will continue to revise their algorithms from time to time in an attempt to optimize their search results. For example, search engines, like Google, revise their algorithms regularly in an attempt to optimize their search results. During the past few years, we have been negatively impacted by the changes in methodology for how Google displayed or selected our different websites for customer search results, which has reduced our unique visitor count and adversely affected our financial results. While we continue to address these ongoing challenges during fiscal 2015 our unique visitor count decreased by 3.1 million, or 2.6%, to 116.7 million unique visitors compared to 119.8 million unique visitors in 2014 primarily due to there being 53 weeks in fiscal 2014, compared to 52 weeks in fiscal 2015. Excluding the 53rd week, the level of unique visitors was essentially flat. While we have been able to offset some of the decrease in our organic traffic through increases in paid search traffic, there is no guarantee we will be able to continue to increase our paid traffic at the same levels in the future. In addition, if other search engines, shopping comparison sites or similar online sources on which we rely for website traffic were to modify their general methodology for how they display or select our websites in a manner similar to the changes made by Google, or if Google continues to make changes to its search results ranking algorithms that cause those algorithms to interact with our platform in a manner that continues to reduce our unique visitors count, even fewer consumers may click through to our websites, and our financial results could be further adversely affected.

Similarly, 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, increases their fees, modifies or terminates its relationship with us, our expenses could rise, we could lose customers and traffic to our websites could decrease.

Shifting online consumer behavior for purchasers of aftermarket auto parts may shift from desktop based to mobile device based online shopping, which could impact the growth of our business and our financial results could suffer.

Mobile device based online shopping represents an increasing part of our business. Shifting consumer behavior indicates that our customers may become more inclined to shop for aftermarket auto parts through their mobile devices. Mobile customers exhibit different behaviors than our more traditional desktop based e-commerce customers. User sophistication and technological advances have increased consumer expectations around the user experience on mobile devices, including speed of response, functionality, product availability, security, and ease of use. If we are unable to continue to adapt our mobile device shopping experience from desktop based online shopping in ways that improve our customer's mobile experience and increase the engagement of our mobile customers our sales may decline and our business and financial results may suffer.

During fiscal 2015, our net losses continued, and our net losses may continue into fiscal year 2016.

During fiscal 2015, we incurred a net loss of \$1,281, compared to a net loss of \$6,879 for fiscal 2014. If our net losses continue, they could severely impact our liquidity, as we may not be able to provide positive cash flows from operations in order to meet our working capital requirements. We may need to borrow additional funds from our credit facility, which under certain circumstances may not be available, sell additional assets or seek additional equity or additional debt financing in the future. In such case, there can be no assurance that we would be able to raise such additional financing or engage in such asset sales on acceptable terms, or at all. If the net losses we have experienced continue for longer than we expect because our strategies to return to positive sales growth and profitability are not successful, and if we are not able to raise adequate additional financing or proceeds from asset sales to continue to fund our ongoing operations, we will need to defer, reduce or eliminate significant planned expenditures, restructure or significantly curtail our operations, file for bankruptcy or cease operations.

Our operations are restricted by our credit agreement, and our ability to borrow funds under our credit facility is subject to a borrowing base.

We maintain an asset-based revolving credit facility with JPMorgan Chase Bank (the "Credit Agreement") that provides for, among other things, a revolving commitment in an aggregate principal amount of up to \$30 million subject to a borrowing base derived from certain of our receivables, inventory and property and equipment. Our Credit Agreement 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, excluding payments of preferred stock dividends which are specifically permitted under our credit facility;
- 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.

Restrictions in our Credit Agreement could also prevent us from satisfying certain of our contingent obligations set forth in the documents we entered into in connection with AutoMD's sale of common stock. For example, in order for us to be able to consummate the purchase of two million shares of AutoMD common stock as required by the terms of the purchase agreement we entered into with AutoMD, which would be triggered in the event that AutoMD fails to meet specified cash balances and numbers of approved auto repair shops submitting a quotation on AutoMD's website, at the time such obligation is triggered we must have excess availability to borrow under the credit agreement of at least \$2.4 million (subject to adjustment based on the Company's revolving commitment). In addition, in order for us to be able to reimburse AutoMD for legal expenses incurred by AutoMD in connection with proceedings related to AutoMD's intellectual property, which we could be required to do for a period of three years, at the time of such reimbursement we must have excess availability to borrow under the credit agreement of at least \$2.4 million (subject to adjustment based on the Company's revolving commitment). In the event that restrictions in our Credit Agreement cause us to breach our contractual obligations under the documents we entered into in connection with AutoMD's sale of common stock, we could be sued for breach of contract, be liable for damages to other investors in AutoMD, and AutoMD's support from its strategic investors could be compromised, each of which could have a material adverse effect on our financial condition and results of operations.

In addition, our credit facility is subject to a borrowing base derived from certain of our receivables, inventory, property and equipment. In the event that components of the borrowing base are adversely affected for any reason, including adverse market conditions or downturns in general economic conditions, we could be restricted in the amount of funds we can borrow under the credit facility. Furthermore, in the event that components of the borrowing base decrease to a level below the amount of loans then-outstanding under the credit facility, we could be required to immediately repay loans to the extent of such shortfall. If any of these events were to occur, it could severely impact our liquidity and capital resources, limit our ability to operate our business and could have a material adverse effect on our financial condition and results of operations.

Under certain circumstances, our credit facility may also require us to satisfy a financial covenant, which could limit our ability to react to market conditions or satisfy extraordinary capital needs and could otherwise impact our liquidity and capital resources, restrict our financing and have a material adverse effect on our results of 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. In the future, if we are unable to obtain any necessary waivers and our debt is accelerated, a material adverse effect on our financial condition and future operating performance would result.

Additionally, outstanding indebtedness has or may have important consequences, including the following:

- we will have to dedicate a portion of our cash flow to making 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; and
- 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 debt 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. If this were to occur, we may need to defer, reduce or eliminate significant planned expenditures, restructure or significantly curtail our operations, file for bankruptcy or cease operations.

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 regardless of whether the product manufacturer is the party at fault. 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 or prevent us from obtaining coverage in the future. If we were required to pay substantial damages as a result of these lawsuits, it may seriously harm our business and financial condition. Even defending against unsuccessful claims could cause us to incur significant expenses and result in a diversion of management's attention. In addition, even if the money damages themselves did not cause substantial harm to our business, the damage to our reputation and the brands offered on our websites could adversely affect our future reputation and our brand, and could result in a decline in our net sales and profitability.

If our assets become impaired we may be required to record a significant charge to earnings.

We review our long-lived assets for impairment annually, or when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered are changes in circumstances indicating that the carrying value of our assets may not be recoverable include a decrease in future cash flows. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our assets is determined, resulting in an impact on our results of operations. For example, during the second quarter of 2013, we recorded an impairment charge on property and equipment of \$4.8 million and on intangible assets of \$1.3 million.

We are highly dependent upon key suppliers.

Our top ten suppliers represented approximately 44% of our total product purchases during fiscal 2015. 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. 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.

For a number of the products that we sell, we outsource the distribution and fulfillment operation and are dependent on certain drop-ship suppliers to manage inventory, process orders and distribute those products to our customers in a timely manner. For fiscal 2015, our product purchases from three drop-ship suppliers represented approximately 11% of our total product purchases. Because we outsource to suppliers 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 suppliers purchase or keep in stock. Our suppliers 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 and our sales could decline.

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. Furthermore, as part of our routine business, suppliers extend credit to us in connection with our purchase of their products. In the future, our suppliers may limit the amount of credit they are willing to extend to us in connection with our purchase of their products. If this were to occur, it could impair our ability to acquire the types and quantities of products that we desire from the applicable suppliers on acceptable terms, severely impact our liquidity and capital resources, limit our ability to operate our business and could have a material adverse effect on our financial condition and results of operations.

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

We acquire a majority of our products from manufacturers and distributors located in Taiwan and China. 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 or provide us with customary indemnification protection against third party claims similar to some of our U.S. suppliers.

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;
- natural disasters and public health emergencies;
- import shipping delays resulting from foreign or domestic labor shortages, slow downs, or stoppage; and
- the failure of local laws to provide a sufficient degree of protection against infringement of our intellectual property.

From time to time, we may also have to resort to administrative and court proceedings to enforce our legal rights with foreign suppliers. However, it may be more difficult to evaluate the level of legal protection we enjoy in Taiwan and China and the corresponding outcome of any administrative or court proceedings than in comparison to our suppliers in the United States.

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, and we may not be able to pass these costs directly to our customers. These increased shipping costs could harm our business, prospects, financial condition and results of operations by increasing our costs of doing business and reducing gross margins which could negatively affect our operating results. In particular, we utilize a variety of shipping methods for both inbound and outbound logistics. For inbound logistics, we rely on trucking and ocean carriers and any increases in fees that they charge could adversely affect our business and financial condition. For outbound logistics, we rely on “Less-than-Truckload” (“LTL”) and parcel freight based upon the product and quantities being shipped and customer delivery requirements. Any increases in fees or any increased use of LTL would increase our shipping costs which could negatively affect our operating results.

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 increase, our margins may reduce.

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 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 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 international business operations in the Philippines. This international operation includes development and maintenance of our websites, our main call center, and sales and back office support services. We are subject to a number of risks and challenges that specifically relate to our international operations. Our international operations may not be successful if we are unable to meet and overcome these challenges, which could limit the growth of our business and may have an adverse effect on our business and operating results. These risks and challenges include:

- difficulties and costs of staffing and managing foreign operations, including any impairment to our relationship with employees caused by a reduction in force;
- 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; and
- fluctuations in foreign currency exchange rates and relative weakness in the U.S. dollar.

If our fulfillment operations are interrupted for any significant period of time or are not sufficient to accommodate increased demand, our sales could 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. If we do not successfully expand our fulfillment capabilities in response to increases in demand, our sales could decline.

In addition, our distribution centers are susceptible to damage or interruption from human error, fire, flood, power loss, telecommunications failures, terrorist attacks, acts of war, break-ins, earthquakes and similar events. We do not currently maintain back-up power systems at our fulfillment centers. We do not presently have a formal disaster recovery plan and our business interruption insurance may be insufficient to compensate us for losses that may occur in the event operations at our fulfillment center are interrupted. In addition, alternative arrangements may not be available, or if they are available, may increase the cost of fulfillment. 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.

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

We rely on third-party vendors, including data center and bandwidth providers. Any disruption in the network access or co-location services, which are the services that house and provide Internet access to our servers, provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business, the nature and extent of which we cannot predict. We exercise little control over these third-party vendors, which increases our vulnerability to problems with the services they provide. We also license technology and related databases from third parties to facilitate elements of our e-commerce platform. We have experienced and expect to continue to experience interruptions and delays in service and availability for these elements. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies could negatively impact our relationship with our customers and adversely affect our business. Our systems also heavily depend on the availability of electricity, which also comes from third-party providers. If we were to experience a major power outage, we would have to rely on back-up generators. These back-up generators may not operate properly through a major power outage, and their fuel supply could also be inadequate during a major power outage. Information systems such as ours may be disrupted by even brief power outages, or by the fluctuations in power resulting from switches to and from backup generators. This could disrupt our business and cause us to lose customers.

Security threats to our IT infrastructure could expose us to liability, and damage our reputation and business

It is essential to our business strategy that our technology and network infrastructure remain secure and is perceived by our customers to be secure. Despite security measures, however, any network infrastructure may be vulnerable to cyber-attacks by hackers and other security threats. As a leading online source for automotive aftermarket parts and repair information, we may face cyber-attacks that attempt to penetrate our network security, including our data centers, to sabotage or otherwise disable our network of websites and online marketplaces, misappropriate our or our customers' proprietary information, which may include personally identifiable information, or cause interruptions of our internal systems and services. If successful, any of these attacks could negatively affect our reputation, damage our network infrastructure and our ability to sell our products, harm our relationship with customers that are affected and expose us to financial liability.

In addition, any failure by us to comply with applicable privacy and information security laws and regulations could cause us to incur significant costs to protect any customers whose personal data was compromised and to restore customer confidence in us and to make changes to our information systems and administrative processes to address security issues and compliance with applicable laws and regulations. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to stop shopping on our sites altogether. Such events could lead to lost sales and adversely affect our results of operations. We also could be exposed to government enforcement actions and private litigation.

Moreover, we are subject to the Payment Card Industry Data Security Standard ("PCI DSS"), issued by the PCI Council. PCI DSS contains compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. Despite our compliance with these standards and other information security measures, we cannot be certain that all of our information technology systems are able to prevent, contain or detect any cyber-attacks, cyber terrorism, or security breaches from known malware or malware that may be developed in the future. To the extent that any disruption results in the loss, damage or misappropriation of information, we may be materially adversely affected by claims from customers, financial institutions, regulatory authorities, payment card associations and others. In addition, the cost of complying with stricter privacy and information security laws and standards could be significant to us.

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 original equipment manufacturer ("OEM") and aftermarket auto parts to either the DIY 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 of automotive products and auto repair information websites;
- local independent retailers or niche auto parts online retailers;
- wholesale aftermarket auto parts distributors such as LKQ Corporation; and
- manufacturers, brand suppliers and other distributors selling online directly to customers.

Barriers to entry are low, and current and new competitors can launch websites at a relatively low cost. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing, technical, management and other resources than we do. For example, in the event that online marketplace companies such as Amazon or eBay, who have larger customer bases, greater brand recognition and significantly greater resources than we do, focus more of their resources on competing in the aftermarket auto parts market, it could have a material adverse effect on our business and results of operations. 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.

Additionally, we have experienced significant competitive pressure from certain of our suppliers who are now selling their products directly to customers. Since our suppliers have access to merchandise at very low costs, they can sell products at lower prices and maintain higher gross margins on their product sales than we can. Our financial results have been negatively impacted by direct sales from our suppliers to our current and potential customers, and our total number of orders and average order value may decline due to increased competition. Continued competition from our suppliers may also continue to negatively impact our business and results of operations, including through reduced sales, lower operating margins, reduced profitability, loss of market share and diminished brand recognition. We are in the process of implementing several strategies to attempt to overcome the challenges created by our suppliers selling directly to our customers and potential customers, including optimizing our pricing, continuing to increase our mix of private label products and improving our websites, which may not be successful. If these strategies are not successful, our operating results and financial conditions could be materially and adversely affected.

If we fail to offer a broad selection of products at competitive prices or fail to maintain sufficient inventory to meet customer 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, including by being the first to market with new SKUs. 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. Moreover, even if we offer a broad selection of products at competitive prices, we must maintain sufficient in-stock inventory to meet consumer demand. If our product offerings fail to satisfy our customers' requirements or respond to changes in customer preferences or we otherwise fail to maintain sufficient inventory, our revenue could decline.

Challenges by 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.

OEMs 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 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 approximately 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 related to claims of intellectual property infringement. 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 may not maintain sufficient 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. In the past we have filed litigation to protect our intellectual property rights. The outcome of such litigation can be uncertain, and the cost of prosecuting such 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 several 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.carparts.com, www.autopartswarehouse.com, www.jcwhitney.com and www.AutoMD.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.

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 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.

As a result of our international operations, we have foreign exchange 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 gross profit and operating expenses would be higher than if currencies had remained constant. Similarly, our operating expenses in the Philippines are generally paid in Philippine Pesos, and as the exchange rate fluctuates, it could adversely impact our operating results.

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 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.

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 may 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.

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, due to restrictions under our credit facility or for other reasons. If we acquire 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 additional 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.

Integrating any newly acquired businesses' websites, technologies or services is likely to be costly and may require a substantial amount of resources and time to successfully complete. Our integration activities in connection with our acquisitions could cause a substantial diversion of our management's attention. If we are unable to successfully complete the integration of any acquisitions, we may not realize the anticipated synergies from such acquisitions, we may take further impairment charges and write-downs associated with such acquisitions, and our business and results of operations could suffer.

Risks Related To Our Capital Stock

Our common 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, our trading volume, or conditions or trends in the Internet or auto parts industries.

Since the completion of our initial public offering in February 2007 through January 2, 2016, 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 \$0.91. 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 operations.

Our common stock may be delisted from the NASDAQ Global Market ("Nasdaq") if we are unable to maintain compliance with Nasdaq's continued listing standards.

NASDAQ imposes, among other requirements, continued listing standards including minimum bid and public float requirements. The price of our common stock must trade at or above \$1.00 to comply with NASDAQ's minimum bid requirement for continued listing on the NASDAQ. If our stock trades at bid prices of less than \$1.00 for a period in excess of 30 consecutive business days, the NASDAQ could send a deficiency notice to us for not remaining in compliance with the minimum bid listing standards. During the fiscal 2015 and fiscal 2014, our common stock never traded below \$1.00. At certain times during the third quarter of 2013, our common stock traded below \$1.00 per share at closing before it returned to trading at or above \$1.00 to comply with NASDAQ's minimum bid requirement for continued listing on the NASDAQ, however, at no time did such period exceed 30 consecutive business days. If the closing bid price of our common stock fails to meet NASDAQ's minimum closing bid price requirement, or if we otherwise fail to meet any other applicable requirements of the NASDAQ and we are unable to regain compliance, NASDAQ may make a determination to delist our common stock.

Any delisting of our common stock could adversely affect the market liquidity of our common stock and the market price of our common stock could decrease. Furthermore, if our common stock were delisted it could adversely affect our ability to obtain financing for the continuation of our operations and/or result in the loss of confidence by investors, customers, suppliers and employees.

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

As of January 2, 2016, our executive officers and directors and certain related parties and entities that are affiliated with them beneficially owned in the aggregate approximately 52.1% of our outstanding shares of 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 control 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.

The rights, preferences and privileges of our existing preferred stock may restrict our financial and operational flexibility.

In March 2013, our Board of Directors, under the authority granted by our Certificate of Incorporation, established a series of preferred stock, our Series A Convertible Preferred, which has various rights, preferences and privileges senior to the shares of our common stock. Dividends on the Series A Convertible Preferred are payable quarterly, subject to the satisfaction of certain conditions, at a rate of \$0.058 per share per annum in cash, in shares of common stock or in any combination of cash and common stock as determined by our Board of Directors. While we may, at our election, subject to the satisfaction of certain conditions, pay any accrued but unpaid dividends on the Series A Convertible Preferred in either cash or in common stock, we may be unable to satisfy the requisite conditions for paying dividends in common stock and, under such circumstances, we will be required to pay such accrued but unpaid dividends in cash. In such circumstances, we will be required to use cash that would otherwise be used to fund our ongoing operations to pay such accrued but unpaid dividends. To the extent we do pay dividends in common stock as we have done in prior periods, the ownership percentage of our common stockholders who are not holders of the Series A Convertible Preferred will be diluted. Our Series A Convertible Preferred is initially convertible for 4,149,997 shares of common stock, and to the extent that the Series A Convertible Preferred is converted, the common stock ownership percentage of our common stockholders who are not converting holders of the Series A Convertible Preferred will be diluted.

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, including to the extent based on our ability to successfully work with different search engines to drive visitors to our websites;
- our ability to successfully sell our products through third-party online marketplaces or the effects of any price increases in those marketplaces;
- competition from companies that have longer operating histories, larger customer bases, greater brand recognition, access to merchandise at lower costs and significantly greater resources than we do, like third-party online market places and our suppliers;

- our ability to maintain and expand our supplier and distribution relationships without significant price increases or reduced service levels;
- our ability to borrow funds under our credit facility;
- 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
- macroeconomic conditions that adversely impacts the general and automotive retail sales environment.

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 January 2, 2016, we have in the past, and could in the future, have a significant deficiency or material weakness in internal 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 remediated, 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, regulatory 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 do not expect to pay any cash dividends on our common 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.

The seasonality of our business places increased strain on our operations.

We have historically experienced higher sales of collision 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. If we do not stock or restock popular products in sufficient amounts such that we fail to meet increased customer demand, it could significantly affect our revenue and our future growth. Likewise, if we overstock products in anticipation of increased demand, we may be required to take significant inventory markdowns or write-offs and incur commitment costs, which could reduce profitability.

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. If consumers were to drive less in the future, as a result of higher gas prices, increased use of ride-shares, or otherwise, our sales may decline and our business and financial results may suffer.

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

In 2015, we collected sales or other similar taxes only on the shipment of goods to the states of California, Virginia, 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 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.

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. 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 may not maintain sufficient insurance coverage to cover the types of claims or liabilities that could arise as a result of such regulation.

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 which warm the earth's atmosphere. These warmer weather conditions could result in a decrease in demand for auto parts in general. Moreover, 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 2, 2016, the total square footage of our leased office and distribution centers was 574,000 square feet. This includes approximately 531,000 square feet for our corporate headquarters located in Carson, California and distribution centers in LaSalle, Illinois and Chesapeake, Virginia; and approximately 43,000 square feet of office space in the Philippines. For additional information regarding our obligations under property leases, see “*Note 10-Commitments and Contingencies*” of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the caption “*Legal Matters*” in “*Note 10-Commitments and Contingencies*” of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report, and is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see the section entitled “Risk Factors” in Item 1A of this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock is being trading on the Nasdaq under the symbol "PRTS." The table below sets forth the high and low sales prices of our common stock for the periods indicated:

	High	Low
2015:		
Quarter ended April 4, 2015	\$ 3.34	\$ 2.07
Quarter ended July 4, 2015	2.71	1.50
Quarter ended October 3, 2015	2.43	1.87
Quarter ended January 2, 2016	2.99	1.92
2014:		
Quarter ended March 29, 2014	\$ 3.36	\$ 1.82
Quarter ended June 28, 2014	4.00	2.52
Quarter ended September 27, 2014	4.09	2.55
Quarter ended January 3, 2015	3.19	2.13

On March 4, 2016, the last reported sale price of our common stock on the Nasdaq was \$2.96 per share.

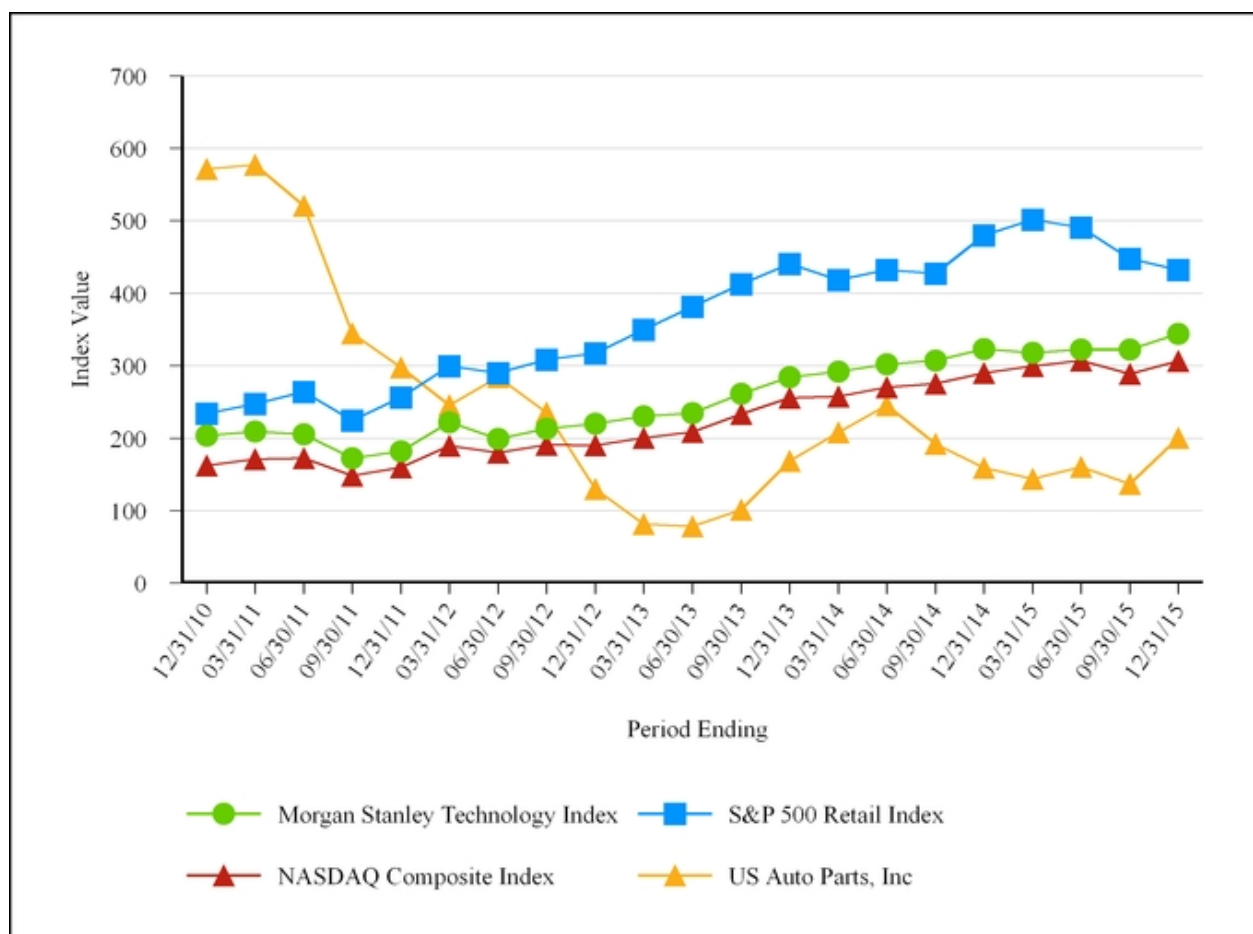
Holders

As of March 4, 2016, there were approximately 1,655 holders of record of our common stock.

Stock Performance Graph

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

The following graph shows a quarterly comparison of the total cumulative returns of an investment of \$100 in cash on December 31, 2010, in (i) our common stock, (ii) the Morgan Stanley Technology Index, (iii) the S&P 500 Retail Index and (iv) NASDAQ Composite Index, in each case through December 31, 2015. The performance of our stock, the Morgan Stanley Technology Index, the S&P 500 Retail Index and the NASDAQ Composite Index have been obtained from online data available. We have used the available prices at the end of the week closest to the end of the period for the purposes of the graph. The comparisons in the graph are required by the SEC and are not intended to forecast or be indicative of the possible future performance of our common stock. The graph assumes that all common stock dividends have been reinvested (to date, we have not declared dividends on our common stock).



Dividend Policy

No dividends on common stock were paid during the fiscal year ended January 2, 2016. We issued approximately \$241,000 and \$240,000 in common stock to our Series A Preferred shareholders during the fiscal years ended January 2, 2016 and January 3, 2015, respectively. We do not anticipate that we will declare or pay any cash dividends on our common stock in the foreseeable future; however, we will have to pay dividends to our preferred shareholders until such shares are redeemed or converted. We maintain an asset-based revolving credit facility with JPMorgan Chase Bank (the "Credit Agreement") that provides for, among other things, a revolving commitment in an aggregate principal amount of up to \$30 million subject to a borrowing base derived from certain of our receivables, inventory and property and equipment. The Credit Agreement requires us to obtain a prior written consent from JPMorgan Chase Bank when we determine to pay any dividends on or make any distribution with respect to our common stock. Under the Second Amendment to Credit Agreement dated March 25, 2013, we obtained written consent from JPMorgan Chase Bank to pay dividends on our Series A Preferred Shares. See "*Liquidity and Capital Resources*" in Item 7 of Part II included in this report for further information on the covenants under the secured Credit Agreement. Any future determination to pay cash dividends on our common stock will be subject to the above restriction, as well as restrictions under any other existing indebtedness, at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and other factors the Board of Directors deems relevant.

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Sales of Registered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

ITEM 6. SELECTED FINANCIAL DATA

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

	52 Weeks Ended January 2, 2016 ("fiscal year 2015")	53 Weeks Ended January 3, 2015 ("fiscal year 2014") (1)	52 Weeks Ended December 28, 2013 ("fiscal year 2013") (2)	52 Weeks Ended December 29, 2012 ("fiscal year 2012") (3)	52 Weeks Ended December 31, 2011 ("fiscal year 2011") (4)
(In thousands, except per share data)					
Consolidated Statements of Operations					
Data:					
Net sales	\$ 291,091	\$ 283,508	\$ 254,753	\$ 304,017	\$ 327,072
Cost of sales	207,657	205,058	180,620	212,379	220,072
Gross profit	83,434	78,450	74,133	91,638	107,000
Operating expenses:					
Marketing	43,279	42,008	41,045	51,416	55,785
General and administrative	16,509	16,701	17,567	19,857	31,961
Fulfillment	20,237	20,368	18,702	22,265	19,164
Technology	5,000	4,863	5,128	6,274	7,274
Amortization of intangible assets	464	422	381	1,189	3,673
Impairment loss on goodwill	—	—	—	18,854	—
Impairment loss on property and equipment	—	—	4,832	1,960	—
Impairment loss on intangible assets	—	—	1,245	5,613	5,138
Total operating expenses	85,489	84,362	88,900	127,428	122,995
Loss from operations	(2,055)	(5,912)	(14,767)	(35,790)	(15,995)
Other expense, net	(1,180)	(1,036)	(824)	(1,125)	(654)
Loss before income taxes	(3,235)	(6,948)	(15,591)	(36,915)	(16,649)
Income tax (benefit) provision	(811)	138	43	(937)	(1,512)
Net loss	(2,424)	(7,086)	(15,634)	(35,978)	(15,137)
Net loss attributable to noncontrolling interests	(1,143)	(207)	—	—	—
Net loss attributable to U.S. Auto Parts	\$ (1,281)	\$ (6,879)	\$ (15,634)	\$ (35,978)	\$ (15,137)
Basic and diluted net loss per share	\$ (0.04)	(0.21)	(0.48)	(1.17)	(0.50)
Shares used in computation of basic and diluted net loss per share	33,946	33,489	32,697	30,818	30,546

- (1) Fiscal year 2014 included restructuring charges of \$1.1 million and inventory write-downs of \$0.9 million incurred due to the closure of our warehouse in Carson, California.
- (2) Fiscal year 2013 included severance charges of \$0.7 million incurred due to a reduction in workforce during the first half of 2013.
- (3) Fiscal year 2012 included restructuring costs of \$0.6 million related to severance charges incurred due to a reduction in workforce from the closure of our call center in La Salle, Illinois.
- (4) Fiscal year 2011 included acquisition and integration costs of \$7.4 million related to our WAG acquisition.

	January 2, 2016	January 3, 2015	December 28, 2013	December 29, 2012	December 31, 2011
(In thousands, except per share data)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 5,537	\$ 7,653	\$ 818	\$ 1,030	\$ 10,335
Working capital ⁽¹⁾	13,605	14,645	9,761	(4,027)	8,666
Total assets	83,756	82,907	69,182	88,877	142,216
Revolving loan payable	11,759	11,022	6,774	16,222	—
Current portion of long-term debt and capital leases	521	269	269	70	6,385
Long-term debt including capital leases, net of current portion	10,168	9,270	9,502	70	11,662
U.S. Auto Parts stockholders' equity	20,340	19,277	20,866	27,644	60,924
Noncontrolling interests	1,803	2,946	—	—	—

(1) As of December 31, 2011 balances excluded \$2.1 million of investments which were reclassified to long-term due to illiquidity in the market.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Dollar Amounts in Thousands, Except Per Share Data, or as Otherwise Noted)*

Cautionary Statement

You should read the following discussion and analysis in conjunction with our consolidated financial statements and the related notes thereto contained in Part IV, Item 15 of this report. Certain statements in this report, including statements regarding our business strategies, operations, financial condition, and prospects are forward-looking statements. Use of the words "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would," "will likely continue," "will likely result" and similar expressions that contemplate future events may identify forward-looking statements.

The information contained in this section 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, which are available on the SEC's website at <http://www.sec.gov>. The section entitled "Risk Factors" set forth in *Part I, Item 1A* of this report, and similar discussions in our other SEC filings, describe some of the important factors, risks and uncertainties that may affect our business, results of operations and financial condition and could cause actual results to differ materially from those expressed or implied by these or any other forward-looking statements made by us or on our behalf. You are cautioned not to place undue reliance on these forward-looking statements, which are based on current expectations and reflect management's opinions only as of the date thereof. We do not assume any obligation to revise or update forward-looking statements. Finally, our historic results should not be viewed as indicative of future performance.

Overview

We are a leading online provider of aftermarket auto parts, including collision parts, engine parts, and performance parts and accessories. Our user-friendly websites provide customers with a broad selection of SKUs, with detailed product descriptions and photographs. Our proprietary product database maps our SKUs to product applications based on vehicle makes, models and years. We principally sell our products to individual consumers through our network of websites and online marketplaces. Through AutoMD.com, our majority owned subsidiary, the Company also educates consumers on the maintenance and service of their vehicles. Our flagship consumer websites are located at www.autopartwarehouse.com, www.carparts.com, www.icwhitney.com and 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 efficiently deliver products to our customers. Industry-wide trends that support our strategy include:

1. *Number of SKUs required to serve the market.* The number of automotive SKUs has grown dramatically over the last several years. In today's market, unless the consumer is driving a high volume produced vehicle and needs a simple maintenance item, the part they need is not typically on the shelf at a brick-and-mortar store. We believe our

user-friendly websites provide customers with a favorable alternative to the brick-and-mortar shopping experience by offering a comprehensive selection of over 1.0 million SKUs with detailed product descriptions, attributes and photographs combined with the flexibility of fulfilling orders using both drop-ship and stock-and-ship methods.

2. *U.S. vehicle fleet expanding and aging.* The average age of U.S. vehicles, an indicator of auto parts demand, rose to a record-high 11.5 years as of January 2015, according to IHS Automotive, a market analytics firm that expects the average age to rise to 11.6 years by 2016 and 11.7 years by 2018. IHS expects the number of vehicles that are 12 years or older to increase by 15% by 2020. IHS found that the total number of light vehicles in operation in the U.S. has increased to record levels, with new vehicle registrations outpacing scrappage rates by more than 42%. We believe an increasing vehicle base and rising average age of vehicles will have a positive impact on overall aftermarket parts demand because older vehicles generally require more repairs. In many cases we believe these older vehicles are driven by do-it-yourself ("DIY") car owners who are more likely to handle any necessary repairs themselves rather than taking their car to the professional repair shop.

3. *Growth of online sales.* Management estimates that overall revenue from online sales of auto parts and accessories is projected to increase from approximately \$5.5 billion in 2015 to \$9.7 billion in 2018. Improved product availability, lower prices and consumers' growing comfort with digital platforms are driving the shift to online sales. We believe that we are well positioned for the shift to online sales due to our history of being a leading source for aftermarket automotive parts through online marketplaces and our network of websites.

Our History. We were formed in California in 1995 as a distributor of aftermarket auto parts and launched our first website in 2000. We reincorporated in Delaware in 2006 and 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 Whitney Automotive Group, Inc. (referred to herein as "WAG"), we expanded our product-lines and increased our customer reach in the DIY automobile and off-road accessories market.

International Operations. In April 2007, we established offshore operations in the Philippines. Our offshore operations allow us to access a workforce with the necessary technical skills at a significantly lower cost than comparably experienced U.S.-based professionals. Our offshore operations are responsible for a majority of our website development, catalog management, and back office support. Our offshore operations also house our main call center. We had 704 employees in the Philippines as of January 3, 2015. We had 768 employees in the Philippines as of January 2, 2016. We believe that the cost advantages of our offshore operations provide us with the ability to grow our business in a cost-effective manner.

AutoMD. On October 8, 2014, AutoMD entered into a common stock purchase agreement to sell seven million shares of AutoMD common stock at a purchase price of \$1.00 per share to third-party investors, reducing the Company's ownership interest in AutoMD to 64.1%.

AutoMD's mission is to be the repair shop advocate for all vehicle owners, increase their confidence in the repair process and provide the most affordable and high quality options for automobile repair. AutoMD's current focus is on marketing and technology. AutoMD's current marketing strategy involves driving growth in their repair shop network. During 2015, marketing efforts resulted in approximately 1,120 repair shops joining AutoMD's network, rising from about 2,100 repair shops at the end of fiscal 2014 to approximately 3,220 at the end of fiscal 2015. AutoMD now has repair shops participating in 43 states. In addition to marketing, AutoMD continues to refine the online experience, including its mobile presence.

E-commerce. To understand revenue generation through our network of e-commerce websites, we monitor several key business metrics, including the following:

	52 Weeks Ended January 2, 2016	53 Weeks Ended January 3, 2015	52 Weeks Ended December 28, 2013
Unique Visitors (millions) ¹	116.7	119.8	132.9
E-commerce Orders (thousands)	2,043	2,010	1,939
Online Marketplace Orders (thousands)	1,061	1,049	741
Total Online Orders (thousands)	3,104	3,059	2,680
E-commerce Average Order Value	\$ 109	\$ 111	\$ 112
Online Marketplace Average Order Value	\$ 71	\$ 66	\$ 67
Total Online Average Order Value	\$ 96	\$ 96	\$ 99
Revenue Capture ¹	85.6 %	85.0 %	83.3 %
Conversion ¹	1.8 %	1.7 %	1.5 %

¹ Excludes online marketplaces and media properties (e.g. AutoMD).

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. Included in the unique visitors are mobile device based customers, who are becoming an increasing part of our business. Shifting consumer behavior and technology enhancements indicates that customers are becoming more inclined to purchase auto parts through their mobile devices. User sophistication and technological advances have increased consumer expectations around the user experience on mobile devices, including speed of response, functionality, product availability, security, and ease of use. We believe enhancements to online solutions specifically catering to mobile based shopping can result in an increase in the number of orders and revenues. 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. During fiscal year 2015, our unique visitors decreased by 2.6% compared to the fiscal year 2014. We expect the total number of unique visitors in 2016 to marginally improve, as we believe we have addressed the challenges we experienced from changes search engines have made to the formulas, or algorithms, that they use to optimize their search results and we have continued to invest in paid search advertising, as described in further detail under “—Executive Summary” below.

Total Number of Orders: We monitor the total number of orders as an indicator of future revenue trends. During the fiscal year 2015, the total number of orders was up by 1.5% compared to the fiscal year 2014, with e-commerce and online marketplace orders up by 1.6% and 1.1%, respectively. We believe e-commerce and online marketplace orders improved through an enhanced customer experience and greater product selection. We expect the total number of orders in 2016 to marginally improve over our results for 2015. 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. During the fiscal year 2015, our average order value remained consistent when compared to the fiscal year 2014. 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, mix changes between private label and branded, macro-economic conditions, and the competition online.

Revenue Capture: Revenue capture is the amount of actual dollars retained after taking into consideration returns, credit card declines and product fulfillment. During the fiscal year 2015, our revenue capture increased by 0.7% to 85.6% compared to 85.0% in fiscal year 2014. We expect our revenue capture level to marginally improve in 2016 as we continue to improve our product descriptions and in-stock inventory.

Conversion: Conversion is the number of orders as a rate to the total number of unique visitors. This rate indicates how well we convert a visitor to a customer sales order. During fiscal year 2015, our conversion improved by 0.1% to 1.8% compared to 1.7% in fiscal year 2014. As we continue to improve our product descriptions and in-stock inventory positions, we expect conversion rates to marginally improve.

Executive Summary

For fiscal 2015, Base USAP (which excludes AMD) generated net sales of \$290,833, compared with \$283,211 for fiscal year 2014, representing an increase of 2.7%. Base USAP net loss for fiscal 2015 was \$136, compared to a net loss of \$4,907 for fiscal 2014. We generated Adjusted EBITDA, or net income before net interest expense, income tax provision, depreciation and amortization expense and amortization of intangible assets, plus share-based compensation expense, impairment loss and restructuring costs ("Adjusted EBITDA"), of \$10,029 in fiscal 2015 compared to \$8,384 in fiscal 2014. Adjusted EBITDA, which is not a Generally Accepted Accounting Principle (GAAP) measure, is presented because management uses it as one measure of the Company's operating performance, as it assists in comparing the Company's operating performance on a consistent basis by removing the impact of stock compensation expense, as well as items that are not expected to be recurring. Internally, this non-GAAP measure is also used by management for planning purposes, including the preparation of internal budgets; for allocating resources to enhance financial performance; and for evaluating the effectiveness of operational strategies. The Company also believes that such measure is used by rating agencies, securities analysts, investors and other parties in evaluating the Company. It should not be considered, however, as an alternative to operating income, or as an alternative to cash flows as a measure of the Company's overall liquidity, as presented in the Company's consolidated financial statements. Further, the Adjusted EBITDA measure shown may not be comparable to similarly titled measures used by other companies. Refer to the table presented below for reconciliation of net loss to Adjusted EBITDA.

For fiscal 2015, AutoMD generated net sales of \$258 compared to \$297 in fiscal 2014. AutoMD's net loss was \$2,288 for fiscal 2015 compared to a net loss of \$2,179 for fiscal 2014. AutoMD's Adjusted EBITDA was negative \$1,663 in fiscal 2015 compared to negative \$481 in fiscal 2014.

Total revenues increased in fiscal 2015 compared to fiscal 2014 primarily due to growth in our online sales. Our online sales, which include our e-commerce, online marketplace sales channels and online advertising, contributed 90.9% of total revenues, and our offline sales, which consist of our Kool-View™ and wholesale operations, contributed 9.1% of total revenues. Our online sales for fiscal year 2015 increased by \$7,561, or 2.9%, to \$264,721 compared to \$257,160 in fiscal 2014 primarily due to an increase in conversion, resulting in a 1.5% increase in the total number of orders. Our offline sales increased by \$21, or 0.1%, to \$26,370 compared to the same period last year.

Like most e-commerce retailers, our success depends on our ability to attract online consumers to our websites and convert them into customers in a cost-effective manner. Historically, marketing through search engines provided the most efficient opportunity to reach millions of on-line auto part buyers. We are included in search results through 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 websites. Algorithmic listings cannot be purchased and instead are determined and displayed solely by a set of formulas utilized by the search engine. We have had a history of success with our search engine marketing techniques, which gave our different websites preferred positions in search results. Search engines, like Google, revise their algorithms from time to time in an attempt to optimize their search results. During the last few years, Google has changed its search results ranking algorithm. In some cases our unique visitor count, and therefore our financial results, were negatively impacted by these changes. While we continue to address the ongoing changes to the Google methodology, during the fiscal year 2015, our unique visitor count decreased by 3.1 million, or 2.6%, to 116.7 million unique visitors compared to 119.8 million unique visitors in fiscal 2014 primarily due to there being 53 weeks in fiscal 2014, compared to 52 weeks in fiscal 2015. Excluding the 53rd week, the level of unique visitors was essentially flat. As in the past we expect Google will continue to make changes in their search engine algorithms to improve their user experience. As we are significantly dependent upon search engines for our website traffic, if we are unable to address these ongoing changes and attract unique visitors, our business and results of operations will be harmed.

Total expenses, which primarily consisted of cost of sales and operating costs, increased in fiscal year 2015 compared to the same period in 2014. Components of our cost of sales and operating costs are described in further detail under — "*Basis of Presentation*" below.

In 2015, we made positive strides towards achieving our strategic goals and in 2016 we will continue to pursue these strategies to continue our positive sales growth, improve gross profit while reducing operating costs as percent of sales:

- We expect to continue positive e-commerce growth by providing unique catalog content and providing better content on our websites with the goal of improving our ranking on the search results. In addition, we intend to improve mobile enabled websites to take advantage of shifting consumer behaviors. We expect revenue trends to remain positive in 2016.
- We continue to work to improve the website purchase experience for our customers by (1) helping our customers find the parts they want to buy by reducing failed searches and increasing user purchase confidence; (2) implementing guided navigation and custom buying experiences specific to strategic part

names; and (3) increasing order size across our sites through improved recommendation engines. In addition, we intend to build mobile enabled websites to take advantage of shifting consumer behaviors. These efforts may increase the conversion rate of our visitors to customers, the total number of orders and average order value, and the number of repeat purchases, as well as contribute to our revenue growth.

- We continue to work towards becoming one of the preferred low price options in the market for aftermarket auto parts and accessories. We also continue to offer lower prices by increasing foreign sourced private label products as they are generally less expensive and we believe provide better value for the consumer. We believe our product offering can improve the conversion rate of visitors to our website, grow our revenues and improve our margins.
- We continue to increase product selection by being the first to market with many new SKUs. We currently have over 50,000 private label SKUs and over 1.0 million branded SKUs in our product selection. We will continue to seek to add new categories and expand our existing specialty categories. We believe continued product expansion will increase the total number of orders and contribute to our revenue growth. Additionally, we plan to continue to maintain certain in-stock inventory throughout the year to provide consistent service levels and improve customer experience.
- We are the consumer advocate for auto repair through AutoMD.com. We will continue to devote resources to AutoMD.com, its system development and the expansion of its repair shop network, drawing upon the proceeds from the recent sale of AutoMD common stock. We believe this resource allocation will help improve our brand recognition and contribute to our revenue growth.
- We continue to implement cost saving measures.

Overall, we expect revenue growth and reduced net losses in 2016 compared to 2015, due to the above initiatives we expect to continue to follow in 2016.

We have redesigned our approach to attracting customers through search engines with increased paid advertising which has helped us offset some of the decline in organic traffic to our e-commerce sites. We have also continued to pursue revenue opportunities in third-party online marketplaces, a number of which continue to grow each year. Auto parts buyers are finding third-party online marketplaces to be a very attractive environment, for many reasons, the top five being: (1) the security of their personal information; (2) the ability to easily compare product offerings from multiple sellers; (3) transparency (consumers can leave positive or negative feedback about their experience); (4) favorable pricing; and (5) the availability of products not found in stock at brick-and-mortar stores. Successful selling in these third-party online marketplaces depends on product innovation, and strong relationships with suppliers, both of which we believe to be our core competencies.

Adjusted EBITDA, which is not a Generally Accepted Accounting Principle measure, is presented because management uses it as one measure of the Company's operating performance, as it assists in comparing the Company's operating performance on a consistent basis by removing the impact of stock compensation expense, as well as items that are not expected to be recurring. Internally, this non-GAAP measure is also used by management for planning purposes, including the preparation of internal budgets; for allocating resources to enhance financial performance; and for evaluating the effectiveness of operational strategies. The Company also believes that analysts and investors use Adjusted EBITDA as a supplemental measure to evaluate the ongoing operations of companies in our industry. It should not be considered, however, as an alternative to operating income, or as an alternative to cash flows as a measure of the Company's overall liquidity. Further, the Adjusted EBITDA measure shown may not be comparable to similarly titled measures used by other companies. The table

below reconciles net income loss to Adjusted EBITDA for the periods presented (in thousands):

	Fifty-two weeks ended January 2, 2016		
	Base USAP	AMD	Consolidated
	(In thousands)		
Net sales	\$ 290,833	\$ 258	\$ 291,091
Cost of sales	207,657	—	207,657
Gross profit	83,176	258	83,434
Operating expenses:			
Marketing	40,218	3,061	43,279
General and administrative	16,325	184	16,509
Fulfillment	20,237	—	20,237
Technology	4,833	167	5,000
Amortization of intangible assets	431	33	464
Total operating expenses	82,044	3,445	85,489
Income (loss) from operations	1,132	(3,187)	(2,055)
Other income (expense):			
Other income, net	36	—	36
Interest expense	(1,216)	—	(1,216)
Total other expense	(1,180)	—	(1,180)
Income (loss) before income taxes	(48)	(3,187)	(3,235)
Income tax (benefit) provision	88	(899)	(811)
Net income (loss)	\$ (136)	\$ (2,288)	\$ (2,424)
Net income (loss)	\$ (136)	\$ (2,288)	\$ (2,424)
Depreciation & amortization	6,141	1,369	7,510
Amortization of intangible assets	431	33	464
Interest expense, net	1,208	—	1,208
Taxes	88	(899)	(811)
EBITDA	\$ 7,732	\$ (1,785)	\$ 5,947
Stock comp expense	\$ 2,297	\$ 122	\$ 2,419
Adjusted EBITDA	\$ 10,029	\$ (1,663)	\$ 8,366
Capital expenditures	6,701	1,079	7,780
Total assets, net of accumulated depreciation	78,092	5,664	83,756

Fifty-three weeks ended January 3, 2015

	Base USAP	AMD	Consolidated
	(In thousands)		
Net sales	\$ 283,211	\$ 297	\$ 283,508
Cost of sales	205,058	—	205,058
Gross profit	78,153	297	78,450
Operating expenses:			
Marketing	39,574	2,434	42,008
General and administrative	16,697	4	16,701
Fulfillment	20,368	—	20,368
Technology	4,826	37	4,863
Amortization of intangible assets	422	—	422
Total operating expenses	81,887	2,475	84,362
Income (loss) from operations	(3,734)	(2,178)	(5,912)
Other income (expense):			
Other income, net	65	—	65
Interest expense	(1,101)	—	(1,101)
Total other expense	(1,036)	—	(1,036)
Income (loss) before income taxes	(4,770)	(2,178)	(6,948)
Income tax (benefit) provision	137	1	138
Net income (loss)	\$ (4,907)	\$ (2,179)	\$ (7,086)
Net income (loss)	\$ (4,907)	\$ (2,179)	\$ (7,086)
Depreciation & amortization	7,230	1,693	8,923
Amortization of intangible assets	422	—	422
Interest expense, net	1,101	—	1,101
Taxes	137	1	138
EBITDA	\$ 3,983	\$ (485)	\$ 3,498
Stock comp expense	\$ 2,367	\$ 4	\$ 2,371
Inventory write-down related to Carson closure ⁽¹⁾	897	—	897
Restructuring costs ⁽²⁾	1,137	—	1,137
Adjusted EBITDA	8,384	(481)	7,903
Capital expenditures	4,237	1,319	5,556
Total assets, net of accumulated depreciation	74,414	8,493	82,907

Fifty-two weeks ended December 28, 2013

	Base USAP	AMD	Consolidated
	(In thousands)		
Net sales	\$ 254,422	\$ 331	\$ 254,753
Cost of sales	180,620	—	180,620
Gross profit	73,802	331	74,133
Operating expenses:			
Marketing	38,929	2,116	41,045
General and administrative	17,508	59	17,567
Fulfillment	18,702	—	18,702
Technology	4,982	146	5,128
Amortization of intangible assets	381	—	381
Impairment loss on property and equipment	4,832	—	4,832
Impairment loss on intangible assets	1,245	—	1,245
Total operating expenses	86,579	2,321	88,900
Income (loss) from operations	(12,777)	(1,990)	(14,767)
Other income (expense):			
Other income, net	148	—	148
Interest expense	(972)	—	(972)
Total other expense	(824)	—	(824)
Income (loss) before income taxes	(13,601)	(1,990)	(15,591)
Income tax (benefit) provision	43	—	43
Net income (loss)	\$ (13,644)	\$ (1,990)	\$ (15,634)
Net income (loss)	\$ (13,644)	\$ (1,990)	\$ (15,634)
Depreciation & amortization	10,676	1,499	12,175
Amortization of intangible assets	381	—	381
Interest expense, net	972	—	972
Taxes	43	—	43
EBITDA	\$ (1,572)	\$ (491)	\$ (2,063)
Stock comp expense	\$ 1,211	\$ 52	\$ 1,263
Restructuring costs ⁽²⁾	723	—	723
Impairment loss on property and equipment	4,832	—	4,832
Impairment loss on intangible assets	1,245	—	1,245
Adjusted EBITDA	\$ 6,439	\$ (439)	\$ 6,000
Capital expenditures	6,297	2,028	8,325
Total assets, net of accumulated depreciation	67,039	2,143	69,182

- (1) As a result of the closure of the Carson warehouse, the Company reduced the sales price of certain inventory in an effort to reduce inventory levels. Additional charges were incurred related to inventory that was not deemed economical to transfer to the remaining warehouses. Refer to “*Note 12 – Restructuring Costs*” of our Notes to Consolidated Financial Statements for additional details.
- (2) We incurred restructuring costs related to our initiatives to reduce labor costs and improve operating efficiencies in response to the challenges in the marketplace and general market conditions. Refer to “*Note 12 – Restructuring Costs*” of our Notes to Consolidated Financial Statements for additional details.

Basis of Presentation

Net Sales. Online and offline sales represent two different sales channels for our products. We generate online net sales primarily through the sale of auto parts to individual consumers through our network of e-commerce websites, online marketplace sales channels and online advertising. E-commerce sales are derived from our network of websites, which we own and operate. E-commerce and online marketplace sales also include inbound telephone sales through our call center that supports these sales channels. Online marketplaces consist primarily of sales of our products on online auction websites, where we sell through auctions as well as through storefronts that we maintain on third-party owned websites. We sell advertising and sponsorship positions on our e-commerce websites to highlight vendor brands and offer complementary products and services that benefit our customers. Advertising is targeted to specific sections of the websites and can also be targeted to specific users based on the vehicles they drive. Advertising partners primarily include part vendors, national automotive aftermarket brands and automobile manufacturers. Our offline sales channel represents our distribution of products directly to commercial customers by selling auto parts to collision repair shops. Our offline sales channel also includes both stock ship distribution as well as drop ship programs for automotive warehouse distributors and other online resellers. The product mix includes the majority of our private labeled stock ship items, which include the replacement collision parts and our Kool-Vue™ mirror line. We also serve consumers by operating a retail outlet store in LaSalle, Illinois.

Cost of Sales. Cost of sales consists of the direct costs associated with procuring parts from suppliers and delivering products to customers. These costs include direct product costs, outbound freight and shipping costs, warehouse supplies and warranty costs, partially offset by purchase discounts and cooperative advertising. Depreciation and amortization expenses are excluded from cost of sales and included in marketing, general and administrative and fulfillment expenses as noted below.

Marketing Expense. Marketing expense consists of online advertising spend, internet commerce facilitator fees and other advertising costs, as well as payroll and related expenses associated with our marketing catalog, customer service and sales personnel. These costs are generally variable and are typically a function of net sales. Marketing expense also includes depreciation and amortization expense and share-based compensation expense.

General and Administrative Expense. General and administrative expense consists primarily of administrative payroll and related expenses, merchant processing fees, legal and professional fees and other administrative costs. General and administrative expense also includes depreciation and amortization expense and share-based compensation expense.

Fulfillment Expense. Fulfillment expense consists primarily of payroll and related costs associated with our warehouse employees and our purchasing group, facilities rent, building maintenance, depreciation and other costs associated with inventory management and our wholesale operations. Fulfillment expense also includes share-based compensation expense.

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

Amortization of Intangible Assets. Amortization of intangibles consists of the amortization expense associated with our definite-lived intangible assets.

Impairment Loss. Impairment loss is recorded as a result of impairment testing performed for goodwill and indefinite-lived intangible assets in accordance with ASC 350 Intangibles – Goodwill and Other, and long-lived assets, including intangible assets subject to amortization, in accordance with ASC 360 Property, Plant and Equipment.

Other Income, Net. Other income, net consists of miscellaneous income or expense such as gains/losses from disposition of assets, and interest income comprised primarily of interest income on investments.

Interest Expense. Interest expense consists primarily of interest expense on our outstanding loan balance, deferred financing cost amortization and capital lease interest.

Segment Data

The Company operates in two reportable segments identified as Base USAP, which is the core auto parts business, and AutoMD, an online automotive repair source of which the Company is a majority stockholder. Segment information is prepared on the same basis that our chief executive officer, who is our chief operating decision maker, manages the segments,

evaluates financial results, and makes key operating decisions. Management evaluates the performance of its operating segments based on net sales, gross profit and loss from operations. The accounting policies of the operating segments are the same as those described in “*Note 1 - Summary of Significant Accounting Policies*” of our Notes to Consolidated Financial Statements. Operating income represents earnings before other income, interest expense and income taxes. The identifiable assets by segment disclosed in this note are those assets specifically identifiable within each segment.

Results of Operations

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

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	71.3	72.3	70.9
Gross profit	28.7	27.7	29.1
Operating expenses:			
Marketing	14.9	14.8	16.1
General and administrative	5.7	5.9	6.9
Fulfillment	7.0	7.2	7.3
Technology	1.7	1.7	2.0
Amortization of intangible assets	0.2	0.1	0.2
Impairment loss on property and equipment	—	—	1.9
Impairment loss on intangible assets	—	—	0.5
Total operating expenses	29.5	29.7	34.9
Loss from operations	(0.8)	(2.0)	(5.8)
Other income (expense):			
Other income, net	—	—	0.1
Interest expense	(0.4)	(0.4)	(0.4)
Loss on debt extinguishment	—	—	—
Total other expense	(0.4)	(0.4)	(0.3)
Loss before income taxes	(1.2)	(2.4)	(6.1)
Income tax (benefit) provision	(0.3)	—	—
Net loss	(0.9)%	(2.4)%	(6.1)%

Fifty-Two Weeks Ended January 2, 2016 Compared to the Fifty-Two Weeks Ended January 3, 2015

Net Sales and Gross Margin

	Fiscal Year Ended		\$ Change	% Change
	January 2, 2016	January 3, 2015		
	(in thousands)			
Net sales	\$ 291,091	\$ 283,508	\$ 7,583	2.7%
Cost of sales	207,657	205,058	2,599	1.3%
Gross profit	\$ 83,434	\$ 78,450	\$ 4,984	6.4%
Gross margin	28.7%	27.7%		1.0%

Net sales increased \$7,583, or 2.7%, for fiscal year 2015 compared to fiscal year 2014. Our net sales consisted of online sales, which include our e-commerce sites, online marketplace sales channels and online advertising, representing 90.9% of the total for fiscal year 2015 (compared to 90.7% in fiscal year 2014), and offline sales, representing 9.1% of the total for fiscal year 2015 (compared to 9.3% in fiscal year 2014). The net sales increase was due to an increase of \$7,561, or 2.9%, in online

sales and a \$21, or 0.1%, increase in offline sales. Online sales increased primarily due to improvement in conversion, resulting in a 1.5% increase in number of orders.

Gross profit increased \$4,984, or 6.4%, in fiscal year 2015 compared to fiscal year 2014. Gross margin increased 1.0% to 28.7% in fiscal year 2015 compared to 27.7% in fiscal year 2014. Gross margin primarily increased in fiscal year 2015 compared to fiscal year 2014 primarily due to a favorable mix shift of private label sales compared to last year as well as strategic pricing initiatives, freight efficiencies and lower shipping supply costs, partially offset by lower margin in our offline revenue. In addition, gross margin improved due to the unfavorable impact to fiscal 2014's margin as a result of the restructuring charges related to the distribution facility closure in Carson, California.

Marketing Expense

	Fiscal Year Ended		\$ Change	% Change
	January 2, 2016	January 3, 2015		
	(in thousands)			
Marketing expense	\$ 43,279	\$ 42,008	\$ 1,271	3.0%
Percent of net sales	14.9%	14.8%		0.1%

Total marketing expense increased \$1,271, or 3.0%, for fiscal year 2015 compared to fiscal year 2014. As a percent to net sales, total marketing expense was 14.9% for fiscal 2015 compared to 14.8% for fiscal year 2014. Online advertising expense, which includes catalog costs, was \$20,251, or 7.7%, of online sales for fiscal year 2015, compared to \$18,485, or 7.2%, of online sales for fiscal year 2014. Online advertising expense increased primarily due to increases in our non-catalog online advertising costs to \$18,524 or 6.4% of net sales for fiscal 2015 compared to \$16,327, or 5.8% of net sales for fiscal 2014. This increase relates primarily to the increase in the proportion of paid traffic compared to organic traffic. Marketing expense, excluding online advertising, was \$23,028, or 7.9%, of net sales for fiscal year 2015, compared to \$23,523, or 8.3%, of net sales for fiscal year 2014. The decrease was primarily due to a decrease in depreciation and amortization, partially offset by increased overhead and labor cost.

General and Administrative Expense

	Fiscal Year Ended		\$ Change	% Change
	January 2, 2016	January 3, 2015		
	(in thousands)			
General and administrative expense	\$ 16,509	\$ 16,701	\$ (192)	(1.1)%
Percent of net sales	5.7%	5.9%		(0.2)%

General and administrative expense decreased \$192, or 1.1%, for fiscal year 2015 compared to fiscal year 2014. The decrease for fiscal year 2015 as compared to fiscal year 2014 was primarily due to lower overhead costs.

Fulfillment Expense

	Fiscal Year Ended		\$ Change	% Change
	January 2, 2016	January 3, 2015		
	(in thousands)			
Fulfillment expense	\$ 20,237	\$ 20,368	\$ (131)	(0.6)%
Percent of net sales	7.0%	7.2%		(0.2)

Fulfillment expense decreased \$131, or 0.6%, for fiscal year 2015 compared to fiscal year 2014 and declined as a percent of sales primarily because fiscal year 2014 included severance costs of \$414 and labor related and other restructuring charges of approximately \$145 associated with the closure of our Carson warehouse in 2014.

Technology Expense

	Fiscal Year Ended		\$ Change	% Change
	January 2, 2016	January 3, 2015		
	(in thousands)			
Technology expense	\$ 5,000	\$ 4,863	\$ 137	2.8%
Percent of net sales	1.7%	1.7%		—%

Technology expense increased \$137, or 2.8%, for fiscal year 2015 compared to fiscal year 2014. The increase was primarily due to higher computer support costs to support increased sales, while technology expense remained flat to last year as a percent of sales.

Amortization of Intangible Assets

	Fiscal Year Ended		\$ Change	% Change
	January 2, 2016	January 3, 2015		
	(in thousands)			
Amortization of intangible assets	\$ 464	\$ 422	\$ 42	10.0%
Percent of net sales	0.2%	0.1%		0.1%

Amortization of intangibles increased \$42, or 10.0% for fiscal 2015 compared to fiscal 2014. The increase was due to purchases of intangible assets during fiscal 2015.

Total Other Expense, Net

	Fiscal Year Ended		\$ Change	% Change
	January 2, 2016	January 3, 2015		
	(in thousands)			
Other expense, net	\$ (1,180)	\$ (1,036)	\$ 144	13.9%
Percent of net sales	(0.4)%	(0.4)%		—

Total other expense, net increased \$144, or 13.9%, for fiscal year 2015 compared to fiscal year 2014. Total other expense increased during fiscal year 2015 compared to fiscal year 2014 primarily due to increased interest expense in respect of the borrowings under our credit facility. (See further detail in “Note 6 – Borrowings” of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report).

Income Tax Provision

	Fiscal Year Ended		\$ Change	% Change
	January 2, 2016	January 3, 2015		
	(in thousands)			
Income tax provision	\$ (811)	\$ 138	\$ (949)	(687.7)%
Percent of net sales	(0.3)%	—%		(0.3)%

We have a full valuation allowance against our net deferred income tax assets. In fiscal year 2015 and fiscal 2014, we recorded an addition of \$329 and \$2,366, respectively, to our income valuation allowance. Income tax benefit in 2015 is primarily due to federal statutory rate basis difference in subsidiary equity, partially offset by state income tax and change in valuation allowance. Income tax for 2014 related primarily to deferred taxes related to earnings of our Philippines subsidiary (see below).

Income tax provision differs from the amount that would result from applying the federal statutory rate as follows (in thousands):

	Fiscal Year Ended	
	January 2, 2016	January 3, 2015
Income tax at U.S. federal statutory rate	\$ (1,100)	\$ (2,362)
Share-based compensation	50	33
State income tax, net of federal tax effect	672	(143)
Foreign tax	(18)	117
Basis difference in subsidiary equity	(820)	—
Other	76	127
Change in valuation allowance	329	2,366
Effective income tax provision	\$ (811)	\$ 138

Prior to 2012, the Company treated earnings of the foreign subsidiaries as permanently invested in that jurisdiction. As a result, no additional income tax withholding was provided on the possible future repatriation of these earnings to the parent company in prior years. During fiscal year 2012, based on current year operating and future cash flow needs the Company decided that it could no longer represent that these funds would be indefinitely reinvested in the foreign jurisdictions but that such funds may be needed for general corporate purposes. As a result, the Company recorded future withholding taxes which would be due if the funds are required to be repatriated. The Company intends to continue to pursue all reasonable means to increase its investment in the foreign jurisdictions as dictated by future growth in general business activities or as allowed by the foreign jurisdictions to avoid incurring the income tax withholding expense.

As of January 2, 2016, the Company had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters. At January 2, 2016, federal and state net operating loss (“NOL”) carryforwards were \$68,307 and \$79,046, respectively. Federal NOL carryforwards of \$2,690 were acquired in the acquisition of WAG which are subject to Internal Revenue Code section 382 and limited to an annual usage limitation of \$135. Federal NOL carryforwards begin to expire in 2029, while state NOL carryforwards begin to expire in 2016.

As a result of the October 8, 2014 sale transaction, AutoMD will no longer be included in the consolidated state and federal tax filings of the Company. At January 2, 2016, AutoMD had NOLs of approximately \$5,152 for federal tax purposes that begin to expire in 2031. These amounts are included in the consolidated figures presented above. AutoMD state NOLs were not material as of January 2, 2016.

Fifty-Three Weeks Ended January 3, 2015 Compared to the Fifty-Two Weeks Ended December 28, 2013

Net Sales and Gross Margin

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Net sales	\$ 283,508	\$ 254,753	\$ 28,755	11.3 %
Cost of sales	205,058	180,620	24,438	13.5 %
Gross profit	\$ 78,450	\$ 74,133	\$ 4,317	5.8 %
Gross margin	27.7%	29.1%		(1.4)%

Net sales increased \$28,755, or 11.3%, for fiscal year 2014 compared to fiscal year 2013. Our net sales consisted of online sales, representing 90.7% of the total for fiscal year 2014 (compared to 90.0% in fiscal year 2013), and offline sales, representing 9.3% of the total for fiscal year 2014 (compared to 10.0% in fiscal year 2013). The net sales increase was due to an increase of \$27,764, or 12.1%, in online sales, and a \$992, or 3.9% , increase in offline sales. Online sales increased primarily due to a 14.1% increase in number of orders.

Gross profit increased \$4,317, or 5.8%, in fiscal year 2014 compared to fiscal year 2013. Gross margin rate decreased 1.4% to 27.7% in fiscal year 2014 compared to 29.1% in fiscal year 2013. Gross margin primarily decreased in fiscal year 2014 compared to fiscal year 2013 due to reduced margins from online sales.

Marketing Expense

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Marketing expense	\$ 42,008	\$ 41,045	\$ 963	2.3 %
Percent of net sales	14.8%	16.1%		(1.3)%

Total marketing expense increased \$963, or 2.3%, for fiscal year 2014 compared to fiscal year 2013 but declined as a percent of sales by 130 basis points due to more efficient marketing spend in fiscal 2014. Online advertising expense, which includes catalog costs, was \$18,485, or 7.2%, of online sales for fiscal year 2014, compared to \$16,619, or 7.2%, of online sales for fiscal year 2013. Online advertising expense increased primarily due to increased online e-commerce advertising and non-catalog advertising costs of \$1,608. Marketing expense, excluding online advertising, was \$23,523, or 8.3%, of net sales for fiscal year 2014, compared to \$24,426, or 9.6%, of net sales for fiscal year 2013. Marketing expenses, excluding online advertising, decreased primarily due to lower product management wages and depreciation and amortization expense.

General and Administrative Expense

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
General and administrative expense	\$ 16,701	\$ 17,567	\$ (866)	(4.9)%
Percent of net sales	5.9%	6.9%		(1.0)%

General and administrative expense decreased \$866, or 4.9%, for fiscal year 2014 compared to fiscal year 2013. The decrease for fiscal year 2014 as compared to fiscal year 2013 was primarily due to lower wages and overhead. The decrease in general and administrative expense was partially offset by greater merchant processing fees resulting from increased online sales during 2014.

Fulfillment Expense

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Fulfillment expense	\$ 20,368	\$ 18,702	\$ 1,666	8.9 %
Percent of net sales	7.2%	7.3%		(0.1)%

Fulfillment expense increased \$1,666, or 8.9%, for fiscal year 2014 compared to fiscal year 2013 and declined as a percent of sales due to improving sales volume during 2014, which led to increased shipping costs and warehouse wages. Additionally, we incurred severance costs of \$414 and labor related and other restructuring charges of approximately \$145 associated with the closure of our Carson warehouse in 2014. The increase in fulfillment expense was partially offset by lower depreciation and amortization expense because of certain assets that were fully depreciated after the third quarter of 2013.

Technology Expense

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Technology expense	\$ 4,863	\$ 5,128	\$ (265)	(5.2)%
Percent of net sales	1.7%	2.0%		(0.3)%

Technology expense decreased \$265, or 5.2%, for fiscal year 2014 compared to fiscal year 2013. The decrease was primarily due to lower telephone costs and computer support costs incurred in fiscal year 2014 compared to fiscal year 2013.

Amortization of Intangible Assets

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Amortization of intangible assets	\$ 422	\$ 381	\$ 41	10.8 %
Percent of net sales	0.1 %	0.2 %		(0.1) %

Amortization of intangible assets increased by \$41, or 10.8%, for fiscal year 2014 compared to fiscal year 2013. The increase was primarily due to the purchase of intangible assets during fiscal 2014.

Impairment Loss on Property and Equipment

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Impairment loss on property and equipment	\$ —	\$ 4,832	\$ (4,832)	(100.0) %
Percent of net sales	— %	1.9 %		(1.9) %

Impairment loss on property and equipment consists of non-cash impairment charge during fiscal year 2013 for the excess of the carrying value over the fair value of internally developed software of \$4,832. During fiscal 2014 there were no impairment losses on property and equipment. See further detail in “*Note 1- Summary of Significant Accounting Policies and Nature of Operations*”, “*Note 3 – Fair Value Measurements*” and “*Note 4- Property and Equipment, Net*” of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report and under “Critical Accounting Policies and Estimates” section below.

Impairment Loss on Intangible Assets

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Impairment loss on intangible assets	\$ —	\$ 1,245	\$ (1,245)	(100.0) %
Percent of net sales	— %	0.5 %		(0.5) %

Impairment loss on intangible assets consists of a non-cash impairment charge during fiscal year 2013 related to certain intangible assets in the amount of \$1,245. During fiscal 2014 there was no impairment loss on intangible assets. See further detail in “*1- Summary of Significant Accounting Policies and Nature of Operations*”, “*Note 3 – Fair Value Measurements*” and “*Note 5- Intangible Assets, net*” of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report and under “Critical Accounting Policies and Estimates” section below.

Total Other Expense, Net

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Other expense, net	\$ (1,036)	\$ (824)	\$ (212)	25.7 %
Percent of net sales	0.4 %	0.3 %		0.1 %

Total other expense, net increased \$212, or 25.7%, for fiscal year 2014 compared to fiscal year 2013. Total other expense increased during fiscal year 2014 compared to fiscal year 2013 primarily due to increased interest expense. (See further detail in “*Note 6 – Borrowings*” of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report).

Income Tax Provision

	Fiscal Year Ended		\$ Change	% Change
	January 3, 2015	December 28, 2013		
	(in thousands)			
Income tax provision	\$ 138	\$ 43	\$ 95	220.9%
Percent of net sales	—%	—%		—%

We have a full valuation allowance against our net deferred income tax assets. In fiscal year 2014 and fiscal 2013, we recorded an addition of \$2,366 and \$6,621, respectively, to our income valuation allowance. Income tax expense in 2014 and 2013 relate primarily to deferred taxes related to earnings of our Philippines subsidiary.

Liquidity and Capital Resources

Sources of Liquidity

During the fifty-two weeks ended January 2, 2016, we primarily funded our Base USAP operations with cash and cash equivalents generated from operations as well as through borrowing under our credit facility, and primarily funded our AutoMD operating segment using the cash investment from third-party investors. We had cash and cash equivalents of \$5,537 as of January 2, 2016, representing a \$2,116 decrease from \$7,653 of cash and cash equivalents as of January 3, 2015. The cash decrease was primarily due to the use of the AutoMD cash investment, of which funds are restricted for general operating purposes of AutoMD.

As of January 2, 2016, the Company had \$5,537 of cash and cash equivalents, including \$4,077 that was restricted to be used only for general operating purposes of AutoMD unless otherwise approved by AutoMD's Board of Directors. Based on our current operating plan, we believe that our existing cash and cash equivalents, investments, cash flows from operations and available funds under our credit facility will be sufficient to finance both our Base USAP and AutoMD operating segments through at least the next twelve months (see "Debt and Available Borrowing Resources" and "Funding Requirements" below).

As of January 2, 2016, our credit facility provided for a revolving commitment of up to \$25,000 subject to a borrowing base derived from certain of our receivables, inventory and property and equipment. In February 2016, the revolving commitment was increased to \$30,000. (see "Debt and Available Borrowing Resources" below).

In August 2014, we filed a shelf registration statement covering the offer and sale of up to \$100,000 of common stock with the SEC. The shelf registration was declared effective by the SEC on August 20, 2014. 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. The shelf registration expires on August 20, 2017. Refer to "Note 7 – Stockholders' Equity and Share-Based Compensation" of our Notes to Consolidated Financial Statements included in Part I, Item 1 of this report for additional details.

On October 8, 2014, AutoMD entered into a common stock purchase agreement to sell seven million shares of AutoMD common stock at a purchase price of \$1.00 per share to third party investors reducing the Company's ownership interest in AutoMD to 64.1%. The proceeds from the sale of AutoMD common stock are being used to fund the operating activities of AutoMD.

Working Capital

As of January 2, 2016 and January 3, 2015, our working capital was \$13,605 and \$14,645, respectively. Our revolving loan does not require principal payments, however it is classified as current due to certain U.S. GAAP requirements (see "Debt and Available Borrowing Resources" below for further details). The historical seasonality in our business during the year can cause cash and cash equivalents, inventory and accounts payable to fluctuate, resulting in changes in our working capital.

Cash Flows

The following table summarizes the key cash flow metrics from our consolidated statements of cash flows for fiscal year 2015, 2014 and 2013, respectively (in thousands):

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Net cash (used in) provided by operating activities	\$ 5,745	\$ 1,243	\$ 867
Net cash used in investing activities	(7,792)	(5,730)	(8,339)
Net cash (used in) provided by financing activities	(105)	11,311	7,219
Effect of exchange rate changes on cash	36	11	41
Net increase (decrease) in cash and cash equivalents	\$ (2,116)	\$ 6,835	\$ (212)

Operating Activities

Cash provided by operating activities is primarily comprised of net loss, adjusted for non-cash activities such as depreciation and amortization expense, amortization of intangible assets, impairment losses and share-based compensation expense. These non-cash adjustments represent charges reflected in net loss and, therefore, to the extent that non-cash items increase or decrease our operating results, there will be no corresponding impact on our cash flows. Net loss adjusted for non-cash adjustments to operating activities was \$7,134 (adjusted for non-cash charges primarily consisting of depreciation and amortization expense of \$7,510) for the period ended January 2, 2016 compared to \$4,689 (adjusted for non-cash charges primarily consisting of depreciation and amortization expense of \$8,923) for the period ended January 3, 2015.

Net loss adjusted for non-cash adjustments to operating activities was \$4,689 (adjusted for non-cash charges primarily consisting of amortization expense of \$8,923) for the period ended January 3, 2015 compared to \$4,398 (adjusted for non-cash charges primarily consisting of impairment losses of \$6,077 and depreciation and amortization expense of \$12,175) for the period ended December 28, 2013. After excluding the effects of the non-cash charges, the primary changes in cash flows relating to operating activities resulted from changes in operating assets and liabilities.

- Accounts receivable decreased to \$3,236 at January 2, 2016 from \$3,804 at January 3, 2015, resulting in a decrease in operating assets and reflecting a cash inflow of \$568 for the fiscal year ended January 2, 2016. Accounts receivable decreased primarily due to decreases in trade and credit card receivables due related to timing of collections during the year end holiday season. Accounts receivable decreased to \$3,804 at January 3, 2015 from \$5,029 at December 28, 2013, resulting in a decrease in operating assets and reflecting a cash inflow of \$1,225 for the fiscal year ended January 3, 2015. Accounts receivable decreased primarily due to the closure of the Carson warehouse and the related accounts receivable associated with offline sales processed through the Carson warehouse..
- Inventory increased to \$51,216 at January 2, 2016 from \$48,362 at January 3, 2015, resulting in an increase in operating assets and reflecting a cash outflow of \$2,854 for the fiscal year ended January 2, 2016. Inventory increased to \$48,362 at January 3, 2015 from \$36,986 at December 28, 2013, resulting in a increase in operating assets and reflecting a cash outflow of \$11,376 for the fiscal year ended January 3, 2015.
- Accounts payable and accrued expenses decreased to \$32,790 at January 2, 2016 compared to \$33,109 at January 3, 2015 resulting in a decrease in operating liabilities and reflecting a cash outflow of \$319 for the fiscal year ended January 2, 2016. Accounts payable and accrued expenses decreased primarily due to the decrease in accrued expenses of \$480, partially offset by an increase in accounts payable of \$161. Accounts payable and accrued expenses increased to \$33,109 at January 3, 2015 compared to \$25,628 at December 28, 2013 resulting in an increase in operating liabilities and reflecting a cash inflow of \$7,481 for the fiscal year ended January 3, 2015. Accounts payable and accrued expenses increased primarily due to the increase in accounts payable of \$5,693, a \$733 increase in accrued marketing and a \$602 increase in payroll related accruals.
- Other current liabilities increased to \$3,854 at January 2, 2016 compared to \$3,505 at January 3, 2015, resulting in an increase in operating liabilities and reflecting a cash inflow of \$349 for the fiscal year ended January 2, 2016. Other current liabilities increased primarily due to an increase in customer deposits. Other current liabilities decreased to \$3,505 at January 3, 2015 compared to \$3,682 at December 28, 2013, resulting in a decrease in operating liabilities and reflecting a cash outflow of \$177 for the fiscal year ended January 3, 2015. Other current liabilities decreased due to decreases in deferred rent deferred revenues and customer deposits.

Investing Activities

For the fiscal years ended January 2, 2016, January 3, 2015 and December 28, 2013, net cash used in investing activities was primarily the result of increases in property and equipment (\$7,780, \$5,556 and \$8,325 respectively). Property and

equipment is primarily internally developed software. Capitalized costs include amounts directly related to website and software development, primarily payroll and payroll related costs for employees and outside contractors who are directly associated with and devote time to the internal use software project. We expect our capital expenditures to be flat or slightly higher in fiscal 2016 compared to fiscal 2015.

Financing Activities

For the fiscal year ended January 2, 2016, net cash provided by financing activities was primarily due to the net draws made on debt, totaling \$737. For the fiscal year ended January 3, 2015, net cash provided by financing activities was primarily due to gross proceeds of \$7,000 received from the sale of 35.9% of AutoMD's outstanding common stock and the net draws made on debt, totaling \$4,248. (see further discussion in *"Debt and Available Borrowing Resources"* below).

For the fiscal year ended December 28, 2013, net cash provided by financing activities was primarily due to gross proceeds received from the issuance of Series A Preferred of \$6,017 and common stock of \$2,235, and proceeds from the sale leaseback of our LaSalle, Illinois facility for \$9,584, partially offset by the net payments made on debt, totaling \$9,447.

Debt and Available Borrowing Resources

Total debt (primarily comprised of a revolving loan payable of \$11,759, discussed further below, and capital leases of \$10,689) was \$22,448 as of January 2, 2016, compared to \$20,561 (primarily comprised of a revolving loan payable of \$11,022, discussed further below, and capital leases of \$9,539) as of January 3, 2015.

The Company maintains an asset-based revolving credit facility that provides for, among other things, a revolving commitment, which is subject to a borrowing base derived from certain receivables, inventory and property and equipment. On February 5, 2016, the Company and JPMorgan entered into an Eighth Amendment to Credit Agreement and Third Amendment to Pledge and Security Agreement, which amended the Credit Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012 and the Pledge and Security Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012. Pursuant to the Amendment, JPMorgan increased its revolving commitment from \$25,000 to \$30,000. Upon satisfaction of certain conditions, the Company has the right to increase the revolving commitment up to \$40,000. The credit facility matures on April 26, 2017.

The following amendments to the Credit Agreement and Security Agreement were also made under the Eighth Amendment:

- The aggregate principal amount of indebtedness that is permitted related to capital leases was increased from \$1,500 to \$2,000.
- The Amendment provides that loans drawn under the Credit Agreement will bear interest at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.5% or (b) a "base rate", subject to an increase or reduction by up to 0.25% per annum based on the Company's fixed charge coverage ratio. A commitment fee, based upon undrawn availability under the Credit Facility bearing interest at a rate of 0.25% per annum, is payable monthly. At January 2, 2016, the Company's LIBOR based interest rate was 2.69% (on \$11,700 principal) and the Company's prime based rate was 3.75% (on \$59 principal).
- The Credit Agreement previously contained an "Availability Block" (as defined under the Credit Agreement) of \$2,000 through June 30, 2016; however, the "Availability Block" was eliminated effective upon the execution of the Amendment. In the event that "excess availability" (as defined under the Credit Agreement) is less than \$2,400, the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 (with the trigger subject to adjustment based on the Company's revolving commitment). The Company's excess availability was \$8,803 at January 2, 2016.
- Under the terms of the Security Agreement, cash receipts are deposited into a lock-box, which are at the Company's discretion unless the "cash dominion period" is in effect, during which cash receipts will be used to reduce amounts owing under the Credit Agreement. The cash dominion period is triggered in an event of default or if excess availability is less than the \$3,600 for five business days (on a cumulative rather than a consecutive basis), and will continue until, during the preceding 60 consecutive days, no event of default existed and excess availability has been greater than \$3,600 at all times (with the trigger subject to adjustment based on the Company's revolving commitment). As of the date hereof, the cash dominion period has not been in effect; accordingly no principal payments are currently due.

- The Company's required excess availability related to the "Covenant Testing Trigger Period" (as defined under the Credit Agreement) under the revolving commitment under the Credit Agreement has been increased to less than \$2,400 from less than \$2,000 for the period commencing on any day that excess availability is less than \$2,400 for five business days (on a cumulative rather than a consecutive basis), and continuing until excess availability has been greater than or equal to \$2,400 at all times for 45 consecutive days (with the trigger subject to adjustment based on the Company's revolving commitment).
- The trigger, requiring the Company to provide certain reports under the Credit Agreement, relating to excess availability under the revolving commitment under the Credit Agreement, has been reduced to less than \$3,600 from less than \$4,000 for the period commencing on any day that excess availability is less than \$3,600 for five business days (on a cumulative rather than a consecutive basis), and continuing until excess availability has been greater than or equal to \$3,600 at all times for 45 consecutive days (with the trigger subject to adjustment based on the Company's revolving commitment).

In addition, certain negative covenants applicable to the Company and AutoMD related to certain contractual and financial tests to permit the Company and AutoMD to consummate certain obligations set forth in the agreements entered into by the Company and AutoMD on October 8, 2014 (the "Financing Documents") in connection with the sale of AutoMD common stock to certain investors (the "AutoMD Financing") have been revised increasing the availability requirement to \$2,400 before and after giving effect to the consummation of such obligations. The negative covenants have been further revised to allow for the sale of up to 2.0 million shares of AutoMD common stock by the Company.

Certain of the Company's domestic subsidiaries are co-borrowers (together with the Company, the "Borrowers") under the Credit Agreement, and certain other domestic subsidiaries are guarantors (the "Guarantors" and, together with the Borrowers, the "Loan Parties") under the Credit Agreement. The Borrowers and the Guarantors are jointly and severally liable for the Borrowers' obligations under the Credit Agreement. The Loan Parties' obligations under the Credit Agreement are secured, subject to customary permitted liens and certain exclusions, by a perfected security interest in (a) all tangible and intangible assets and (b) all of the capital stock owned by the Loan Parties (limited, in the case of foreign subsidiaries, to 65% of the capital stock of such foreign subsidiaries). The Borrowers may voluntarily prepay the loans at any time. The Borrowers are required to make mandatory prepayments of the loans (without payment of a premium) with net cash proceeds received upon the occurrence of certain "prepayment events," which include certain sales or other dispositions of collateral, certain casualty or condemnation events, certain equity issuances or capital contributions, and the incurrence of certain debt.

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, fundamental changes, investments, dispositions, prepayment of other indebtedness, mergers, and dividends and other distributions.

Events of default under the Credit Agreement include: failure to timely make payments due under the Credit Agreement; material misrepresentations or misstatements under the Credit Agreement and other related agreements; failure to comply with covenants under the Credit Agreement and other related agreements; certain defaults in respect of other material indebtedness; insolvency or other related events; certain defaulted judgments; certain ERISA-related events; certain security interests or liens under the loan documents cease to be, or are challenged by the Company or any of its subsidiaries as not being, in full force and effect; any loan document or any material provision of the same ceases to be in full force and effect; and certain criminal indictments or convictions of any Loan Party. As of January 2, 2016, the Company was in compliance with all covenants under the Credit Agreement.

Our Credit Facility requires us to satisfy certain financial covenants which could limit our ability to react to market conditions or satisfy extraordinary capital needs and could otherwise restrict our financing and operations. If we are unable to satisfy the financial covenants and tests at any time, we may as a result cease being able to borrow under the Credit Facility or be required to immediately repay loans under the Credit Facility, and our liquidity and capital resources and ability to operate our business could be severely impacted, which would have a material adverse effect on our financial condition and results of operations. In those events, we may need to sell additional assets or seek additional equity or additional debt financing or attempt to modify our existing Credit Agreement. There can be no assurance that we would be able to raise such additional financing or engage in such asset sales on acceptable terms, or at all, or that we would be able to modify our existing Credit Agreement.

As of January 2, 2016, the Company had total capital leases payable of \$10,689. The present value of the net minimum payments on capital leases as of January 2, 2016 is as follows:

Total minimum lease payments	\$ 19,091
Less amount representing interest	(8,402)
Present value of net minimum lease payments	10,689
Current portion of capital leases payable	521
Capital leases payable, net of current portion	\$ 10,168

See additional information in “*Note 6 – Borrowings*” of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report.

Funding Requirements

Based on our current operating plan, we believe that our existing cash, cash equivalents, investments, cash flows from operations and available debt financing will be sufficient to finance our operational cash needs through at least the next twelve months. Our future capital requirements may, however, vary materially from those now planned or anticipated. Changes in our operating plans, lower than anticipated net sales or gross margins, increased expenses, continued or worsened economic conditions, worsening operating performance by us, or other events, including those described in “*Risk Factors*” included in Part II, Item 1A may force us to sell additional assets and seek additional debt or equity financing in the future. We may need to issue additional common stock under our shelf registration, discussed above. There can be no assurance that we would be able to raise such additional financing or engage in such additional asset sales on acceptable terms, or at all. If we are not able to raise adequate additional financing or proceeds from additional asset sales, we will need to defer, reduce or eliminate significant planned expenditures, restructure or significantly curtail our operations.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements.

Contractual Obligations

The following table sets forth our contractual cash obligations and commercial commitments as of January 2, 2016:

	Payment Due By Period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<u>Contractual Obligations:</u>					
Principal payments on revolving loan payable ⁽¹⁾	\$ 11,759	\$ —	\$ 11,759	\$ —	\$ —
Interest payments on revolving loan payable ⁽²⁾	422	322	100	—	—
Operating lease obligations ⁽³⁾	2,701	1,156	874	671	—
Capital lease obligations ⁽⁴⁾	19,091	1,291	2,514	2,381	12,905

- (1) Amounts represent the expected principal cash payments relating to our debt and do not include any fair value adjustments or discounts and premiums. Our outstanding debt is comprised of a revolving loan which currently has no principal payment requirements, and matures in April 2017. The principal outstanding balance at January 2, 2016 is presumed to be the amount due in April 2017. See additional information in “*Liquidity and Capital Resources – Debt and Available Borrowing Resources*” above.
- (2) Amounts represent the expected interest cash payments relating to our revolving loan balance at January 2, 2016. The principal outstanding balance and the interest rates prevalent at January 2, 2016 were used to calculate the expected future interest payments.
- (3) Commitments under operating leases relate primarily to our leases on our principal facility in Carson, California, our distribution centers in Chesapeake, Virginia and La Salle, Illinois, and our call center in the Philippines.
- (4) Commitments under capital leases include the lease for our LaSalle distribution facility and equipment lease agreements which include interest.

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 year.

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.

Recent Accounting Pronouncements

See “*Note 1 – Summary of Significant Accounting Policies and Nature of Operations*” of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales, costs and expenses, as well as the disclosure of contingent assets and liabilities and other related disclosures. On an ongoing basis, we evaluate our estimates, including, but not limited to, those related to revenue recognition, uncollectible receivables, inventory, valuation of deferred tax assets and liabilities, 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 carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates, and we include any revisions to our estimates in our results for the period in which the actual amounts become known.

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

Revenue Recognition. We recognize revenue from product sales and shipping revenues, net of promotional discounts and return allowances, when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, both title and risk of loss or damage have transferred, the selling price is fixed or determinable, and collectability is reasonably assured. The Company retains the risk of loss or damage during transit, therefore, revenue from product sales is recognized at the delivery date to the customer. Return allowances, which reduce product revenue by the Company’s best estimate of expected product returns, are estimated using historical experience.

Revenue from sales of advertising is recorded when performance requirements of the related advertising program agreement are met.

We evaluate the criteria of ASC 605-45 *Revenue Recognition Principal Agent Considerations* in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when the Company is the primary party obligated in a transaction, the Company is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at gross.

Payments received prior to the delivery of goods to customers are recorded as deferred revenue.

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

Sales discounts are recorded in the period in which the related sale is recognized. Sales return allowances are estimated based on historical amounts and are recorded upon recognizing the related sales. Credits are issued to customers for returned products.

Fair Value Measurements. We account for fair value measurements in accordance with ASC Topic 820 *Fair Value Measurements and Disclosures* (“ASC 820”), which defines fair value, provides a framework for measuring fair value and provides the disclosure requirements for fair value measurements. ASC 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 - defined as observable inputs such as quoted prices in active markets; Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Inventory. Inventory consists of finished goods available-for-sale. We purchase inventory from suppliers both domestically and internationally, primarily in Taiwan and China. We believe that our products are generally available from more than one supplier, and we maintain multiple sources for many of our products, both internationally and domestically. We offer a broad line of auto parts for automobiles, trucks, motorcycles and recreational vehicles from model years 1965 to 2015. Because of the continued demand for our products, we primarily purchase products in bulk quantities to take advantage of quantity discounts and to ensure inventory availability.

Inventory is accounted for using the first-in first-out (“FIFO”) method and valued at the lower of cost or market value. During this valuation, we are required to make judgments about expected disposition of inventory, generally, through sales, returns to product vendors, or liquidations of obsolete or scrap products, and expected recoverable values of each disposition category based on currently-available information. If actual market conditions are less favorable than those anticipated by management, additional write-down of the value of our inventory may be required.

Website and Software Development Costs. We capitalize certain costs associated with software developed for internal use according to ASC Topic 350-40- *Intangibles – Goodwill and Other – Internal-Use Software* (“ASC 350-40”), and ASC Topic 350-50- *Intangibles – Goodwill and Other – Website Development Costs* (“ASC 350-50”). Under these provisions, we capitalize costs associated with website development and software developed for internal use when both the preliminary project design and testing stage are completed and management has authorized further funding for the project, which it deems probable of completion and to be used for the function intended. Capitalized costs include amounts directly related to website development and software development such as payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the internal-use software project. Capitalization of these costs ceases when the project is substantially complete and ready for its intended use. These amounts are amortized on a straight-line basis over two to three years once the software is placed into service.

Long-Lived Assets and Intangibles. We acquire tangible and intangible assets in the normal course of business. We evaluate the recoverability of the carrying amount of these long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable in accordance with ASC Topic 360- *Property, Plant, and Equipment* (“ASC 360”). Management assesses potential impairments whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss will result when the carrying value exceeds the undiscounted cash flows estimated to result from the use and eventual disposition of the asset. We continually use judgment when applying these impairment rules to determine the timing of the impairment tests, undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset. The reasonableness of our judgments could significantly affect the carrying value of our long-lived assets. During fiscal years 2015 and 2014 no adverse events related to the Company's financial performance were identified which would have indicated property and equipment and intangibles subject to amortization may not be recoverable. For fiscal year 2013, we recorded impairment charges on property and equipment and intangibles subject to amortization of \$4,832 and \$1,245, respectively.

Income Taxes. The Company accounts for income taxes in accordance with ASC Topic 740 *Income Taxes* (“ASC 740”). Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When appropriate, a valuation reserve is established to reduce deferred tax assets, which include tax credits and loss carry forwards, to the amount that is more likely than not to be realized. The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. We consider the following possible sources of taxable income when assessing the realization of our deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax-planning strategies.

The assessment regarding whether a valuation allowance is required or should be adjusted also considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified.

Concluding that a valuation allowance is not required is difficult when there is significant negative evidence that is objective and verifiable, such as cumulative losses in recent years. We utilized a three-year analysis of actual results as the

primary measure of cumulative losses in recent years. However, because a substantial portion of those cumulative losses relate to impairment of intangible assets and goodwill, those three-year cumulative results are adjusted for the effect of these items. In addition, the near- and medium-term financial outlook is considered when assessing the need for a valuation allowance.

The valuation of deferred tax assets requires judgment and assessment of the future tax consequences of events that have been recorded in the financial statements or in the tax returns, and our future profitability represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material effect on our financial condition and results of operations. Due to our combined cumulative three-year adjusted loss position, it was determined that it was not more likely than not that we would realize our net deferred tax assets. As of December 28, 2013, the valuation allowance was \$43,509, after recording an additional valuation allowance of \$6,621 in fiscal year 2013. As of January 3, 2015, the valuation allowance was \$45,867, after recording an additional valuation allowance of \$2,358 in fiscal year 2014. As of January 2, 2016, the valuation allowance was \$46,196, after recording an additional valuation allowance of \$329 in fiscal year 2015.

If, in the future, we generate taxable income on a sustained basis in jurisdictions where we have recorded full valuation allowances, our conclusion regarding the need for full valuation allowances in these tax jurisdictions could change, resulting in the reversal of some or all of the valuation allowances. If our operations generate taxable income prior to reaching profitability on a sustained basis, we would reverse a portion of the valuation allowance related to the corresponding realized tax benefit for that period, without changing our conclusions on the need for a full valuation allowance against the remaining net deferred tax assets.

As of January 2, 2016, federal and state NOL carryforwards were \$68,307 and \$79,046, respectively. Federal NOL carryforwards of \$2,690 were acquired in the acquisition of WAG which are subject to Internal Revenue Code section 382 and limited to an annual usage limitation of \$135. Federal NOL carryforwards expire in 2029, while state NOL carryforwards begin to expire in 2016. The state NOL carryforwards expire in the respective tax years as follows (in thousands):

2016-2022	\$	40,569
2023-2033		38,477
	\$	<u>79,046</u>

We utilize a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. As of January 2, 2016, we had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters. The Company's policy is to record interest and penalties as income tax expense.

We are subject to U.S. federal income tax as well as income tax of foreign and state tax jurisdictions. During fiscal 2010, the Company was audited by the Internal Revenue Service for the year ended December 31, 2008. The audit was concluded with no change. The tax years 2011-2014 remain open to examination by the major taxing jurisdictions to which the Company is subject, except the Internal Revenue Service for which the tax years 2012-2014 remain open. The Company does not anticipate a significant change to the amount of unrecognized tax benefits within the next twelve months.

Share-Based Compensation. We account for share-based compensation in accordance with ASC Topic 718- *Compensation – Stock Compensation* ("ASC 718"). ASC 718 requires that all share-based compensation to employees, including grants of employee stock options, be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based payment awards. The Black-Scholes valuation models require extensive use of accounting judgment and financial estimates, including estimates of the expected term participants will retain their vested stock options before exercising them, the estimated volatility of our common stock price over the expected term and the number of options that will be forfeited prior to the completion of their vesting requirements. Application of alternative assumptions could produce significantly different estimates of the fair value of share-based compensation and, consequently, the related amount of share-based compensation expense recognized in the Consolidated Statements of Comprehensive Operations could have been significantly different than the amounts recorded.

The Company has incorporated its own historical volatility into the grant-date fair value calculations. The Company's historical volatility was not materially different than the estimates applied to past award fair value calculations. The expected term of an award is based on combining historical exercise data with expected weighted time outstanding. Expected weighted time outstanding is calculated by assuming the settlement of outstanding awards is at the midpoint between the remaining weighted average vesting date and the expiration date. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures significantly differ from those estimates. The Company considers many factors when estimating expected forfeitures, including employee class, economic environment, and historical experience.

The Company accounts for equity instruments issued in exchange for the receipt of services from 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 other than 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 reliably measurable. The value of equity instruments issued for consideration 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.

ITEM 7A. 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. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We do not have any derivative financial instruments as of January 2, 2016. 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 mutual funds. As of January 2, 2016, our investments were comprised of \$65 of investments in mutual funds that primarily hold debt securities.

As of January 2, 2016, we had a balance of \$11,759 outstanding under a revolving loan under our credit facility. The interest rate on this loan is computed based on a LIBOR and Prime loan rate, adjusted by features specified in our loan agreement. At our debt level as of January 2, 2016, 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. At January 2, 2016, our LIBOR based interest rate was 2.69% per annum (on \$11,700 principal) and our Prime based rate was 3.75% per annum (on \$59 principal). Refer to additional discussion in Item 7, under the caption "*Liquidity and Capital Resources – Debt and Available Borrowing Resources*" and in "*Note 6 – Borrowings*" of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

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 gross profit would be lower and operating expenses would 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 gross profit would be higher and operating expenses would 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, a fluctuation of 10% in the Peso/U.S. dollar exchange rate would have approximately a \$1.0 million impact on our Philippine operating expenses for the fifty-three weeks ended January 2, 2016. During fiscal 2014 we hedged a portion of our forecasted foreign currency exposure associated with operating expenses incurred in the Philippines. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. As of January 2, 2016, we had no hedges in place. We are evaluating our options on how to manage this risk and considering various methods to mitigate such risk. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed with the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the specified time periods, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of January 2, 2016 pursuant to Rule 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective to meet the objectives for which they were designed and operated at the reasonable assurance level.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). We assessed the effectiveness of our internal control over financial reporting as of January 2, 2016, based on the “Internal Control — Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission. This assessment was conducted utilizing our documentation of policies and procedures, risk control matrices, gap analysis, key process walk-throughs and management’s knowledge of and interaction with its controls and testing of our key controls.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Based on such assessment and criteria, management has concluded that the internal controls over financial reporting were effective, and were operating at the reasonable assurance level as of January 2, 2016.

Changes in Internal Control Over Financial Reporting

The Company monitors and evaluates on an ongoing basis its internal control over financial reporting in order to improve its overall effectiveness. In the course of these evaluations, the Company modifies and refines its internal processes as conditions warrant. As required by Rule 13a-15(d), the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, also conducted an evaluation of the Company’s internal control over financial reporting to determine whether any changes occurred during the quarter ended January 2, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

ITEM 9B. OTHER INFORMATION

On March 9, 2016, the Board of Directors (the “Board”) of the Company amended the Company’s Amended and Restated Bylaws, effective immediately, to add as a new forum selection provision for the adjudication of certain disputes. The amendment, set forth in Article IX, Section 9.1 of the Amended and Restated Bylaws, provides that, unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court located within the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) shall, to the fullest extent permitted by law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the General Corporation Law of Delaware, the certificate of incorporation of the Company or the Bylaws, or (iv) any action asserting a claim governed by the internal affairs doctrine. The foregoing description is qualified in its entirety by reference to the Amendment to the Amended and Restated Bylaws, a copy of which is attached hereto as Exhibit 3.4 and incorporated herein by reference.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

- (a) *Identification of Directors.* The information under the caption “Election of Directors,” appearing in the Proxy Statement (“Proxy Statement”), is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.
- (b) *Identification of Executive Officers and Certain Significant Employees.* The information under the caption “Executive Compensation and Other Information—Executive Officers,” appearing in the Proxy Statement, is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.
- (c) *Compliance with Section 16(a) of the Exchange Act.* The information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance,” appearing in the Proxy Statement, is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.
- (d) *Code of Ethics.* The information under the caption “Corporate Governance – Code of Ethics and Business Conduct,” appearing in the Proxy Statement, is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.
- (e) *Board Committees.* The information under the caption “Corporate Governance — Board Committees and Meetings,” appearing in the Proxy Statement, is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.

ITEM 11. EXECUTIVE COMPENSATION

The information under the caption “Executive Compensation and Other Information”, appearing in the Proxy Statement, is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.

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

The information under the captions “Securities Authorized for Issuance Under Equity Compensation Plans” and “Ownership of Securities by Certain Beneficial Owners and Management,” appearing in the Proxy Statement, is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.

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

The information under the captions “Corporate Governance — Director Independence” and “Certain Relationships and Related Transactions,” appearing in the Proxy Statement, is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the caption “Fees Paid to Independent Registered Public Accounting Firm,” appearing in the Proxy Statement, is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2015.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

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

	<u>Page</u>
<u>Report of RSM US LLP, independent registered public accounting firm</u>	<u>F- 1</u>
<u>Report of Deloitte & Touche LLP, independent registered public accounting firm</u>	<u>F- 2</u>
<u>Consolidated Balance Sheets as of January 2, 2016 and January 3, 2015</u>	<u>F- 3</u>
<u>Consolidated Statements of Operations and Comprehensive Operations for each of the three years in the period ended January 2, 2016</u>	<u>F- 4</u>
<u>Consolidated Statements of Stockholders' Equity for each of the three years in the period ended January 2, 2016</u>	<u>F- 5</u>
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended January 2, 2016</u>	<u>F- 7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F- 8</u>

(2) *Financial Statement Schedules.*

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

(3) *Exhibits.*

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

EXHIBIT INDEX

Exhibit No.	Description
2.1*	Acquisition Agreement dated May 19, 2006 by and among U.S. Auto Parts Network, Inc. and Partsbin, Inc., on the one hand, and The Partsbin.com, Inc., All OEM Parts, Inc., Power Host, Inc., Auto Parts Web Solutions, Inc., Web Chat Solutions, Inc., Everything Internet, LLC, Richard E. Pine, Lowell E. Mann, Brian Tinari and Todd Daugherty, on the other hand
2.2	Stock Purchase Agreement executed August 2, 2010 among the Acquisition Sub, WAG, Riverside and the other stockholders of WAG (incorporated by reference to Exhibit 10.57 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2010)
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)
3.3	Certificate of Designation, Preferences and Rights of the Series A Convertible Preferred Stock of U.S. Auto Parts Network, Inc. (incorporated by reference to the Current Report on Form 8-K filed on March 25, 2013)
3.4	Amendment to Amended and Restated Bylaws of U.S. Auto Parts Network, Inc.
4.1*	Specimen common stock certificate
10.1+*	U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan
10.2+*	Form of Stock Option Agreement under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.3+*	Form of Notice of Grant of Stock Option under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.4+*	Form of Acceleration Addendum to Stock Option Agreement under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.5+*	U.S. Auto Parts Network, Inc. 2007 Omnibus Plan and Form of Award Agreements
10.6†*	Catalog License and Parts Purchase Agreement dated November 20, 2006 by and between U.S. Auto Parts Network, Inc. and WORLDPAAC, Inc.
10.7+	Form of Indemnification Agreement for Officers and Directors
10.8+	Employment Agreement dated March 23, 2015 between U.S. Auto Parts Network, Inc. and Neil Watanabe (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 24, 2015).
10.9+	Employment Agreement dated May 20, 2015 between U.S. Auto Parts Network, Inc. and David Eisler.
10.10+	Employment Agreement dated February 14, 2014 between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2014)
10.11+	Non-Qualified Stock Option Agreement dated October 15, 2007 between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.12+	Non-Qualified Stock Option Agreement dated October 15, 2007 (performance grant) between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.13+	2007 New Employee Incentive Plan (incorporated by reference to Exhibit 99.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.14+	Employment Agreement dated February 14, 2014, between the Company and Aaron Coleman (incorporated by reference to Exhibit 99.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2014)

Exhibit No.	Description
10.15+	Non-Qualified Stock Option Agreement, dated May 15, 2008, by and between the Company and Shane Evangelist (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 15, 2008)
10.16	Commercial Lease Agreement dated December 16, 2008 by and between U.S. Auto Parts Network, Inc. and Ashley Indian River, LLC (incorporated by reference to Exhibit 10.66 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 26, 2009)
10.17	Contract of Lease dated January 7, 2010 by and between U.S. Autoparts Network Philippines Corporation and Robinsons Land Corporation (incorporated by reference to Exhibit 10.56 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2010)
10.18	Agreement of Sublease dated September 22, 2011 by and between the Company and Timec Company Inc. ((incorporated by reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q filed with the Securities Exchange and Commission on November 9, 2011)
10.19+	U.S. Auto Parts Network Inc. Director Payment Election Plan (incorporated by reference to Exhibit 10.68 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2011)
10.20	Credit Agreement, dated April 26, 2012, by and between U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JP Morgan Chase Bank, N.A. (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 30, 2012)
10.21	First Amended Credit Agreement, effective as of March 12, 2013, by and between U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.78 to the Annual Report on Form 10-K for the fiscal year ended December 29, 2012 filed with the Securities Exchange Commission on March 25, 2013)
10.22	Second Amended Credit Agreement, effective as of March 25, 2013, by and between U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to exhibit 10.79 to the Current Report on Form 8-k filed with the Securities and Exchange Commission on March 25, 2013)
10.23	Purchase and Sale Agreement dated April 17, 2013 by and among Whitney Automotive Group, Inc. and STORE Capital Acquisitions, LLC (incorporated by reference to the Current Report on Form 8-K filed on April 23, 2013)
10.24	Lease Agreement dated April 17, 2013 by and among U.S. Auto Parts Network, Inc. and STORE Master Funding III, LLC (incorporated by reference to the Current Report on Form 8-K filed on April 23, 2013)
10.25+	Employment Agreement dated February 14, 2014 between the Company and Bryan P. Stevenson. (incorporated by reference to Exhibit 99.6 to the Current Report on Form 8-k filed with the Securities and Exchange Commission on February 18, 2014)
10.26+	Form of Stock Unit Award Agreement (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2014)
10.27+	Form of Stock Unit Award Agreement under the U.S. Auto Parts Network, Inc. 2007 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-k filed with the Securities and Exchange Commission on February 18, 2014)
10.28	Third Amendment to Credit Agreement dated as of August 2, 2013 by and between U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to the Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2013)
10.29	Fourth Amendment to Credit Agreement dated August 4, 2014 by and between U.S. Auto Parts Network, Inc., certain of its wholly-owned domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 5, 2014)
10.30	Common Stock Purchase Agreement, dated October 8, 2014, by and among AutoMD, Inc., U.S. Auto Parts Network, Inc., Muzzy-Lyon Auto Parts, Inc., Manheim Investments, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)
10.31	Investor Rights Agreement, dated October 8, 2014, by and among AutoMD, Inc., U.S. Auto Parts Network, Inc., Muzzy-Lyon Auto Parts, Inc., Manheim Investments, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)

Exhibit No.	Description
10.32	Voting Agreement, dated October 8, 2014, by and among AutoMD, Inc., U.S. Auto Parts Network, Inc., Muzzy-Lyon Auto Parts, Inc., Manheim Investments, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)
10.33	Right of First Refusal and Co-Sale Agreement, dated October 8, 2014, by and among AutoMD, Inc., U.S. Auto Parts Network, Inc., Muzzy-Lyon Auto Parts, Inc., Manheim Investments, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)
10.34	Fifth Amendment to Credit Agreement and First Amendment to Pledge and Security Agreement, dated October 8, 2014, by and among U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)
10.35	Sixth Amendment to Credit Agreement and First Amendment to Pledge and Security Agreement, dated January 2, 2015, by and among U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A (incorporated by reference to the Current Report on Form 8-K filed on January 5, 2015)
10.36	Board Candidate Agreement dated March 20, 2014 between the Company and Timothy Maguire and Maguire Asset Management LLC (incorporated by reference to the Current Report on Form 8-K filed on March 23, 2014)
10.37	Seventh Amendment to Credit Agreement and Second Amendment to Pledge and Security Agreement, dated March 24, 2015, by and among U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on May 13, 2015)
10.38	Eighth Amendment to Credit Agreement and Third Amendment to Pledge and Security Agreement, dated February 5, 2016, by and among U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A
10.39+	Form of Performance Restricted Stock Unit Award Agreement under the U.S. Auto Parts Network, Inc. 2007 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2016)
10.40+	Form of Performance Cash Bonus Award Agreement under the U.S. Auto Parts Network, Inc. 2007 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2016)
10.41+	AutoMD, Inc. 2014 Equity Incentive Plan
10.42+	AutoMD, Inc. Stock Option Grant Notice and Option Agreement, dated January 29, 2015, between AutoMD, Inc. and Shane Evangelist
10.43	Deed of Lease dated February 4, 2016 by and between U.S. Auto Parts Network, Inc. and Liberty Property Limited Partnership
21.1	Subsidiaries of U.S. Auto Parts Network, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Independent Registered Public Accounting Firm
31.1	Certification of the Principal Executive Officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of the Principal Financial Officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of the Chief Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

Exhibit

<u>No.</u>	<u>Description</u>
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
†	U.S. Auto Parts Network, Inc. has been granted confidential treatment with respect to certain portions of this exhibit (indicated by asterisks), which have been separately filed with the Securities and Exchange Commission.

SIGNATURES

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

Date: March 10, 2016

U.S. AUTO PARTS NETWORK, INC.

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

POWER OF ATTORNEY

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Shane Evangelist</u> Shane Evangelist	Chief Executive Officer and Director (principal executive officer)	March 10, 2016
<u>/s/ Neil Watanabe</u> Neil Watanabe	Chief Financial Officer (principal financial and accounting officer)	March 10, 2016
<u>/s/ Robert J. Majteles</u> Robert J. Majteles	Chairman of the Board	March 10, 2016
<u>/s/ Joshua L. Berman</u> Joshua L. Berman	Director	March 10, 2016
<u>/s/ Fredric W. Harman</u> Fredric W. Harman	Director	March 10, 2016
<u>/s/ Jay K. Greyson</u> Jay K. Greyson	Director	March 10, 2016
<u>/s/ Sol Khazani</u> Sol Khazani	Director	March 10, 2016
<u>/s/ Warren B. Phelps III</u> Warren B. Phelps III	Director	March 10, 2016
<u>/s/ Barbara Palmer</u> Barbara Palmer	Director	March 10, 2016
<u>/s/ Bradley E. Wilson</u> Bradley E. Wilson	Director	March 10, 2016

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Report of RSM US LLP, independent registered public accounting firm</u>	<u>F- 1</u>
<u>Report of Deloitte & Touche LLP, independent registered public accounting firm</u>	<u>F- 2</u>
<u>Consolidated Balance Sheets as of January 2, 2016 and January 3, 2015</u>	<u>F- 3</u>
<u>Consolidated Statements of Operations and Comprehensive Operations for each of the three years in the period ended January 2, 2016</u>	<u>F- 4</u>
<u>Consolidated Statements of Stockholders' Equity for each of the three years in the period ended January 2, 2016</u>	<u>F- 5</u>
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended January 2, 2016</u>	<u>F- 7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F- 8</u>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of U.S. Auto Parts Network, Inc. and subsidiaries as of January 2, 2016, and the related consolidated statements of operations and comprehensive operations, stockholders' equity, and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. Auto Parts Network, Inc. and subsidiaries as of January 2, 2016 and the results of their operations and their cash flows for the fiscal year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Los Angeles, CA
March 10, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
U.S. Auto Parts Network, Inc.
Carson, CA

We have audited the accompanying consolidated balance sheet of U.S. Auto Parts Network, Inc. and subsidiaries (the "Company") as of January 3, 2015, and the related consolidated statements of operations and comprehensive operations, stockholders' equity, and cash flows for the years ended January 3, 2015 and December 28, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of U.S. Auto Parts Network, Inc. and subsidiaries as of January 3, 2015 and the results of their operations and their cash flows for the years ended January 3, 2015 and December 28, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, CA

March 19, 2015

(March 10, 2016, as to the disclosure of the approximate distribution of Base USAP online revenue by product type for fiscal years 2014 and 2013 included in Note 15 - Segment Information)

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par and Per Share Liquidation Value)

	January 2, 2016	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,537	\$ 7,653
Short-term investments	65	62
Accounts receivable, net of allowances of \$17 and \$41 at January 2, 2016 and January 3, 2015, respectively	3,236	3,804
Inventory	51,216	48,362
Other current assets	2,475	2,669
Total current assets	62,529	62,550
Property and equipment, net	18,431	16,966
Intangible assets, net	1,476	1,707
Other non-current assets	1,320	1,684
Total assets	\$ 83,756	\$ 82,907
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 25,523	\$ 25,362
Accrued expenses	7,267	7,747
Revolving loan payable	11,759	11,022
Current portion of capital leases payable	521	269
Other current liabilities	3,854	3,505
Total current liabilities	48,924	47,905
Capital leases payable, net of current portion	10,168	9,270
Deferred income taxes	944	1,618
Other non-current liabilities	1,577	1,891
Total liabilities	61,613	60,684
Commitments and contingencies		
Stockholders' equity:		
Series A convertible preferred stock, \$0.001 par value; \$1.45 per share liquidation value or aggregate of \$6,017; 4,150 shares authorized; 4,150 and 4,150 shares issued and outstanding at January 2, 2016 and January 3, 2015, respectively	4	4
Common stock, \$0.001 par value; 100,000 shares authorized; 34,137 and 33,624 shares issued and outstanding at January 2, 2016 and January 3, 2015, respectively	34	33
Additional paid-in-capital	176,873	174,369
Accumulated other comprehensive income	440	360
Accumulated deficit	(157,011)	(155,489)
Total stockholders' equity	20,340	19,277
Noncontrolling interest	1,803	2,946
Total equity	22,143	22,223
Total liabilities and equity	\$ 83,756	\$ 82,907

See accompanying notes to consolidated financial statements.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE OPERATIONS
(In Thousands, Except Per Share Data)

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Net sales	\$ 291,091	\$ 283,508	\$ 254,753
Cost of sales ⁽¹⁾	207,657	205,058	180,620
Gross profit	83,434	78,450	74,133
Operating expenses:			
Marketing	43,279	42,008	41,045
General and administrative	16,509	16,701	17,567
Fulfillment	20,237	20,368	18,702
Technology	5,000	4,863	5,128
Amortization of intangible assets	464	422	381
Impairment loss on property and equipment	—	—	4,832
Impairment loss on intangible assets	—	—	1,245
Total operating expenses	85,489	84,362	88,900
Loss from operations	(2,055)	(5,912)	(14,767)
Other income (expense):			
Other income, net	36	65	148
Interest expense	(1,216)	(1,101)	(972)
Total other expense, net	(1,180)	(1,036)	(824)
Loss before income taxes	(3,235)	(6,948)	(15,591)
Income tax (benefit) provision	(811)	138	43
Net loss including noncontrolling interests	(2,424)	(7,086)	(15,634)
Net loss attributable to noncontrolling interests	(1,143)	(207)	—
Net loss attributable to U.S. Auto Parts	(1,281)	(6,879)	(15,634)
Other comprehensive income attributable to U.S. Auto Parts, net of tax:			
Foreign currency translation adjustments	36	20	55
Actuarial loss on defined benefit plan	44	(106)	—
Unrealized gains on investments	—	—	7
Total other comprehensive income (loss) attributable to U.S. Auto Parts	80	(86)	62
Comprehensive loss attributable to U.S. Auto Parts	\$ (1,201)	\$ (6,965)	\$ (15,572)
Basic and diluted net loss per share	\$ (0.04)	\$ (0.21)	\$ (0.48)
Shares used in computation of basic and diluted net loss per share	33,946	33,489	32,697

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

See accompanying notes to consolidated financial statements.

U.S AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands)

	Preferred Stock		Common Stock		Additional Paid-in- Capital	Preferred Stock Dividend Distributable	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount							
Balance, December 29, 2012	—	—	31,128	\$ 31	\$159,781	—	\$ 384	(132,552)	\$ 27,644	—	27,644
Net loss	—	—	—	—	—	—	—	(15,634)	(15,634)	—	(15,634)
Issuance of shares in connection with Series A Preferred Stock, net of issuance costs	4,150	4	—	—	5,166	—	—	—	5,170	—	5,170
Issuance of shares in connection with common stock offering, net of issuance costs	—	—	2,050	2	1,989	—	—	—	1,991	—	1,991
Issuance of common stock in connection with preferred stock dividends	—	—	50	—	60	—	—	—	60	—	60
Issuance of shares in connection with stock option exercises	—	—	101	—	183	—	—	—	183	—	183
Issuance of shares in connection with BOD fees	—	—	23	—	31	—	—	—	31	—	31
Share-based compensation	—	—	—	—	1,483	—	—	—	1,483	—	1,483
Common stock dividend distributable on Series A Preferred Stock	—	—	—	—	—	60	—	(120)	(60)	—	(60)
Cash dividends on preferred stock	—	—	—	—	—	—	—	(64)	(64)	—	(64)
Unrealized gain on investments, net of tax	—	—	—	—	—	—	7	—	7	—	7
Effect of changes in foreign currencies	—	—	—	—	—	—	55	—	55	—	55
Balance, December 28, 2013	4,150	4	33,352	33	168,693	60	446	(148,370)	20,866	—	20,866
Issuance of shares of Auto MD common stock	—	—	—	—	2,512	—	—	—	2,512	3,153	5,665
Net loss	—	—	—	—	—	—	—	(6,879)	(6,879)	(207)	(7,086)
Issuance of common stock in connection with preferred stock dividends	—	—	107	—	300	(300)	—	—	—	—	—
Issuance of shares in connection with stock option exercises	—	—	144	—	295	—	—	—	295	—	295
Issuance of shares in connection with restricted stock units vesting	—	—	21	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	2,569	—	—	—	2,569	—	2,569
Common stock dividend distributable on Series A Preferred Stock	—	—	—	—	—	240	—	(240)	—	—	—
Actuarial loss on defined benefit plan	—	—	—	—	—	—	(106)	—	(106)	—	(106)
Effect of changes in foreign currencies	—	—	—	—	—	—	20	—	20	—	20
Balance, January 3, 2015	4,150	4	33,624	33	174,369	—	360	(155,489)	19,277	2,946	22,223

Net loss	—	—	—	—	—	—	—	(1,281)	(1,281)	(1,143)	(2,424)
Issuance of common stock in connection with preferred stock dividends	—	—	103	—	241	(241)	—	—	—	—	—
Issuance of shares in connection with stock option exercises	—	—	301	—	135	—	—	—	135	—	135
Issuance of shares in connection with restricted stock units vesting	—	—	397	—	(809)	—	—	—	(809)	—	(809)

Minimum tax withholding on RSU's	—	—	(151)	1	450	—	—	—	451	—	451
Minimum tax withholdings on Options exercised	—	—	(139)	—	(80)	—	—	—	(80)	—	(80)
Share-based compensation	—	—	—	—	2,565	—	—	—	2,565	—	2,565
Issuance of shares in connection with BOD Fees	—	—	2	—	2	—	—	—	2	—	2
Common stock dividend distributable on Series A Preferred Stock	—	—	—	—	—	241		(241)	—	—	—
Actuarial gain on defined benefit plan	—	—	—	—	—	—	44	—	44	—	44
Effect of changes in foreign currencies	—	—	—	—	—	—	36	—	36	—	36
Balance, January 2, 2016	4,150	\$ 4	34,137	\$ 34	\$176,873	\$ —	\$ 440	\$(157,011)	\$ 20,340	\$ 1,803	\$22,143

See accompanying notes to consolidated financial statements.

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

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Operating activities			
Net loss including noncontrolling interests	\$ (2,424)	\$ (7,086)	\$ (15,634)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization expense	7,510	8,923	12,175
Amortization of intangible assets	464	422	381
Deferred income taxes	(906)	74	59
Share-based compensation expense	2,419	2,371	1,263
Stock awards issued for non-employee director service	2	—	31
Impairment loss on property and equipment	—	—	4,832
Impairment loss on intangible assets	—	—	1,245
Amortization of deferred financing costs	82	81	81
Loss (gain) from disposition of assets	(13)	(96)	(35)
Changes in operating assets and liabilities:			
Accounts receivable	568	1,105	2,403
Inventory	(2,854)	(11,412)	5,740
Other current assets	262	471	954
Other non-current assets	225	(39)	(213)
Accounts payable and accrued expenses	119	6,992	(11,833)
Other current liabilities	475	(302)	(1,054)
Other non-current liabilities	(184)	(261)	472
Net cash provided by (used in) operating activities	5,745	1,243	867
Investing activities			
Additions to property and equipment	(7,780)	(5,556)	(8,325)
Proceeds from sale of property and equipment	13	27	47
Cash paid for intangibles	(25)	(200)	—
Proceeds from sale of marketable securities and investments	—	745	52
Purchases of marketable securities and investments	—	(746)	(7)
Purchases of company-owned life insurance	—	—	(106)
Net cash used in investing activities	(7,792)	(5,730)	(8,339)
Financing activities			
Proceeds from revolving loan payable	15,637	19,506	19,561
Payments made on revolving loan payable	(14,900)	(15,258)	(29,008)
Proceeds from sale-leaseback transaction	—	—	9,584
Proceeds from issuance of Series A convertible preferred stock	—	—	6,017
Payment of issuance costs from Series A convertible preferred stock	—	—	(847)
Proceeds from issuance of common stock	—	—	2,235
Payment of issuance costs from common stock	—	—	(244)
Proceeds from sale of equity in subsidiary	—	7,000	—
Payments on capital leases	(438)	(232)	(198)
Statutory tax withholding payment for share-based compensation	(438)	—	—
Proceeds from exercise of stock options	134	295	183
Payment of liabilities related to financing activities	(100)	—	(64)
Net cash provided by (used in) financing activities	(105)	11,311	7,219
Effect of exchange rate changes on cash	36	11	41
Net change in cash and cash equivalents	(2,116)	6,835	(212)
Cash and cash equivalents, beginning of period	7,653	818	1,030
Cash and cash equivalents, end of period	\$ 5,537	\$ 7,653	\$ 818
Supplemental disclosure of non-cash investing and financing activities:			
Accrued asset purchases	\$ 708	\$ 1,232	\$ 736
Accrued intangible asset purchases	125	—	—
Property acquired under capital lease	1,588	—	322
Unrealized gain on investments	—	—	7
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes	\$ 104	\$ 60	\$ 43
Cash paid during the period for interest	1,145	1,029	884

See accompanying notes to consolidated financial statements.

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

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

U.S. Auto Parts Network, Inc. (including its subsidiaries) is a leading online provider 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. Through AutoMD.com, the Company educates consumers on maintenance and service of their vehicles. The site provides auto information, with tools for diagnosing car troubles, locating repair shops and do-it-yourself (“DIY”) repair guides. Our flagship websites are located at www.autopartswarehouse.com, www.carparts.com, www.jcwhitney.com and www.AutoMD.com and our corporate website is located at www.usautoparts.net. References to the “Company,” “we,” “us,” or “our” refer to U.S. Auto Parts Network, Inc. and its consolidated subsidiaries.

The Company’s products consist of collision parts, engine parts, and performance parts and accessories. The collision parts category is primarily comprised of body parts for the exterior of an automobile. Our parts in this category are typically replacement parts for original body parts that have been damaged as a result of a collision or through general wear and tear. The majority of these products are sold through our websites. In addition, we sell an extensive line of mirror products, including our own private-label brand called Kool-Vue™, which are marketed and sold as aftermarket replacement parts and as upgrades to existing parts. The engine parts category is comprised of engine components and other mechanical and electrical parts. 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 Virginia, Tennessee, Texas, and Illinois, as well as in the Philippines.

Fiscal Year

The Company’s fiscal year is based on a 52/53 week fiscal year ending on the Saturday closest to December 31. The fiscal year ended January 2, 2016 (fiscal year 2015) is a 52 week period, the fiscal year ended January 3, 2015 (fiscal year 2014) is a 53 week period and the fiscal year ended December 28, 2013 (fiscal year 2013) is a 52 week period.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its subsidiaries in which it has a controlling interest. On October 8, 2014, AutoMD, Inc. (“AutoMD”) sold seven million shares of its common stock to third-party investors, reducing the Company’s ownership interest in AutoMD to 64.1%. The 35.9% of AutoMD controlled by third-party investors is being reported as a noncontrolling interest. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company’s equity. All inter-company transactions between and among the Company and its consolidated subsidiaries have been eliminated in consolidation.

Basis of Presentation

During fiscal year 2015, the Company’s revenues increased 2.7% from fiscal 2014 after having increased in fiscal year 2014 by 11.3% from fiscal year 2013. In fiscal year 2015, the Company incurred a net loss of \$1,281, after incurring net losses of \$6,879 and \$15,634 in fiscal years 2014 and 2013, respectively. Based on our current operating plan, we believe that our existing cash, cash equivalents, short-term investments, cash flows from operations and available debt financing will be sufficient to finance our operational cash needs through at least the next twelve months. When compared to fiscal year 2015, we expect our revenues to increase and our net loss to be lower in fiscal year 2016. Should the Company’s operating results not meet expectations in 2016, it could negatively impact our liquidity as we may not be able to provide positive cash flows from operations in order to meet our working capital requirements. We may need to borrow additional funds from our credit facility, which under certain circumstances may not be available, sell assets or seek additional equity or additional debt financing in the future. There can be no assurance that we would be able to raise such additional financing or engage in such additional asset sales on acceptable terms, or at all. If revenues were to decline and the net loss is larger or continues for longer than we expect because our strategies to return to profitability are not successful or otherwise, and if we are not able to raise adequate

additional financing or proceeds from asset sales to continue to fund our ongoing operations, we will need to defer, reduce or eliminate significant planned expenditures, restructure or significantly curtail our operations.

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, those related to revenue recognition, uncollectible receivables, the valuation of short-term investments, valuation of inventory, valuation of deferred tax assets and liabilities, valuation of intangible and other long-lived assets, recoverability of software development costs, contingencies and share-based compensation expense that results from estimated grant date fair values and vesting of issued equity awards. Actual results could differ from these estimates.

Statement of Cash Flows

The net change in the Company's book overdraft is presented as an operating activity in the consolidated statement of cash flows. The book overdraft represents a credit balance in the Company's general ledger but the Company has a positive bank account balance.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

Financial instruments that are not measured at fair value include accounts receivable, accounts payable and debt. Refer to "Note 3 – Fair Value Measurements" for additional fair value information. If the Company's revolving loan payable (see "Note 6 – Borrowings") had been measured at fair value, it would be categorized in Level 2 of the fair value hierarchy, as the estimated value would be based on the quoted market prices for the same or similar issues or on the current rates available to the Company for debt of the same or similar terms. The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term maturities. Short-term investments are carried at fair value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of our revolving loan payable, classified as current liability in our consolidated balance sheet, approximates its carrying amount because the interest rate is variable.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable are stated net of allowance for doubtful accounts. The allowance for doubtful accounts is determined primarily on the basis of past collection experience and general economic conditions. The Company determines terms and conditions for its customers primarily based on the volume purchased by the customer, customer creditworthiness and past transaction history.

Concentrations of credit risk are limited to the customer base to which the Company's products are sold. The Company does not believe significant concentrations of credit risk exist.

Investments

Short-term investments are comprised of closed-end funds primarily invested in mutual funds that hold government bonds and stock and short-term money market funds. Mutual 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. All of the Company's marketable securities and investments are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Company's cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value. No other-than-temporary impairment charges were recorded on any investments during fiscal years presented.

Inventory

Inventories consist of finished goods available-for-sale and are stated at the lower of cost or market value, determined using the first-in first-out (“FIFO”) method. The Company purchases inventory from suppliers both domestically and internationally, and routinely enters into supply agreements with Asia-Pacific based suppliers of private label products and U.S.-based suppliers who are primarily drop-ship vendors. The Company believes that its products are generally available from more than one supplier and seeks to maintain multiple sources for its products, both internationally and domestically. The Company primarily purchases products in bulk quantities to take advantage of quantity discounts and to ensure inventory availability. Inventory is reported at the lower of cost or market, adjusted for slow moving, obsolete or scrap product. Inventory at January 2, 2016 and January 3, 2015 included items in-transit to our warehouses, in the amount of \$11,120 and \$10,717, respectively.

Website and Software Development Costs

The Company capitalizes certain costs associated with website and software developed for internal use according to ASC 350-50 *Intangibles – Goodwill and Other – Website Development Costs* and ASC 350-40 *Intangibles – Goodwill and Other – Internal-Use Software*, when both the preliminary project design and testing stage are completed and management has authorized further funding for the project, which it deems probable of completion and to be used for the function intended. Capitalized costs include amounts directly related to website and software development such as payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the internal-use software project. Capitalization of such costs ceases when the project is substantially complete and ready for its intended use. These amounts are amortized on a straight-line basis over two to three years once the software is placed into service. The Company capitalized website and software development costs of \$5,664 and \$5,651 during fiscal year 2015 and 2014, respectively. At January 2, 2016 and January 3, 2015, our internally developed website and software costs amounted to \$22,745 and \$40,757, respectively, and the related accumulated amortization and impairment amounted to \$17,669 and \$36,060, respectively. During fiscal year 2013 the Company recognized an impairment loss on websites and software development costs of \$4,832. No impairment was recognized during fiscal years 2015 and 2014.

Long-Lived Assets and Intangibles Subject to Amortization

The Company accounts for the impairment and disposition of long-lived assets, including intangibles subject to amortization, in accordance with ASC 360 *Property, Plant and Equipment* (“ASC 360”). Management assesses potential impairments whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. An impairment loss will result when the carrying value exceeds the undiscounted cash flows estimated to result from the use and eventual disposition of the asset or asset group. Impairment losses will be recognized in operating results to the extent that the carrying value exceeds the discounted future cash flows estimated to result from the use and eventual disposition of the asset or asset group. The Company continually uses judgment when applying these impairment rules to determine the timing of the impairment tests, undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset or asset group. The reasonableness of our judgments could significantly affect the carrying value of our long-lived assets. As of January 2, 2016 and January 3, 2015, the Company’s long-lived assets did not indicate a potential impairment under the provisions of ASC 360, therefore no impairment charges were recorded for fiscal years 2015 and 2014. During the second quarter of 2013, the Company recognized an impairment loss on property and equipment and intangible assets subject to amortization of \$4,832 and \$1,245, respectively. Future impairment losses could result if the fair value of the Company’s long lived assets were to decline.

Deferred Catalog Expenses

Deferred catalog expenses consist of third-party direct costs including primarily creative design, paper, printing, postage and mailing costs for all Company direct response catalogs. Such costs are capitalized as deferred catalog expenses and are amortized over their expected future benefit period. Each catalog is fully amortized within nine months. Deferred catalog expenses are included in other current assets and amounted to \$256 and \$441 at January 2, 2016 and January 3, 2015, respectively.

Deferred Financing Costs

Deferred financing costs are being amortized over the life of the loan using the straight-line method as it is not significantly different from the effective interest method.

Revenue Recognition

The Company recognizes revenue from product sales and shipping revenues, net of promotional discounts and return allowances, when the following revenue recognition criteria are met: persuasive evidence of an arrangement exists, both title and risk of loss or damage have transferred, delivery has occurred, the selling price is fixed or determinable, and collectability is reasonably assured. The Company retains the risk of loss or damage during transit, therefore, revenue from product sales is recognized at the delivery date to customers. Return allowances, which reduce product revenue by the Company's best estimate of expected product returns, are estimated using historical experience.

Revenue from sales of advertising is recorded when performance requirements of the related advertising program agreement are met. For each of the fiscal years ended 2015, 2014 and 2013, the advertising revenue represented approximately 1%, of our total revenue.

The Company evaluates the criteria of ASC 605-45 *Revenue Recognition Principal Agent Considerations* in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when the Company is the primary party obligated in a transaction, the Company is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at gross.

Payments received prior to the delivery of goods to customers are recorded as deferred revenue.

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

Sales discounts are recorded in the period in which the related sale is recognized. Sales return allowances are estimated based on historical amounts and are recorded upon recognizing the related sales. Credits are issued to customers for returned products. Credits for returned products amounted to \$23,543, \$24,903, and \$24,618 for fiscal year 2015, 2014 and 2013, respectively.

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

The following table provides an analysis of the allowance for sales returns and the allowance for doubtful accounts (in thousands):

	Balance at Beginning of Period	Charged to Revenue, Cost or Expenses	Deductions	Balance at End of Period
Fifty-Two Weeks Ended January 2, 2016				
Allowance for sales returns	\$ 897	\$ 23,655	\$ (23,543)	\$ 1,009
Allowance for doubtful accounts	41	29	(53)	17
Fifty-Three Weeks Ended January 3, 2015				
Allowance for sales returns	\$ 893	\$ 24,907	\$ (24,903)	\$ 897
Allowance for doubtful accounts	213	64	(236)	41
Fifty-Two Weeks Ended December 28, 2013				
Allowance for sales returns	\$ 1,364	\$ 24,147	\$ (24,618)	\$ 893
Allowance for doubtful accounts	221	181	(189)	213

Cost of Sales

Cost of sales consists of the direct costs associated with procuring parts from suppliers and delivering products to customers. These costs include direct product costs, outbound freight and shipping costs, warehouse supplies and warranty costs, partially offset by purchase discounts and cooperative advertising. Total freight and shipping expense included in cost of sales for fiscal year 2015, 2014 and 2013 was \$41,250, \$40,428, and \$34,182, respectively. Depreciation and amortization expenses are excluded from cost of sales and included in marketing, general and administrative and fulfillment expenses.

Warranty Costs

The Company or the vendors supplying its products provide the Company's customers limited warranties on certain products that range from 30 days to lifetime. Historically, the Company's vendors have been the party primarily responsible for warranty claims. Standard product warranties sold separately by the Company are recorded as deferred revenue and recognized

ratably over the life of the warranty, ranging from one to five years. The Company also offers extended warranties that are imbedded in the price of selected private label products sold. The product brands that include the extended warranty coverage are offered at three different service levels: (a) a five year unlimited product replacement, (b) a five year one-time product replacement, and (c) a three year one-time product replacement. Warranty costs relating to merchandise sold under warranty not covered by vendors are estimated and recorded as warranty obligations at the time of sale based on each product's historical return rate and historical warranty cost. The standard and extended warranty obligations are recorded as warranty liabilities and included in other current liabilities in the consolidated balance sheets. For the fiscal year 2015 and 2014, the activity in the aggregate warranty liabilities was as follows (in thousands):

	January 2, 2016	January 3, 2015
Warranty liabilities, beginning of period	\$ 218	\$ 296
Adjustments to preexisting warranty liabilities	(109)	(123)
Additions to warranty liabilities	53	119
Reductions to warranty liabilities	(52)	(74)
Warranty liabilities, end of period	\$ 110	\$ 218

Marketing Expense

Marketing costs, including advertising, are expensed as incurred. The majority of advertising expense is paid to internet search engine service providers and internet commerce facilitators. For fiscal year 2015, 2014 and 2013, the Company recognized advertising costs of \$20,251, \$18,485 and \$16,619, respectively. Marketing costs also include depreciation and amortization expense and share-based compensation expense.

General and Administrative Expense

General and administrative expense consists primarily of administrative payroll and related expenses, merchant processing fees, legal and professional fees and other administrative costs. General and administrative expense also includes depreciation and amortization expense and share-based compensation expense.

Fulfillment Expense

Fulfillment expense consists primarily of payroll and related costs associated with warehouse employees and the Company's purchasing group, facilities rent, building maintenance, depreciation and other costs associated with inventory management and wholesale operations. Fulfillment expense also includes share-based compensation expense.

Technology Expense

Technology expense consists primarily of payroll and related expenses of our information technology personnel, the cost of hosting the Company's servers, communications expenses and Internet connectivity costs, computer support and software development amortization expense. Technology expense also includes share-based compensation expense.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC 718 *Compensation – Stock Compensation* ("ASC 718"). All share-based payment awards issued to employees are recognized as share-based compensation expense in the financial statements based on their respective grant date fair values, and are recognized within the statement of comprehensive income or loss as marketing, general and administrative, fulfillment or technology expense, based on employee departmental classifications. Under this standard, compensation expense for both time-based and performance-based restricted stock units is based on the closing stock price of our common shares on the date of grant, and is recognized on a straight-line basis over the requisite service period. Compensation expense for performance-based awards is measured based on the amount of shares ultimately expected to vest, estimated at each reporting date based on management's expectations regarding the relevant performance criteria. Compensation expense for stock options is based on the fair value estimated on the date of grant using an option pricing model, and is recognized over the vesting period of three to four years. The Company currently uses the Black-Scholes option pricing model to estimate the fair value of share-based payment awards for such stock options, which 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.

The Company incorporates its own historical volatility into the grant-date fair value calculations for the stock options. The expected term of an award is based on combining historical exercise data with expected weighted time outstanding.

Expected weighted time outstanding is calculated by assuming the settlement of outstanding awards is at the midpoint between the remaining weighted average vesting date and the expiration date. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected life of awards. The dividend yield assumption is based on the Company's expectation of paying no dividends on its common stock. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures significantly differ from those estimates. The Company considers many factors when estimating expected forfeitures, including employee class, economic environment, and historical experience.

The Company accounts for equity instruments issued in exchange for the receipt of services from 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 other than 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 reliably measurable. The value of equity instruments issued for consideration 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.

The Company accounts for modifications to its share-based payment awards in accordance with the provisions of ASC 718. Incremental compensation cost is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the share price and other pertinent factors at that date, and is recognized as compensation cost on the date of modification (for vested awards) or over the remaining service (vesting) period (for unvested awards). Any unrecognized compensation cost remaining from the original award is recognized over the vesting period of the modified award.

Other Income, net

Other income, net consists of miscellaneous income or expense such as gains/losses from disposition of assets, and interest income comprised primarily of interest income on investments.

Interest Expense

Interest expense consists primarily of interest expense on our outstanding loan balance, deferred financing cost amortization, and capital lease interest.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740 *Income Taxes* ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When appropriate, a valuation allowance is established to reduce deferred tax assets, which include tax credits and loss carry forwards, to the amount that is more likely than not to be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years, tax planning strategies and recent financial operations.

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. As of January 2, 2016, 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 interest and penalties as income tax expense.

Taxes Collected from Customers and Remitted to Governmental Authorities

We present taxes collected from customers and remitted to governmental authorities on a net basis in accordance with the guidance on ASC 605-45-50-3 *Taxes Collected from Customers and Remitted to Governmental Authorities*.

Leases

The Company analyzes lease agreements for operating versus capital lease treatment in accordance with ASC 840 *Leases*. Rent expense for leases designated as operating leases is expensed on a straight-line basis over the term of the lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as a capital lease asset and a capital lease payable in the consolidated balance sheets. Amounts due within one year are classified as current liabilities and the remaining balance as non-current liabilities.

Foreign Currency Translation

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

Comprehensive Income

The Company reports comprehensive income or loss in accordance with ASC 220 *Comprehensive Income*. Accumulated other comprehensive income or loss, included in the Company's consolidated balance sheets, includes foreign currency translation adjustments related to the Company's foreign operations, actuarial gains and losses on the Company's defined benefit plan and unrealized holding gains and losses from available-for-sale marketable securities and investments. The Company presents the components of net income or loss and other comprehensive income or loss in its consolidated statements of comprehensive operations.

Segment Data

The Company operates in two reportable operating segments. The criteria we use to identify operating segments are primarily the nature of the products we sell or services we provide and the consolidated operating results that are regularly reviewed by our chief operating decision maker to assess performance and make operating decisions. We identified two reportable operating segments, Base USAP, which is the core auto parts business, and AutoMD, an online automotive repair source, in accordance with ASC 280 *Segment Reporting* ("ASC 280").

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, "Leases" ("ASU 2016-02"). The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is evaluating the effect that ASU 2016-02 will have on the consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has the effect of the standard on ongoing financial reporting been determined.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Simplifying the Measurement of Inventory," ("ASU 2015-11") which requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. The new standard is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments in ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is evaluating the effect that ASU 2015-11 will have on the consolidated financial statements and related disclosures. The Company has not yet determined the effect of the standard on ongoing financial reporting.

In November 2014, the FASB issued Accounting Standards Update No. 2014-16 "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity". The objective of this Update is to eliminate the use of different methods in practice and thereby reduce existing diversity under GAAP in the accounting for hybrid financial instruments issued in the form of a share. The new standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company has evaluated the effect that ASU 2014-16 will have on the consolidated financial statements and related disclosures, and it is believed it will not have a material impact on our financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, "Revenue from Contracts with Customers," ("ASU 2014-9") which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years beginning after December 15, 2016.

Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-9 will have on the consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has the effect of the standard on ongoing financial reporting been determined.

In August 2014, the FASB issued Accounting Standards Updated No. 2014-15 "Presentation of Financial Statements - Going Concern" ("ASU 2014-15"), which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements (or within one year after the date on which the financial statements are available to be issued, when applicable). Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. The Company is evaluating the impact the adoption of ASU 2014-15 will have on its consolidated financial statements.

Note 2 – Short-term investments

As of January 2, 2016, the Company held the following short-term investments, recorded at fair value:

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
Mutual funds ⁽¹⁾	\$ 65	\$ —	\$ —	\$ 65

As of January 3, 2015, the Company held the following short-term investments, recorded at fair value:

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
Mutual funds ⁽¹⁾	\$ 62	\$ —	\$ —	\$ 62

- (1) Mutual 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 consolidated statements of cash flow. For fiscal years 2015 and 2014, the Company recognized no realized gain or loss of from the sale of mutual funds.

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.

We measure our financial assets and liabilities at fair value on a recurring basis using the following valuation techniques:

- Market Approach – uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Income Approach – uses valuation techniques to convert future estimated cash flows to a single present amount based on current market expectations about those future amounts, using present value techniques.

Financial Assets Valued on a Recurring Basis

As of January 2, 2016 and January 3, 2015, 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 cash and cash equivalents and short-term investments. The following table represents our fair value hierarchy and the valuation techniques used for financial assets measured at fair value on a recurring basis:

	January 2, 2016				Valuation Techniques
	Total	Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents ⁽¹⁾	\$ 5,537	\$ 5,537	\$ —	\$ —	(a)
Short-term investments – mutual funds ⁽²⁾	65	65	—	—	(a)
	<u>\$ 5,602</u>	<u>\$ 5,602</u>	<u>\$ —</u>	<u>\$ —</u>	

	January 3, 2015				Valuation Techniques
	Total	Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents ⁽¹⁾	\$ 7,653	\$ 7,653	\$ —	\$ —	(a)
Short-term investments – mutual funds ⁽²⁾	62	62	—	—	(a)
	<u>\$ 7,715</u>	<u>\$ 7,715</u>	<u>\$ —</u>	<u>\$ —</u>	

- (1) Cash equivalents consist primarily of money market funds and short-term investments 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, classified as 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.

During fiscal year 2015 and 2014, there were no transfers into or out of Level 1 and Level 2 assets.

Non-Financial Assets Valued on a Non-Recurring Basis

The Company's long-lived assets, including intangible assets subject to amortization, 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 January 2, 2016 and January 3, 2015, the Company determined long-lived assets, including intangible assets, was not impaired, as such, they were not measured at fair value. If such non-financial assets had been measured at fair value, they would be categorized in Level 3 of the fair value hierarchy, as the Company would be required to develop its own assumptions and analysis to determine if such non-financial assets were impaired.

Note 4 – Property and Equipment, Net

The Company's fixed assets are stated at cost less accumulated depreciation, amortization and impairment. Depreciation and amortization expense are provided for in amounts sufficient to relate the cost of depreciable and amortizable assets to operations over their estimated service lives. Depreciation and amortization expense for fiscal year 2015, 2014 and 2013 was \$7,510, \$8,923 and \$12,175, respectively, which includes amortization expense of \$475, \$475 and \$317, respectively, for capital leased assets. The cost and related accumulated depreciation of assets retired or otherwise disposed of are removed from the accounts and the resultant gain or loss is reflected in earnings.

The Company accounts for the impairment of property and equipment in accordance with ASC 360. As of January 2, 2016, the Company determined property and equipment was not impaired. During the second quarter of 2013, the Company identified adverse events related to the Company's overall financial performance, including accelerating downward trend in the Company's revenues and gross margin, which indicated that the carrying amount of certain property and equipment may not be recoverable. Given the indicators of impairment, the Company utilized the royalty savings method rather than cost method in determining the fair values, using a discount rate of 14.5% and royalty rate of 1.0%. Based on its analysis, the Company

recognized an impairment loss on internally developed software of \$4,832. Any future decline in the fair value of an asset group could result in future impairments. All impairment losses in fiscal years 2013 are included in the Base USAP reportable segment.

Property and equipment consisted of the following at January 2, 2016 and January 3, 2015:

	January 2, 2016	January 3, 2015
Land	\$ 630	\$ 630
Building	8,877	8,877
Machinery and equipment	12,334	9,799
Computer software (purchased and developed) and equipment	27,083	45,170
Vehicles	136	136
Leasehold improvements	1,474	1,761
Furniture and fixtures	1,039	1,036
Construction in process	1,588	1,904
	53,161	69,313
Less accumulated depreciation, amortization and impairment	(34,730)	(52,347)
Property and equipment, net	\$ 18,431	\$ 16,966

On April 17, 2013, the Company's wholly-owned subsidiary, Whitney Automotive Group, Inc. ("WAG") entered into a sales leaseback for its facility in LaSalle, Illinois, receiving \$9,750 pursuant to a purchase and sale agreement dated April 17, 2013 between WAG and STORE Capital Acquisitions, LLC. The Company used the net proceeds of \$9,507 (net of \$77 in legal fees) from this sale to reduce its revolving loan payable. Simultaneously with the execution of the purchase and sale agreement and the closing of the sale of the property, the Company entered into a lease agreement with STORE Master Funding III, LLC ("STORE") whereby we leased back the property for our continued use as an office, retail and warehouse facility for storage, sale and distribution of automotive parts, accessories and related items for 20 years, terminating on April 30, 2033. The related assets represent the amounts included in land and building in the summary above. The Company's initial base annual rent is \$853 for the first year ("Base Rent Amount"), after which the rental amount will increase annually on May 1 by the lesser of 1.5% or 1.25 times the change in the Consumer Price Index as published by the U.S. Department of Labor's Bureau of Labor Statistics, except that in no event will the adjusted annual rental amount fall below the Base Rent Amount. We were not required to pay any security deposit. Under the terms of the lease, we are required to pay all taxes associated with the lease, pay for any required maintenance on the property, maintain certain levels of insurance and indemnify STORE for losses incurred that are related to our use or occupancy of the property. The lease was accounted for as a capital lease and the \$376 excess of the net proceeds over the net carrying amount of the property is amortized in interest expense on a straight-line basis over the lease term of 20 years. As of January 2, 2016, the gross carrying value, the accumulated depreciation and the net carrying value of all capital leased assets included in property and equipment were \$11,543, \$1,839 and \$9,704, respectively. As of January 3, 2015, the gross carrying value, the accumulated depreciation and the net carrying value of all capital leased assets included in property and equipment were \$9,643, \$907 and \$8,736, respectively.

Construction in process primarily relates to the Company's internally developed software. Certain of the Company's net property and equipment were located in the Philippines as of January 2, 2016 and January 3, 2015, in the amount of \$302 and \$244, respectively.

Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes, at rates based on the following estimated useful lives:

	Years
Machinery and equipment	2 - 5
Computer software (purchased and developed)	2 - 3
Computer equipment	2 - 5
Vehicles	3 - 5
Leasehold improvements*	3 - 5
Furniture and fixtures	3 - 7
Facility subject to capital lease	20

* The estimated useful life is the lesser of 3-5 years or the lease term.

Note 5 – Intangible Assets, Net

Intangible assets consisted of the following at January 2, 2016 and January 3, 2015:

		January 2, 2016			January 3, 2015		
	Useful Life	Gross Carrying Amount	Accumulated Amort. and Impairment	Net Carrying Amount	Gross Carrying Amount	Accum. Amort. and Impairment	Net Carrying Amount
Intangible assets subject to amortization:							
Product design intellectual property	4 years	2,750	(2,361)	389	2,750	(2,102)	648
Patent license agreements	3 - 5 years	562	(219)	343	537	(94)	443
Domain and trade names	10 years	1,407	(663)	744	1,199	(583)	616
Total		\$ 4,719	\$ (3,243)	\$ 1,476	\$ 4,486	\$ (2,779)	\$ 1,707

Intangible assets subject to amortization are amortized on a straight-line basis. Amortization expense relating to intangibles totaled \$464, \$422 and \$381 for fiscal year 2015, 2014 and 2013, respectively.

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

2016	\$ 482
2017	344
2018	185
2019	100
2020	100
Thereafter	265
Total	<u>\$ 1,476</u>

Note 6 – Borrowings

The Company maintains an asset-based revolving credit facility that provides for, among other things a revolving commitment in an aggregate principal amount of up to \$30,000, which is subject to a borrowing base derived from certain receivables, inventory and property and equipment. Upon satisfaction of certain conditions, the Company has the right to increase the revolving commitment to up to \$40,000. The Company, to date, has not requested such increases. The credit facility matures on April 26, 2017. At January 2, 2016, our outstanding revolving loan balance was \$11,759. The customary events of default under the credit facility (discussed below) include certain subjective acceleration clauses, which management has determined the likelihood of such acceleration is more than remote, considering the recurring losses experienced by the Company, therefore a current classification of our revolving loan payable was required.

On February 5, 2016, the Company and JPMorgan Chase Bank, N.A. (“JPMorgan”) entered into an Eighth Amendment to Credit Agreement and Third Amendment to Pledge and Security Agreement (the “Amendment”), which amended the Credit Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012 (as amended, the “Credit Agreement”) and the Pledge and Security Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012. Pursuant to the Amendment, JPMorgan increased its revolving commitment from \$25,000 to \$30,000, which is subject to a borrowing base derived from certain receivables, inventory, property and pledged cash.

The following amendments to the Credit Agreement and Security Agreement were also made under the Eighth Amendment:

- The aggregate principal amount of indebtedness that is permitted related to capital leases was increased from \$1,500 to \$2,000.
- The Amendment provides that loans drawn under the Credit Agreement will bear interest at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.5% or (b) a “base rate”, subject to an increase or reduction by up to 0.25% per annum based on the Company’s fixed charge coverage ratio. A commitment fee, based upon undrawn availability under the Credit Facility bearing interest at a rate of 0.25% per annum, is payable monthly. At January 2, 2016, the Company’s LIBOR based interest rate was 2.69% (on \$11,700 principal) and the Company’s prime based rate was 3.75% (on \$59 principal).
- The Credit Agreement previously contained an “Availability Block” (as defined under the Credit Agreement) of \$2,000 through June 30, 2016; however, the “Availability Block” was eliminated effective upon the execution of the Amendment. In the event that “excess availability” (as defined under the Credit Agreement) is less than \$2,400, the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 (with the trigger subject to adjustment based on the Company’s revolving commitment). The Company’s excess availability was \$8,803 at January 2, 2016.
- Under the terms of the Security Agreement, cash receipts are deposited into a lock-box, which are at the Company’s discretion unless the “cash dominion period” is in effect, during which cash receipts will be used to reduce amounts owing under the Credit Agreement. The cash dominion period is triggered in an event of default or if excess availability is less than the \$3,600 for five business days (on a cumulative rather than a consecutive basis), and will continue until, during the preceding 60 consecutive days, no event of default existed and excess availability has been greater than \$3,600 at all times (with the trigger subject to adjustment based on the Company’s revolving commitment). As of the date hereof, the cash dominion period has not been in effect; accordingly no principal payments are currently due.
- The Company’s required excess availability related to the “Covenant Testing Trigger Period” (as defined under the Credit Agreement) under the revolving commitment under the Credit Agreement has been increased to less than \$2,400 from less than \$2,000 for the period commencing on any day that excess availability is less than \$2,400 for five business days (on a cumulative rather than a consecutive basis), and continuing until excess availability has been greater than or equal to \$2,400 at all times for 45 consecutive days (with the trigger subject to adjustment based on the Company’s revolving commitment).
- The trigger, requiring the Company to provide certain reports under the Credit Agreement, relating to excess availability under the revolving commitment under the Credit Agreement, has been reduced to less than \$3,600 from less than \$4,000 for the period commencing on any day that excess availability is less than \$3,600 for five business days (on a cumulative rather than a consecutive basis), and continuing until excess availability has been greater than or equal to \$3,600 at all times for 45 consecutive days (with the trigger subject to adjustment based on the Company’s revolving commitment).

In addition, certain negative covenants applicable to the Company and AutoMD related to certain contractual and financial tests to permit the Company and AutoMD to consummate certain obligations set forth in the agreements entered into by the Company and AutoMD on October 8, 2014 (the “Financing Documents”) in connection with the sale of AutoMD common stock to certain investors (the “AutoMD Financing”) have been revised increasing the availability requirement to \$2,400 before and after giving effect to the consummation of such obligations. The negative covenants have been further revised to allow for the sale of up to 2,000 shares of AutoMD common stock by the Company.

Certain of the Company’s domestic subsidiaries are co-borrowers (together with the Company, the “Borrowers”) under the Credit Agreement, and certain other domestic subsidiaries are guarantors (the “Guarantors” and, together with the Borrowers, the “Loan Parties”) under the Credit Agreement. The Borrowers and the Guarantors are jointly and severally liable for the Borrowers’ obligations under the Credit Agreement. The Loan Parties’ obligations under the Credit Agreement are secured, subject to customary permitted liens and certain exclusions, by a perfected security interest in (a) all tangible and intangible assets and (b) all of the capital stock owned by the Loan Parties (limited, in the case of foreign subsidiaries, to 65% of the capital stock of such foreign subsidiaries). The Borrowers may voluntarily prepay the loans at any time. The Borrowers

are required to make mandatory prepayments of the loans (without payment of a premium) with net cash proceeds received upon the occurrence of certain “prepayment events,” which include certain sales or other dispositions of collateral, certain casualty or condemnation events, certain equity issuances or capital contributions, and the incurrence of certain debt.

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, fundamental changes, investments, dispositions, prepayment of other indebtedness, mergers, and dividends and other distributions.

Events of default under the Credit Agreement include: failure to timely make payments due under the Credit Agreement; material misrepresentations or misstatements under the Credit Agreement and other related agreements; failure to comply with covenants under the Credit Agreement and other related agreements; certain defaults in respect of other material indebtedness; insolvency or other related events; certain defaulted judgments; certain ERISA-related events; certain security interests or liens under the loan documents cease to be, or are challenged by the Company or any of its subsidiaries as not being, in full force and effect; any loan document or any material provision of the same ceases to be in full force and effect; and certain criminal indictments or convictions of any Loan Party.

As of January 2, 2016, the Company had capital leases payable of \$10,689. The present value of the net minimum payments on capital leases as of January 2, 2016 is as follows:

Total minimum lease payments	\$ 19,091
Less amount representing interest	(8,402)
Present value of net minimum lease payments	10,689
Current portion of capital leases payable	(521)
Capital leases payable, net of current portion	\$ 10,168

Note 7 – Stockholders’ Equity and Share-Based Compensation

Non-Controlling Interest

Non-controlling interests represent equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to the Company (i.e., minority interests). Non-controlling interests include the minority equity holders' proportionate share of the equity of AutoMD.

Ownership interests in subsidiaries held by parties other than the Company are presented as non-controlling interests within stockholders' equity, separately from the equity held by the Company. Revenues, expenses, net loss and other comprehensive income are reported in the consolidated financial statements at the consolidated amounts, which includes amounts attributable to both the Company's interest and the non-controlling interests in AutoMD. Net loss and other comprehensive income is then attributed to the Company's interest and the non-controlling interests. Net loss to non-controlling interests is deducted from net loss in the consolidated statements of comprehensive operations to determine net loss attributable to the Company's common stockholders.

The table below presents the changes in the Company's ownership interest in AutoMD on the Company's equity:

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Net loss attributable to U.S. Auto Parts stockholders'	\$ (1,281)	\$ (6,879)	\$ (15,634)
Transfers (to) from the noncontrolling interest:			
Increase in U.S. Auto Parts paid-in-capital from sale of AutoMD common stock	—	2,512	—
Changes from net loss attributable to U.S. Auto Parts stockholders' and transfers to noncontrolling interest	\$ (1,281)	\$ (4,367)	\$ (15,634)

Common Stock

The Company has 100,000 shares of common stock authorized. We have never paid cash dividends on our common stock. The following issuances of common stock were made during the fiscal year ended January 2, 2016:

- The Company issued 162 shares of common stock from option exercises under its various share-based compensation plans.

- The Company issued 148 shares of common stock from restricted stock units that vested during the period.
- The Company issued 99 shares of common stock from performance stock units as a result of certain financial metrics being achieved during the period.
- 103 shares of common stock were issued as stock dividends on the Series A Preferred.
- The Company issued 2 shares of common stock to one non-employee member of the Board of Directors for service fees earned during the period.

Series A Convertible Preferred Stock

On March 25, 2013, the Company authorized the issuance of 4,150 shares of Series A Preferred and entered into a Securities Purchase Agreement pursuant to which the Company agreed to sell up to an aggregate of 4,150 shares of our Series A Preferred, \$0.001 par value per share at a purchase price per share of \$1.45 for aggregate proceeds to the Company of approximately \$6,017. On March 25, 2013, we sold 4,000 shares of Series A Preferred for aggregate proceeds of \$5,800. On April 5, 2013, we sold the remaining 150 shares of Series A Preferred for aggregate proceeds of \$217. The Company incurred issuance costs of \$847 and used the net proceeds from the sale of the Series A Preferred to reduce its revolving loan payable.

Each share of Series A Preferred is convertible into shares of our common stock at the initial conversion rate of one share of common stock for each share of Series A Preferred. The conversion will be adjusted for certain non-price based events, such as dividends and distributions on the common stock, stock splits, combinations, recapitalizations, reclassifications, mergers, or consolidations. If not previously converted by the holder, the Series A Preferred will automatically convert to common stock if the volume weighted average price for the common stock for any 30 consecutive trading days is equal to or exceeds \$4.35 per share. The shares that would be issued if the contingently convertible Series A Preferred were converted are excluded from the calculation of diluted earnings per share due to the Company's net loss position for the fiscal year ended January 2, 2016 (refer to "Note 8 – Net Loss Per Share" for anti-dilutive securities).

In the event of any liquidation event, which includes changes of control of the Company and sales or other dispositions by the Company of more than 50% of its assets, the Series A Preferred is entitled to receive, prior and in preference to any distribution to the common stock, an amount per share equal to \$1.45 per share of Series A Preferred, plus all then accrued but unpaid dividends on such Series A Preferred. Following this distribution, if assets or surplus funds remain, the holders of the common stock shall share ratably in all remaining assets of the Company, based on the number of shares of common stock then outstanding. Notwithstanding the foregoing, if, in connection with any liquidation event, a holder of Series A Preferred would receive an amount greater than \$1.45 per share of Series A Preferred by converting such shares held by such holder into shares of common stock, then such holder shall be treated as though such holder had converted such shares of Series A Preferred into shares of common stock immediately prior to such liquidation event, whether or not such holder had elected to so convert.

Dividends on the Series A Preferred are payable quarterly at a rate of \$0.058 per share per annum in cash, in shares of common stock or in any combination of cash and common stock as determined by the Company's Board of Directors. Certain conditions are required to be satisfied in order for the Company to pay dividends on the Series A Preferred in shares of common stock, including (i) the common stock being registered pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934, as amended, (ii) the common stock being issued having been approved for listing on a trading market and (iii) the common stock being issued either being covered by an effective registration statement or being freely tradable without restriction under Rule 144 (subject to certain exceptions). The Series A Preferred shall each be entitled to one vote per share for each share of common stock issuable upon conversion thereof (excluding from any such calculation any dividends accrued on such shares) and shall vote together with the holders of common stock as a single class on any matter on which the holders of common stock are entitled to vote. In addition, the Company must obtain the consent of holders of at least a majority of the then outstanding Series A Preferred in connection with (a) any amendment, alteration or repeal of any provision of the certificate of incorporation or bylaws of the Company as to adversely affect the preferences, rights or voting power of the Series A Preferred, or (b) the creation, authorization or issuance of any additional Series A Preferred or any other class or series of capital stock of the Company ranking senior to or on parity with the Series A Preferred or any security convertible into, or exchangeable or exercisable for Series A Preferred or any other class or series of capital stock of the Company ranking senior to or on parity with the Series A Preferred. Concurrent with the Company's issuance of Series A Preferred, the Company, certain of its domestic subsidiaries and JPMorgan entered into a Second Amended Credit Agreement to allow the Company to pay cash dividends on the Series A Preferred in an aggregate amount of up to \$400 per year and pay cash in lieu of issuing fractional shares upon conversion of or in payment of dividends on the Series A Preferred (refer to "Note 6 – Borrowings" of our Notes to Consolidated Financial Statements for additional details). The Company issued 24 shares in payment of dividends on the dividend payment date of December 31, 2013 related to the dividend distributable on the Series A Preferred of \$60 accrued on December 28, 2013. For the fiscal year ended January 3, 2015, the Company recorded dividends of \$240. The Company issued 83 shares of common stock in payment of the fiscal 2014 dividends. There were no accrued dividends outstanding as of

January 3, 2015. For the fiscal year ended January 2, 2016, the Company recorded dividends of \$241. The Company issued 103 shares of common stock in payment of the fiscal 2015 dividends. There were no dividends outstanding as of January 2, 2016.

Share-Based Compensation Plan Information

The Company adopted the 2007 Omnibus Incentive Plan (the “2007 Omnibus Plan”) in January 2007, which became effective on February 8, 2007, the effective date of the registration statement filed in connection with the Company’s initial public offering. Under the 2007 Omnibus Plan, the Company was previously authorized to issue 2,400 shares of common stock, under various instruments to eligible employees and non-employees of the Company, plus an automatic annual increase on the first day of each of the Company’s fiscal years beginning on January 1, 2008 and ending on January 1, 2017 equal to (i) the lesser of (A) 1,500 shares of common stock or (B) five percent (5)% of the number of shares of common stock outstanding on the last day of the immediately preceding fiscal year or (ii) such lesser number of shares of common stock as determined by the Company’s Board of Directors. Options granted under the 2007 Omnibus Plan generally expire no later than ten years from the date of grant and generally vest over a period of four years. The exercise price of all option grants must be equal to 100% of the fair market value on the date of grant. The 2007 Omnibus Plan also allows for the grant of options to purchase common stock and common stock awards to non-employee directors. As of January 2, 2016, 2,095 shares were available for future grants under the 2007 Omnibus Plan. Since the restricted stock units (“RSUs”) were granted under the 2007 Omnibus Plan, such RSUs granted have been deducted from the overall pool of equity instruments available under the 2007 Omnibus Plan. For further detail, see Restricted Stock Unit discussion below.

The Company adopted the 2007 New Employee Incentive Plan (the “2007 New Employee Plan”) in October 2007. Under the 2007 New Employee Plan, the Company is authorized to issue 2,000 shares of common stock under various instruments solely to new employees. Options granted under the 2007 New Employee Plan generally expire no later than ten years from the date of grant and generally vest over a period of four years. The exercise price of all option grants must not be less than 100% of the fair market value on the date of grant. As of January 2, 2016, 1,567 shares were available for future grants under the 2007 New Employee Plan.

The Company adopted the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan (the “2006 Plan”) in March 2006. All stock options to purchase common stock granted to employees in 2006 were granted under the 2006 Plan and had exercise prices equal to the fair value of the underlying stock, as determined by the Company’s Board of Directors on the applicable option grant date. After fiscal year 2008, no shares have been available for future grants under the 2006 Plan.

The following table summarizes the Company’s stock option activity for the fiscal year ended January 2, 2016, and details regarding the options outstanding and exercisable at January 2, 2016:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ⁽¹⁾
Options outstanding, January 3, 2015	5,281	\$ 2.85		
Granted	1,315	\$ 2.24		
Exercised	(301)	\$ 1.45		
Cancelled:				
Forfeited	(256)	\$ 2.06		
Expired	(198)	\$ 3.31		
Options outstanding, January 2, 2016	5,841	\$ 2.80	6.03	\$ 4,333
Vested and expected to vest at January 2, 2016	5,285	\$ 2.88	5.74	\$ 3,853
Options exercisable, January 2, 2016	3,735	\$ 3.21	4.54	\$ 2,479

- (1) These amounts represent the difference between the exercise price and the closing price of U.S. Auto Parts Network, Inc. common stock on January 2, 2016 as reported on the NASDAQ Stock Market, for all options outstanding that have an exercise price currently below the closing price.

The weighted-average fair value of options granted during fiscal year 2015, 2014 and 2013 was \$1.19, \$1.34 and \$1.22, respectively. 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. During fiscal year 2015, 2014 and 2013, the total intrinsic value of the exercised options was \$346, \$153 and \$61, respectively. The Company had \$1,371 of unrecognized share-based compensation expense

related to stock options outstanding as of January 2, 2016, which expense is expected to be recognized over a weighted-average period of 2.55 years.

The following table summarizes the Company's stock option activity under the AutoMD 2014 Equity Incentive Plan (the "AMD Plan") for the fiscal year ended January 2, 2016, and details regarding the options outstanding and exercisable at January 2, 2016:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding, January 3, 2015	180	\$ 1.00		
Granted	1,250	\$ 1.00		
Exercised	—	\$ —		
Cancelled:				
Forfeited	—	\$ —		
Expired	—	\$ —		
Options outstanding, January 2, 2016	1,430	\$ 1.00	9.19	\$ —
Vested and expected to vest at January 2, 2016	1,061	\$ 1.00	9.19	\$ —
Options exercisable, January 2, 2016	49	\$ 1.00	8.92	\$ —

At January 2, 2016 520 shares were available for future grants under the AMD Plan.

The weighted-average fair value of options granted during fiscal year 2015, 2014 and 2013 was \$0.55, \$0.56 and \$0, respectively. 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. During fiscal year 2015, 2014 and 2013, the total intrinsic value of the exercised options was \$0. The Company had \$463 of unrecognized share-based compensation expense related to stock options outstanding as of January 2, 2016, which expense is expected to be recognized over a weighted-average period of 3.19 years.

Options exercised under all share-based compensation plans are granted net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. For those employees who elect not to receive shares net of the minimum statutory withholding requirements, the appropriate taxes are paid directly by the employee. During fiscal 2015, we withheld 27 shares to satisfy \$80 of employees' tax obligations and 112 shares related to the net settlement of the stock options.

Restricted Stock Units

During 2015 and 2014 we granted an aggregate of 435 and 1,015 RSUs, respectively, to certain employees of the Company. The RSUs were granted under the 2007 Omnibus Plan, and reduced the pool of equity instruments available under that plan.

All of the RSUs granted during 2015 were time-based. Of the 1,015 RSUs granted during 2014, 738 were time-based, which vest upon the completion of a pre-defined period of employment, ranging from one- to two years. The remaining 277 RSUs were performance-based RSUs, of which as of January 2, 2016, the performance criteria have been met on 177 RSUs and 100 performance RSUs were forfeited. The vesting of each RSU is subject to the employee's continued employment through applicable vesting dates. Some RSUs granted to certain executives may vest on an accelerated basis in part or in full upon the occurrence of certain events. The RSUs are accounted for as equity awards and are measured at fair value based upon the grant date price of the Company's common stock. The closing price of the Company's common stock on January 29, 2015, March 23, 2015, May 20, 2015, June 23, 2015 and July 28, 2015, the date of each grant, was \$2.29, \$2.18, \$2.33, \$2.23, and \$2.18 per share, respectively. The closing price of the Company's common stock on February 14, 2014, April 3, 2014, and August 1, 2014, the date of each grant, was \$2.03, \$2.93, and \$3.17 per share, respectively. Compensation expense is recognized on a straight-line basis over the requisite service period of one-to-two years. Compensation expense for performance-based awards is measured based on the amount of shares ultimately expected to vest, estimated at each reporting date based on management's expectations regarding the relevant performance criteria.

For the fiscal year ended January 2, 2016, we recorded compensation expense of \$1,331 related to RSU's. As of January 2, 2016, there was unrecognized compensation expense of \$131 related to unvested RSUs based on awards that are

expected to vest. The unrecognized compensation expense is expected to be recognized over a weighted-average period of 0.21 years.

Stock Option Exchange Program

On July 9, 2013, the Company's stockholders approved a proposed stock option exchange program for the exchange of certain outstanding stock options held by eligible employees for new options to purchase fewer shares. On August 12, 2013, the Company commenced an offering to eligible employees to voluntarily exchange certain vested and unvested stock options with exercise prices above \$4.00 per share at an exchange ratio of 3.5 to 1 to be granted following the expiration of the tender offer with exercise prices equal to the fair market value of one share of the Company's common stock on the day the new options were issued. Stock options to purchase an aggregate of 3,733 shares with exercise prices ranging from \$4.01 to \$11.68 were eligible for tender at the commencement of the program. The Company's non-employee directors were not eligible to participate in the program. The terms and conditions of the new options are subject to an entirely new four year vesting schedule where 25% will vest on the first anniversary, and the remaining 75% will vest monthly over the following 36 months. All new options have a ten year contractual term. The offer period for the stock option exchange ended on September 9, 2013. There were no modifications or exchanges to share based payment awards in fiscal 2014 or 2015.

On September 10, 2013, the Company accepted for exchange 3,475 eligible options to purchase common stock, with a weighted average exercise price of \$6.65 for 45 eligible employees, and issued 993 unvested options to purchase shares of the Company's common stock with an exercise price of \$0.9866, the closing price of the Company's common stock on that day. Using the Black-Scholes option pricing model, the Company determined that the fair value of the surrendered stock options on a grant-by-grant basis was lower than the fair value of the new stock options, as of the date of the exchange, resulting in incremental fair value of \$422. The incremental fair value as a result of the stock option exchange and the remaining compensation expense associated with the surrendered stock options will be recorded as compensation expense over the four year vesting period of the new options.

The fair value of the surrendered stock options and the new stock options was estimated on the date of the exchange using the Black-Scholes option pricing model with the following assumptions:

	Surrendered Stock Options	New Stock Options
Expected life	1.93 – 6.87 years	5.84 years
Risk-free interest rate	0.5% – 2.4%	2.0%
Expected volatility	55% – 73%	72%
Expected dividend yield	—%	—%

Warrants

On May 5, 2009, the Company issued warrants to purchase up to 30 shares of common stock at an exercise price of \$2.14 per share. On April 27, 2010, the Company issued additional warrants to purchase up to 20 shares of common stock at an exercise price of \$8.32 per share. Both issuances of 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. No warrants were exercised as of fiscal year 2014. As of January 2, 2016, warrants to purchase 50 shares of common stock were outstanding and exercisable. The aggregate intrinsic value of outstanding and exercisable warrants was \$24 as of January 2, 2016, which was calculated as the difference between the exercise price of underlying awards and the closing price of the Company's common stock for warrants that were in-the-money. No warrants share-based compensation expense was recognized during the fiscal years 2015, 2014 and 2013. The Company had no unrecognized share-based compensation expense related to warrants outstanding as of January 2, 2016.

Share-Based Compensation Expense

The fair value of each option grant, excluding those options issued from the stock option exchange program as discussed above, was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for each of the periods ended:

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Expected life	5.34 - 5.52 years	5.30 - 5.37 years	5.21 - 5.73 years
Risk-free interest rate	1% - 2%	2% - 2%	1% - 2%
Expected volatility	59% - 60%	62% - 68%	67% - 73%
Expected dividend yield	—%	—%	—%

Share-based compensation from options and RSUs, is included in our consolidated statements of comprehensive operations, as follows:

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Marketing expense	\$ 518	\$ 540	\$ 285
General and administrative expense	1,614	1,476	805
Fulfillment expense	241	220	102
Technology expense	46	135	71
Total share-based compensation expense	\$ 2,419	\$ 2,371	\$ 1,263

The share-based compensation expense is net of amounts capitalized to internally-developed software of \$146, \$196 and \$220 during the fiscal year 2015, 2014, and 2013, respectively. No tax benefit was recognized for fiscal years 2015, 2014, and 2013 due to the valuation allowance position.

Under ASC 718, forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures significantly differ from those estimates. The Company's estimated forfeiture rates are calculated based on actual historical forfeitures experienced under our equity plans. The Company's forfeiture rates were 10%-34% for fiscal years 2015, 2014, and 2013.

Note 8 – Net Loss Per Share

Net loss per share has been computed in accordance with ASC 260 *Earnings per Share*. The following table sets forth the computation of basic and diluted net loss per share:

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Net loss per share:			
Numerator:			
Net loss attributable to U.S. Auto Parts	\$ (1,281)	\$ (6,879)	\$ (15,634)
Dividends on Series A Convertible Preferred Stock	(241)	(240)	(184)
Net loss available to common shares	\$ (1,522)	\$ (7,119)	\$ (15,818)
Denominator:			
Weighted-average common shares outstanding (basic and diluted)	33,946	33,489	32,697
Basic and diluted net loss per share	\$ (0.04)	\$ (0.21)	\$ (0.48)

The anti-dilutive securities, which are excluded from the calculation of diluted earnings per share due to the Company's net loss position for the periods then ended (including securities that would otherwise be excluded from the calculation of diluted earnings per share due the Company's stock price), are as follows:

	Fiscal Year		
	January 2, 2016	January 3, 2015	December 28, 2013
Common stock warrants	50	50	50
Series A Convertible Preferred Stock	4,150	4,150	3,145
Options to purchase common stock	5,941	5,467	6,584
Restricted Stock Units	839	796	—
Total	10,980	10,463	9,779

Note 9 – Income Taxes

The components of loss before income tax provision consist of the following:

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Domestic operations	\$ (3,718)	\$ (7,424)	\$ (16,155)
Foreign operations	483	476	564
Total loss before income taxes	\$ (3,235)	\$ (6,948)	\$ (15,591)

Income tax (benefit) provision for fiscal year 2015, 2014 and 2013 consists of the following:

	Fiscal Year Ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Current:			
Federal tax	\$ —	\$ —	\$ —
State tax	7	(15)	20
Foreign tax	88	78	(37)
Total current taxes	95	63	(17)
Deferred:			
Federal tax	(1,887)	(2,232)	(5,260)
State tax	591	(125)	(1,353)
Foreign tax	61	74	60
Total deferred taxes	(1,235)	(2,283)	(6,553)
Valuation allowance	329	2,358	6,613
Income tax (benefit) provision	\$ (811)	\$ 138	\$ 43

Income tax (benefit) provision differs from the amount that would result from applying the federal statutory rate as follows:

	January 2, 2016	January 3, 2015	December 28, 2013
Income tax at U.S. federal statutory rate	\$ (1,100)	\$ (2,362)	\$ (5,301)
Share-based compensation	50	33	43
State income tax, net of federal tax effect	672	(143)	(1,348)
Foreign tax	(18)	117	70
Basis difference in subsidiary equity	(820)	—	—
Other	76	127	(42)
Change in valuation allowance	329	2,366	6,621
Effective tax (benefit) provision	\$ (811)	\$ 138	\$ 43

For fiscal year 2015, 2014 and 2013, the effective tax rate for the Company was 25.1%, (2.0)% and (0.3)%, respectively. The Company's effective tax rate for fiscal year 2015 differs from the U.S. federal rate primarily as a result of the recording of the basis difference in the Company's subsidiary and the recording of valuation allowances against the Company's deferred tax assets. The Company's effective tax rate for fiscal years 2014 and 2013 differs from the U.S. federal rate primarily as a result of the recording of valuation allowances against the Company's deferred tax assets.

Deferred tax assets and deferred tax liabilities consisted of the following:

	January 2, 2016	January 3, 2015
Deferred tax assets:		
Inventory and inventory related allowance	\$ 976	\$ 1,334
Share-based compensation	4,924	5,248
Amortization	9,244	11,805
Sales and bad debt allowances	443	472
Vacation accrual	220	264
Book over tax amortization	31	10
Net operating loss and AMT credit carry-forwards	30,254	26,186
Other	843	807
Total deferred tax assets	46,935	46,126
Valuation Allowance	(46,196)	(45,867)
Net deferred tax assets	739	259
Deferred tax liabilities:		
Investment in subsidiary	368	1,335
Tax over book depreciation	639	79
Foreign tax withholdings	470	409
Prepaid catalog expenses	100	180
Total deferred tax liabilities	1,577	2,003
Net deferred tax liabilities	\$ (838)	\$ (1,744)

At January 2, 2016, federal and state net operating loss ("NOL") carryforwards were \$68,307 and \$79,046, respectively. Federal NOL carryforwards of \$2,690 were acquired in the acquisition of WAG which are subject to Internal Revenue Code section 382 and limited to an annual usage limitation of \$135. Federal NOL carryforwards begin to expire in 2029, while state NOL carryforwards begin to expire in 2016. The state NOL carryforwards expire in the respective tax years as follows:

2016-2022	\$ 40,569
2023-2033	38,477
Total	\$ 79,046

On October 8, 2014, AutoMD sold seven million shares of its common stock to third-party investors, reducing the Company's ownership interest in AutoMD to 64.1%. AutoMD will no longer be included in the consolidated state and federal tax filings of the Company. As a result of the investment a deferred tax liability of \$1,335 was created which reduced the increase in additional paid-in-capital which was created as a result of the investment. At January 2, 2016, AutoMD had net operating loss carryforwards (NOLs) of approximately \$5,152 for federal tax purposes that begin to expire in 2031. AutoMD state NOLs were not material as of January 2, 2016.

The valuation allowance for deferred tax assets recorded during fiscal year 2015 and 2014 is based on a more likely than not threshold. The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. We considered the following possible sources of taxable income when assessing the realization of deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax-planning strategies.

Under the provisions of ASC 740, "Income Taxes", management is required to evaluate whether a valuation allowance should be established against its deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. Realization of deferred tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies, and reversal of existing taxable temporary differences. ASC 740 provides that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years or losses expected in early future years. Based on this evaluation, as of January 2, 2016, a valuation allowance of \$46,196 has been recorded against our deferred tax assets.

If, in the future, we generate taxable income on a sustained basis in jurisdictions where we have recorded full valuation allowances, our conclusion regarding the need for full valuation allowances in these tax jurisdictions could change, resulting in the reversal of some or all of the valuation allowances. If our operations generate taxable income prior to reaching profitability on a sustained basis, we would reverse a portion of the valuation allowance related to the corresponding realized tax benefit for that period, without changing our conclusions on the need for a full valuation allowance against the remaining net deferred tax assets.

Included in accrued expenses are income taxes payable of \$12 and \$33 for the fiscal year 2015 and 2014 respectively, consisting primarily of foreign taxes.

Note 10 – Commitments and Contingencies

Facilities Leases

The Company's corporate headquarters is located in Carson, California. The Company's corporate headquarters has an initial lease term of five years through October 2016, and optional renewals through January 2020. The Company also leases warehouse space in LaSalle, Illinois under the sale lease-back agreement described below and in Chesapeake, Virginia. The Company's Philippines subsidiary leases office space under an agreement through April 2020.

Facility rent expense for fiscal year ended 2015, 2014 and 2013 was \$1,555, \$1,895 and \$2,150, respectively. The Company's facility rent expense did not include any amounts charged from a related party during the fiscal year 2015, and was inclusive of amounts charged from a related party of \$378 for fiscal 2014 and \$374 for fiscal 2013.

On February 4, 2016, the Company entered into a new lease for its distribution center located in Chesapeake, Virginia. The Lease between the Company and Liberty Property Limited Partnership is for approximately 159,294 square feet. The initial three-year term of the Lease commences on July 1, 2016 following the expiration of the Commercial Lease Agreement, dated December 16, 2008, previously entered into by the parties. The Company will be obligated to pay approximately \$640 in annual base rent, which shall increase by approximately 2.5% each year. The Company will also be obligated to pay certain operating expenses set forth in the Lease. Pursuant to the Lease, the Company has the option to extend the Lease for an additional three-year term, with certain increases in base rent. The prior lease commenced in January 2009 and was initially scheduled to expire in December 2013. In July 2011, we signed a five -year extension to June 30, 2016, which also added approximately 87,000 square feet of space. The monthly base rent commitment was \$62 as of January 2, 2016.

On September 22, 2011, the Company entered into a sublease agreement for the leasing of approximately 25,000 square feet of commercial office space located in Carson, California. The Sublease has an initial term of 60 months ("Initial Term"),

and commenced on November 1, 2011. We have the option to renew the sublease through October 2017 under the first renewal term and January 2020 under the second renewal term.

In January 2010, the Company's Philippines subsidiary entered into a new lease agreement that accommodates the Company's Philippines workforce into one office building. Under the terms of the lease agreement, effective March 1, 2010, the monthly rent will be approximately \$25, and is subject to 5% annual escalation beginning on the 3rd year of the lease term and renewable for a sixty month term upon mutual agreement of both parties.

As described in detail under "Note 4 – Property and Equipment Net", on April 17, 2013, the Company entered into a sale lease-back agreement with STORE Master Funding III, LLC ("STORE") whereby we leased back our facility located in LaSalle, Illinois for our continued use as an office, retail and warehouse facility for storage, sale and distribution of automotive parts, accessories and related items for 20 years commencing upon the execution of the lease and terminating on April 30, 2033. The related assets for the sale lease-back land and building is represented by the amount included in leased facility in the summary above. The Company's initial base annual rent is \$853 for the first year ("Base Rent Amount"), after which the rental amount will increase annually on May 1 by the lesser of 1.5% or 1.25 times the change in the Consumer Price Index as published by the U.S. Department of Labor's Bureau of Labor Statistics, except that in no event will the adjusted annual rental amount fall below the Base Rent Amount. We were not required to pay any security deposit. Under the terms of the lease, we are required to pay all taxes associated with the lease, pay for any required maintenance on the property, maintain certain levels of insurance and indemnify STORE for losses incurred that are related to our use or occupancy of the property. The lease was accounted for as a capital lease and the \$376 excess of the net proceeds over the net carrying amount of the property is amortized in interest expense on a straight-line basis over the lease term of 20 years. As of January 2, 2016, the net carrying value of all capital leased assets included in property and equipment was \$9,704.

Minimum lease commitments under non-cancelable operating leases as of January 2, 2016 are as follows:

2016	\$	1,156
2017		426
2018		448
2019		470
2020		201

Capital lease commitments as of January 2, 2016 were as follows:

	Capital Lease Commitments	Less: Interest Payments	Principal Obligations
2016	\$ 1,291	\$ 770	\$ 521
2017	1,253	746	507
2018	1,261	718	543
2019	1,275	688	587
2020	1,106	656	450
2021 onwards	12,905	4,824	8,081
Total	\$ 19,091	\$ 8,402	\$ 10,689

Legal Matters

Asbestos. A wholly-owned subsidiary of the Company, Automotive Specialty Accessories and Parts, Inc. and its wholly-owned subsidiary WAG, are named defendants 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.

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. As of the date hereof, the Company believes that the final disposition of such matters will not have a material adverse effect on the financial position, results of operations or cash flow of the Company. The Company maintains liability insurance coverage to protect the Company's assets from losses arising out of or involving activities associated with ongoing and normal business operations.

Note 11 – Employee Retirement Plan and Deferred Compensation Plan

Effective February 17, 2006, the Company adopted a 401(k) defined contribution retirement plan covering all full time employees who have completed one month of service. The Company may, at its sole discretion, match fifty cents per dollar up to 6% of each participating employee's salary. The Company's contributions vest in annual installments over three years. Discretionary contributions made by the Company totaled \$280, \$256 and \$266 for fiscal year 2015, 2014 and 2013, respectively.

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 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 (employer) as the owner and beneficiary, in order to preserve the tax-deferred savings advantages of a non-qualified plan. The 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 the Company. 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 January 2, 2016, the assets and associated liabilities of the Deferred Compensation Plan were \$781 and \$558, respectively, and were \$854 and \$749, respectively, as of January 3, 2015 and are included in other non-current assets, other current liabilities and other non-current liabilities in our consolidated balance sheets. For fiscal year 2015, the change in the associated liabilities include the employee contributions of \$102, the Company contributions of \$27, offset by unrealized losses of \$13 and distributions of \$307. For fiscal year 2014, the associated liabilities primarily include the employee contributions of \$127 and the Company contributions of \$32 and earnings of \$43, offset by distributions of \$291. For fiscal year 2015, included in other income, the Company recorded a net loss of \$73 for the change in the cash surrender value of the Company-owned life insurance policies. For fiscal year 2014, included in other income, the Company recorded a net loss of \$22 for the change in the cash surrender value of the Company-owned life insurance policies.

Note 12 – Restructuring Costs

Fiscal 2014

On June 25, 2014, the Company committed to a plan to permanently close its distribution facility located in Carson, California (the "Carson Distribution Facility") effective July 25, 2014. The Company consolidated the Carson Distribution Facility's distribution and warehousing operations into the Company's existing distribution facilities located in LaSalle, Illinois and Chesapeake, Virginia. This consolidation was part of the Company's continued efforts for simplification and improved efficiencies. The closure of the Carson Distribution Facility resulted in a head count reduction of approximately 77 employees.

The following table summarizes the charges related to the restructure recognized during the fiscal year ended January 3, 2015:

Employee severance	\$	526
Accounts receivable allowance		73
Relocation costs (employee and equipment)		127
Inventory transfers		411
Total restructuring costs	\$	1,137

Substantially all of the unsold inventory in the Carson Distribution Facility on the date of closure was moved to the remaining two warehouses. Costs related to inventory transfers were recorded to cost of sales. A charge for \$130 was taken for inventory that was not deemed economical to transfer. Additionally, due to expected future capacity constraints, the Company reduced the sales price of certain inventory resulting in a charge of \$767. The aggregate charge of \$897 was recorded to cost of sales. The severance charges and relocation costs were included in fulfillment expense. Severance charges were reduced by \$26 in the fourth quarter of 2014 as certain employees were able to find employment before they became eligible for severance benefits. As of January 3, 2015, there was no severance payable.

Fiscal 2013

In the first half of 2013, we laid off 13 employees in the United States and 163 employees in the Philippines reducing our workforce by a total of 176 employees in the first quarter of 2013 and 15 employees in the second quarter of 2013. For the fiscal year ended December 28, 2013, the severance charges of approximately \$723 were recorded in marketing expense, general and administrative expense, fulfillment expense and technology expense for \$394, \$109, \$58 and \$162, respectively. As of December 28, 2013, there was no severance payable.

All restructuring costs incurred in fiscal years 2014, and 2013 are included in the Base USAP reportable segment.

Note 13 – Related-Party Transactions

The Company leased its Carson warehouse from Nia Chloe, LLC (“Nia Chloe”), a member of which, Sol Khazani, is one of our board of directors. Lease payments and expenses associated with this related party arrangement totaled \$378 for fiscal year 2014 and \$374 for fiscal 2013. The lease expired during fiscal 2014 and was not renewed.

On October 8, 2014, Oak Investment Partners XI, L.P. ("Oak") and the Sol Khazani Living Trust ("Trust") purchased 1,500,000 and 500,000 shares of AutoMD common stock, respectively, at a purchase price of \$1.00 per share. Fredric W. Harman and Sol Khazani, each a current director of the Company, are affiliated with Oak and the Trust, respectively.

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

Note 14 – Quarterly Information (Unaudited)

The following quarterly information (in thousands, except per share data) includes all adjustments which management considers necessary for a fair presentation of such information. For interim quarterly financial statements, the provision for income taxes is estimated using the best available information for projected results for the entire year.

	Quarter Ended				Quarter Ended			
	April 4, 2015	July 4, 2015	Oct. 3, 2015	Jan. 2, 2016	March 29, 2014	June 28, 2014 (1)	Sep. 27, 2014 (2)	Jan. 3, 2015 (3)
Consolidated Statement of Income Data:								
Net sales	\$ 76,388	\$ 76,462	\$ 70,648	\$ 67,593	\$ 68,028	\$ 76,947	\$ 67,965	\$ 70,568
Gross profit	21,478	20,868	21,042	20,046	20,701	20,420	18,414	18,915
(Loss) income from operations	(18)	(1,107)	(222)	(708)	495	(1,939)	(2,216)	(2,252)
(Loss) income before income taxes	(368)	(1,369)	(491)	(1,007)	233	(2,159)	(2,479)	(2,543)
Net (loss) income	(316)	(1,022)	(288)	(798)	201	(2,180)	(2,494)	(2,613)
Net (loss) income attributable to noncontrolling interests	(256)	(247)	(296)	(344)	—	—	—	(207)
Net (loss) income attributable to U.S. Auto Parts	\$ (60)	\$ (775)	\$ 8	\$ (454)	\$ 201	\$ (2,180)	\$ (2,494)	\$ (2,406)
Basic and diluted net income (loss) per share as reported and adjusted	\$ 0.00	\$ (0.02)	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.07)	\$ (0.08)	\$ (0.07)
Shares used in computation of basic net income (loss) per share as reported and adjusted	33,720	33,963	34,018	34,084	33,384	33,460	33,532	33,573
Shares used in computation of diluted net income (loss) per share as reported and adjusted	33,720	33,963	34,018	34,084	34,158	33,460	33,532	33,573

- (1) Included restructuring charges of \$625.
- (2) Included restructuring charges of \$410.
- (3) Included restructuring charges of \$102.

Note 15 – Segment Information

As described in Note 1 above, the Company operates in two reportable segments identified as Base USAP, which is the core auto parts business, and AutoMD, an online automotive repair source of which the Company is a majority stockholder. Segment information is prepared on the same basis that our chief executive officer, who is our chief operating decision maker, manages the segments, evaluates financial results, and makes key operating decisions. Management evaluates the performance of its operating segments based on net sales, gross profit and loss from operations. The accounting policies of the operating segments are the same as those described in Note 1. Operating income represents earnings before other income, interest expense and income taxes. The identifiable assets by segment disclosed in this note are those assets specifically identifiable within each segment.

Summarized segment information for our continuing operations from the two reportable segments for the periods presented is as follows (in thousands):

	Base USAP	AutoMD	Consolidated
<u>Fiscal year ended January 2, 2016</u>			
Net sales	\$ 290,833	\$ 258	\$ 291,091
Gross profit	83,176	258	83,434
Operating costs (1)	82,044	3,445	85,489
Income (loss) from operations	1,132	(3,187)	(2,055)
Capital expenditures	6,701	1,079	7,780
Depreciation and amortization	6,141	1,369	7,510
Total assets, net of accumulated depreciation	78,092	5,664	83,756
<u>Fiscal year ended January 3, 2015</u>			
Net sales	\$ 283,211	\$ 297	\$ 283,508
Gross profit	78,153	297	78,450
Operating costs (1)	81,887	2,475	84,362
Loss from operations	(3,734)	(2,178)	(5,912)
Capital expenditures	4,237	1,319	5,556
Depreciation and amortization	7,230	1,693	8,923
Total assets, net of accumulated depreciation	74,414	8,493	82,907
<u>Fiscal year ended December 28, 2013</u>			
Net sales	\$ 254,422	\$ 331	\$ 254,753
Gross profit	73,802	331	74,133
Operating costs (1)	86,579	2,321	88,900
Loss from operations	(12,777)	(1,990)	(14,767)
Capital expenditures	6,297	2,028	8,325
Depreciation and amortization	10,676	1,499	12,175
Total assets, net of accumulated depreciation	67,039	2,143	69,182

- (1) Operating costs for AutoMD primarily consist of depreciation on fixed assets and personnel costs.

The following table summarizes the approximate distribution of Base USAP revenue by product type.

	2015	2014	2013
Private Label			
Collision	48%	43%	39%
Engine	14%	13%	11%
Performance	1%	1%	1%
Branded			
Collision	2%	2%	3%
Engine	14%	16%	18%
Performance	21%	25%	28%
Total	100%	100%	100%

Note 16 – AutoMD

On October 8, 2014, AutoMD entered into a Common Stock Purchase Agreement ("Purchase Agreement") to sell an aggregate of seven million shares of AutoMD common stock at a purchase price of \$1.00 per share to third-party investors and investors that are affiliated with two of our board members. The Company retained 64.1% of AutoMD's outstanding common stock, and will continue to consolidate AutoMD.

In connection with the sale of the shares of AutoMD, the Company recorded an increase to additional paid-in-capital of \$2,534. This amount is equal to the increase in the Company's interest in the net assets of AutoMD, resulting from this sale of common shares (\$3,847), less the related deferred tax liability of \$1,313. Refer to "Note 9- Income Taxes" for additional details.

In connection with the sale of the shares, the non-controlling shareholders received certain demand and piggyback registration rights. Additionally, pursuant to the terms of the Purchase Agreement, the Company may be required to purchase 2,000 shares of AutoMD common stock at a purchase price of \$1.00 per share, with such purchase to be triggered, if applicable, if as of October 8, 2016, AutoMD does not meet a required minimum number of approved auto repair shops permitted to submit a quotation on AutoMD's website ("Registered Repair Shops"), or separately if at anytime during the two years following the closing date AutoMD fails to meet specified minimum cash balances and minimum numbers of Registered Repair shops. The Purchase Agreement also limits the use of the \$7,000 in proceeds from the sale of AutoMD common stock to only general operating purposes of AutoMD. As of January 2, 2016, the remaining balance of those proceeds was \$4,077. The Company cannot use or borrow any of the proceeds without the approval of AutoMD's Board of Directors.

In addition to the Purchase Agreement, AutoMD entered into an Investor Rights Agreement. In addition to certain demand and piggyback registration rights, the agreement includes restrictions on transfers or dilutive transactions involving AutoMD common stock. Prior to October 8, 2017, the Company shall not transfer shares of AutoMD owned by the Company or enter into any transaction or arrangement (including, without limitation, any sale, gift, merger or consolidation) that would result in the Company owning, at any time, less than 50% of the shares of capital stock of the Company without the prior written consent of shareholders. In the event of a proposed transfer or dilutive transaction for which any shareholder does not provide its written consent, in the alternative, upon not less than 30 days prior written notice to such non-consenting party, the Company may elect, at its sole option, to purchase all shares of the AutoMD common stock then owned by any non-consenting shareholder at a purchase price equal to \$1.00 per share (as adjusted for any stock combinations, splits, recapitalizations, etc.) plus an annual rate of 10% thereon, compounded annually.

**AMENDMENT TO
AMENDED AND RESTATED BYLAWS
OF
U.S. AUTO PARTS NETWORK, INC.,
a Delaware corporation**

The Amended and Restated Bylaws (the “*Bylaws*”), of U.S. Auto Parts Network, Inc., a Delaware corporation (the “*Company*”), are hereby amended as follows, effective upon the execution of this amendment by the Secretary of the Company:

A new Article IX, Section 9.1 is hereby added to the Bylaws, which shall read in its entirety as follows:

“ARTICLE IX: EXCLUSIVE FORUM FOR ADJUDICATION OF DISPUTES

SECTION 9.1. *Forum for Adjudication of Disputes.*

Unless the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court located within the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) shall, to the fullest extent permitted by law, be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the corporation to the corporation or the corporation’s stockholders, (c) any action asserting a claim arising pursuant to any provision of the General Corporation Law of Delaware, the certificate of incorporation or the bylaws of the corporation, or (d) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the corporation shall be deemed to have notice of and consented to the provisions of this Section.”

Dated: March 9, 2016

By: /s/ David Eisler
David Eisler
Vice President, General Counsel & Secretary

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "Agreement") is entered into as of _____ by and between U.S. Auto Parts Network, Inc., a Delaware corporation (the "Company"), and the director or officer of the Company identified on the signature page hereto (the "Indemnitee").

RECITALS

A. The Company and Indemnitee recognize the continued difficulty in obtaining liability insurance for its directors and officers, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance.

B. The Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting directors to expensive litigation risks at the same time as the availability and coverage of liability insurance has been severely limited.

C. The current protection available to directors and officers may not be adequate under the present circumstances, and directors and officers, including the Indemnitee, may not be willing to continue to serve or be associated with the Company in such capacities without additional protection for themselves.

D. The Company (i) desires to attract and retain the involvement of highly qualified persons, such as Indemnitee, to serve and be associated with the Company, and (ii) accordingly, wishes to provide for the indemnification and advancement of expenses to the Indemnitee.

AGREEMENT

NOW, THEREFORE, the Company and the Indemnitee hereby agree as follows:

1. Indemnification

(a) Indemnification of Expenses. The Company shall indemnify and hold harmless the Indemnitee to the fullest extent permitted by law if such Indemnitee was or is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation that such Indemnitee in good faith believes might lead to the institution of any such action, suit, proceeding or alternative dispute resolution mechanism, whether civil, criminal, administrative, investigative or other (hereinafter a "Claim") by reason of (or arising in part out of) any event or occurrence related to the fact that Indemnitee is or was (or is alleged to be or to have been) a director, officer, employee, controlling person, fiduciary or other agent or affiliate of the Company, or any subsidiary of the Company, or is or was (or is alleged to be or to have been) serving at the request of the Company as a director, officer, employee, fiduciary or other agent or affiliate of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action or inaction on the part of such Indemnitee while serving or acting (or allegedly serving or acting) in such capacity, including, without limitation, any such Claim under the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any other federal or state statutory law or regulation, or any such Claim, at common law or otherwise, that relates directly or indirectly (i) to the registration, purchase, sale or ownership of any securities of the Company or (ii) to any fiduciary obligation owed with respect to the Company and its stockholders (hereinafter an "Indemnification Event"), against any and all losses, claims, damages, expenses and liabilities, joint or several, incurred in connection with such Claim (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) any such Claim and against any and all expenses (including reasonable attorneys' fees and all other costs, expenses and obligations incurred in connection with investigating, defending or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any action, suit, proceeding, alternative dispute resolution mechanism, hearing, inquiry or investigation related to such Claim), judgments, fines, penalties and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) of such Claim and any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement (collectively, hereinafter "Expenses"), including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses. The Company shall make such payment of Expenses as soon as practicable but in any event no later than thirty (30) days after written demand by the Indemnitee therefor is presented to the Company.

(b) Reviewing Party. Notwithstanding the foregoing, (i) the obligations of the Company under Section 1(a) shall be subject to the condition that the Reviewing Party (as defined in Section 9(e) hereof) shall not have determined (in a written opinion, in any case in which the Independent Legal Counsel referred to in Section 9(d) hereof is involved) that Indemnatee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an advance payment of Expenses to Indemnatee pursuant to Section 2(a) (an “Expense Advance”) shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnatee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnatee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnatee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnatee should be indemnified under applicable law or hereunder, any determination made by the Reviewing Party that Indemnatee would not be permitted to be indemnified under applicable law or hereunder shall not be binding and Indemnatee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). Indemnatee’s obligation to reimburse the Company for any Expense Advance shall be unsecured and no interest shall be charged thereon. If there has not been a Change in Control (as defined in Section 9(c) hereof), the Reviewing Party shall be selected by the Board of Directors, and if there has been such a Change in Control (other than a Change in Control (i) which has been approved by a majority of the Company’s Board of Directors prior to such Change in Control or (ii) following which a majority of the Board of Directors of the Company (or the ultimate parent entity thereof) is comprised of directors who were directors of the Company immediately prior to the Change in Control), the Reviewing Party shall be the Independent Legal Counsel referred to in Section 9(d) hereof subject to the approval of the Indemnatee (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnatee as to whether and to what extent Indemnatee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the Independent Legal Counsel referred to above and to fully indemnify such counsel against any and all expenses (including reasonable attorneys’ fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto. If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnatee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnatee shall have the right to commence litigation seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnatee.

(c) Contribution. If the indemnification provided for in Section 1(a) above for any reason is held by a court of competent jurisdiction to be unavailable to Indemnatee in respect of any Claims referred to therein, then the Company, in lieu of indemnifying Indemnatee thereunder, shall contribute to the amount paid or payable by Indemnatee as a result of such losses, claims, damages, expenses or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Indemnatee, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Indemnatee in connection with the action or inaction which resulted in such losses, claims, damages, expenses or liabilities, as well as any other relevant equitable considerations.

(d) Survival Regardless of Investigation. The indemnification and contribution provided for in this Section 1 will remain in full force and effect regardless of any investigation made by or on behalf of the Indemnatee or any officer, director, employee, agent or controlling person of the Indemnatee.

(e) Mandatory Payment of Expenses. Notwithstanding any other provision of this Agreement, to the extent that an Indemnatee has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in the defense of any action, suit, proceeding, inquiry or investigation referred to in Section 1(a) hereof or in the defense of any claim, issue or matter therein, such Indemnatee shall be indemnified against all Expenses incurred by such Indemnatee in connection therewith.

2. Expenses; Indemnification Procedure

(a) Advancement of Expenses. The Company shall advance all Expenses incurred by any Indemnitee. The advances to be made hereunder shall be paid by the Company to the Indemnitee as soon as practicable but in any event no later than thirty (30) days after written demand by such Indemnitee therefor to the Company, which written demand shall include reasonable detail and support for the amount of the Expenses to be so advanced.

(b) Notice/Cooperation by Indemnitees. Indemnitee shall, as a condition precedent to Indemnitee's right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any Claim made against Indemnitee for which indemnification will or could be sought under this Agreement. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

(c) No Presumptions; Burden of Proof. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether an Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that the Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnitee to secure a judicial determination that the Indemnitee should be indemnified under applicable law, shall be a defense to the Indemnitee's claim or create a presumption that the Indemnitee has not met any particular standard of conduct or did not have any particular belief. In connection with any determination by the Reviewing Party or otherwise as to whether the Indemnitee is entitled to be indemnified hereunder, the burden of proof shall be on the Company to establish that the Indemnitee is not so entitled.

(d) Notice to Insurers. If, at the time of the receipt by the Company of a notice of a Claim pursuant to Section 2(b) hereof, the Company has liability insurance in effect which may cover such Claim, the Company shall give prompt notice of the commencement of such Claim to the insurers in accordance with the procedures set forth in the respective policies. If the Company has not paid such amounts directly, the Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of each Indemnitee, all amounts payable as a result of such action, suit, proceeding, inquiry or investigation in accordance with the terms of such policies.

(e) Selection of Counsel. In the event the Company shall be obligated hereunder to pay the Expenses of any Claim, the Company shall be entitled to assume the defense of such Claim, with counsel approved by the applicable Indemnitee, which approval shall not be unreasonably withheld, upon the delivery to such Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same Claim; provided, however, that (i) Indemnitee shall have the right to employ Indemnitee's separate counsel in any such Claim at Indemnitee's expense and (ii) if (A) the employment of separate counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (C) the Company shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Indemnitee's separate counsel shall be at the expense of the Company. As long as the Company has otherwise complied with the terms hereof, the Company shall have the right to conduct such defense as it sees fit in its sole discretion, including the right to settle any claim, action or proceeding against any Indemnitee without the consent of such Indemnitee, provided such settlement includes a full release of the Indemnitee by the claimant from all liabilities or potential liabilities under such Claim.

3. Additional Indemnification Rights: Nonexclusivity

(a) Scope. The Company hereby agrees to indemnify Indemnitee to the fullest extent permitted by law and in accordance with the terms hereof, notwithstanding that such indemnification may not be specifically authorized by the Company's Amended and Restated Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any change after the date of this Agreement in any applicable law, statute or rule which expands the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, employee, agent or fiduciary, the Indemnitee shall enjoy by this Agreement the greater benefits afforded by such change. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, employee, agent or fiduciary, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder except as set forth in Section 8(a) hereof.

(b) Nonexclusivity. The indemnification provided by this Agreement shall be in addition to any rights to which Indemnitee may be entitled under the Company's Amended and Restated Certificate of Incorporation, its Bylaws, any agreement, any vote of stockholders or disinterested directors, the Delaware General Corporation Law, or otherwise. The indemnification provided under this Agreement shall continue for any action that Indemnitee took or did not take while serving in an indemnified capacity even though Indemnitee may have ceased to serve in such capacity.

4. Order of Payments; No Duplication of Payments.

(a) The Company hereby acknowledges that Indemnitee may have certain rights to indemnification, advancement of expenses and/or insurance provided by a third party. The Company hereby agrees (i) that it is the indemnitor of first resort with respect to claims made against Indemnitee arising out of Indemnitee's capacity as a Director or Officer of Company (i.e., its obligations to Indemnitee are primary), (ii) that it shall be required to advance the full amount of Expenses (subject to the provisions concerning the advancement of legal fees set forth elsewhere in this agreement) incurred by Indemnitee and shall be liable for the full amount of all Expenses, judgments, penalties, fines and amounts paid in settlement as required by the terms of this Agreement, without regard to any rights Indemnitee may have against any third party, and, (iii) that with respect to its obligations to advance legal fees and indemnify Indemnitee for activities undertaken in Indemnitee's capacity as a Director or Officer of the Company, it irrevocably waives, relinquishes and releases any third party indemnitor from any and all claims for contribution, subrogation or any other recovery of any kind in respect thereof. The Company further agrees that no advancement or payment by a third party indemnitor on behalf of Indemnitee with respect to any claim for which Indemnitee has sought indemnification from the Company shall affect the foregoing.

(b) The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, Amended and Restated Certificate of Incorporation, the Bylaws or otherwise) of the amounts otherwise indemnifiable hereunder.

5. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for any portion of Expenses incurred in connection with any Claim, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses to which such Indemnitee is entitled.

6. Mutual Acknowledgment. The Company and Indemnitee acknowledge that in certain instances, federal law or applicable public policy may prohibit the Company from indemnifying its directors, controlling persons, fiduciaries or other agents or affiliates under this Agreement or otherwise. Indemnitee understands, acknowledges and agrees that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company's rights under public policy to indemnify Indemnitee, notwithstanding any provision hereof to the contrary.

7. Liability Insurance. The Company shall, from time to time, make a good faith determination as to whether or not it is practicable for the Company to obtain and maintain a policy or policies with reputable insurance companies covering certain liabilities that may be incurred by its directors, officers, employees, control persons, fiduciaries or other agents and affiliates. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if the Indemnitee is covered by similar insurance maintained by a parent or subsidiary of the Company. To the extent the Company maintains liability insurance applicable to directors, officers, employees, control persons, fiduciaries or other agents and affiliates, such Indemnitee shall be covered by such policies in such a manner as to provide to such Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if such Indemnitee is a director, or of the Company's officers, if such Indemnitee is not a director of the Company but is an officer.

8. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Excluded Action or Omissions. To indemnify Indemnitee for any intentional malfeasance by the Indemnitee or any act undertaken by the Indemnitee where the Indemnitee did not in good faith believe the Indemnitee was acting in the best interests of the Company, or for any other acts, omissions or transactions from which the Indemnitee may not be relieved of liability under applicable law;

(b) Claims Initiated by Indemnitee. To indemnify or advance expenses to any Indemnitee with respect to Claims initiated or brought voluntarily by such Indemnitee and not by way of defense, except (i) with respect to actions or proceedings to establish or enforce a right to indemnity under this Agreement or any other agreement or insurance policy or under the Company's Amended and Restated Certificate of Incorporation or Bylaws now or hereafter in effect relating to Claims for Indemnification Events, (ii) in specific cases if the Board of Directors has approved the initiation or bringing of such Claim, or (iii) as otherwise required under the Delaware General Corporation Law, regardless of whether such Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be;

(c) Lack of Good Faith. To indemnify any Indemnitee for any expenses incurred by such Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous; or

(d) Claims Under Section 16(b). To indemnify Indemnitee for expenses and the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Exchange Act or any similar successor statute.

9. Construction of Certain Phrases .

(a) For purposes of this Agreement, references to the "Company" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees, agents, and fiduciaries, so that if Indemnitee is or was a director, officer, employee, agent, control person, or fiduciary of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee, control person, agent or fiduciary or another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, such Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as such Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on any Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee, agent or fiduciary of the Company which imposes duties on, or involves services by, such director, officer, employee, agent or fiduciary with respect to an employee benefit plan, its participants or its beneficiaries; and if any Indemnitee acted in good faith and in a manner such Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, such Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

(c) For purposes of this Agreement a “Change in Control” shall be deemed to have occurred if after the date of this Agreement (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than 50% of the total voting power represented by the Company’s then outstanding Voting Securities (as defined below), (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election by the Board of Directors or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 60% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of (in one transaction or a series of transactions) all or substantially all of the Company’s assets.

(d) For purposes of this Agreement, “Independent Legal Counsel” shall mean an attorney or firm of attorneys, selected in accordance with the provisions of Section 1(b) hereof, who shall not have otherwise performed services for the Company or any Indemnitee within the last three years (other than with respect to matters concerning the right of any Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements).

(e) For purposes of this Agreement, a “Reviewing Party” shall mean any appropriate person or body consisting of a member or members of the Company’s Board of Directors or any other person or body appointed by the Board of Directors who is not a party to the particular Claim for which an Indemnitee is seeking indemnification, or Independent Legal Counsel.

(f) For purposes of this Agreement, “Voting Securities” shall mean any securities of the Company that vote generally in the election of directors.

10. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

11. Binding Effect; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company (and the Company may assign its rights and obligations under this Agreement in connection with any such transaction without the consent of Indemnitee), spouses, heirs, and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. This Agreement shall be effective as of the date set forth on the first page, and this Agreement applies to any Indemnification Event that occurred prior to or after such date if Indemnitee was an officer, director, employee or agent of, or attorney for, Company, or was serving at the request of Company as a director, officer, employee or agent of, or attorney for, another corporation, partnership, joint venture, trust or other enterprise, at the time such Indemnification Event occurred. This Agreement shall continue in effect with respect to Claims relating to Indemnification Events regardless of whether Indemnitee continues to serve as a director, officer, employee, agent, controlling person, or fiduciary of the Company or of any other enterprise at the Company’s request.

12. Attorneys' Fees. In the event that any action is instituted by an Indemnatee under this Agreement or under any liability insurance policies maintained by the Company to enforce or interpret any of the terms hereof or thereof, Indemnatee shall be entitled to be paid all expenses (including reasonable attorneys' fees and all other costs, expenses and obligations incurred in connection with investigating, defending or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any such action) incurred by Indemnatee with respect to such action, regardless of whether such Indemnatee is ultimately successful in such action, unless, as part of such action, a court of competent jurisdiction determines that each of the material assertions made by Indemnatee as a basis for such action were not made in good faith or were frivolous. In connection with such action, Indemnatee shall be entitled to the advancement of expenses (including reasonable attorneys' fees and all other costs, expenses and obligations incurred in connection investigating, defending a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any such action) with respect to such action, unless, as a part of such action, a court of competent jurisdiction over such action determines that each of the material assertions made by such Indemnatee as a basis for such action was not made in good faith or was frivolous. In the event of an action instituted by or in the name of the Company under this Agreement to enforce or interpret any of the terms of this Agreement, the Indemnatee shall be entitled to be paid all expenses (including reasonable attorneys' fees and all other costs, expenses and obligations incurred in connection investigating, defending a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any such action) incurred by such Indemnatee in defense of such action (including costs and expenses incurred with respect to Indemnatee counterclaims and cross-claims made in such action), and shall be entitled to the advancement of expenses (including reasonable attorneys' fees and all other costs, expenses and obligations incurred in connection investigating, defending a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any such action) with respect to such action, unless, as a part of such action, a court having jurisdiction over such action determines that each of such Indemnatee's material defenses to such action was not made in good faith or was frivolous.

13. Notice. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by facsimile or otherwise delivered by hand or by messenger addressed: (i) if to an Indemnatee at such Indemnatee's address and facsimile number as set forth beneath the Indemnatee's signature to this Agreement, or, at such other address and facsimile number as the Indemnatee may furnish to the Company; or (ii) if to the Company, one copy should be sent to at the address of its principal corporate offices (attention: Chief Executive Officer), which is currently 16941 Keegan Avenue, Carson, California 90746, facsimile (310) 735-0092, Attn: Chief Executive Officer, or at such other address and facsimile number as the Company shall have furnished to the Indemnatee, with a copy to the Company's General Counsel. Each such notice or other communication shall for all purposes of this Agreement be treated as effective or having been given when delivered if delivered personally, or, if sent by mail, at the earlier of its receipt or 72 hours after the same has been deposited in a regularly maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid or, if sent by facsimile, upon confirmation of facsimile transfer when directed to the facsimile number provided as aforesaid.

14. Consent to Jurisdiction. The Company and Indemnatee each hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the courts located in Los Angeles County, California, which shall be the exclusive and only proper forum for adjudicating such a claim.

15. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitations, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

16. Choice of Law. This Agreement shall be governed by and its provisions construed and enforced in accordance with the laws of the State of Delaware, as applied to contracts between Delaware residents, entered into and to be performed entirely within the State of Delaware, without regard to the conflict of laws principles thereof.

17. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnatee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

18. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless it is in writing signed by the Company and Indemnitee. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

19. Integration and Entire Agreement. This Agreement sets forth the entire understanding between the parties hereto and supersedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto, including, without limitation, any prior written or oral indemnification agreement between the Indemnitee and the Company.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

COMPANY:

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

By: _____

Name: Shane Evangelist

Title: CEO

Address: 16941 Keegan Avenue
Carson, CA 90746

INDEMNITEE:

Signature

Printed Name

Address: _____

[SIGNATURE PAGE TO INDEMNIFICATION AGREEMENT]

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "**Agreement**") is effective May 20, 2015 (the "**Effective Date**") by and between U.S. Auto Parts Network, Inc., a Delaware corporation (the "**Company**"), and David Eisler, an individual (the "**Executive**").

WHEREAS, the parties hereto desire to document the terms of Executive's employment with the Company.

1. Duties and Responsibilities.

A. Executive shall serve as the Company's Vice President, General Counsel and Secretary, reporting directly to the Company's Chief Executive Officer. Executive's employment shall commence on June 22, 2015 (the "**Start Date**"). Executive shall have the duties and powers at the Company that are customary for an individual holding such positions.

B. Executive agrees to use his best efforts to advance the business and welfare of the Company, to render his services under this Agreement faithfully, diligently and to the best of his ability.

C. Executive shall be based at the Company's office located at Carson, California, or at such other offices of the Company located within 30 miles of such offices.

2. **Employment Period.** Following the Effective Date, Executive's employment with the Company shall be governed by the provisions of this Agreement for the period commencing as of the Start Date and continuing until the earlier of (i) Executive's termination of employment with the Company for any reason, or (ii) the fifth anniversary of the Start Date (the "**Employment Period**"). Provided that Executive's employment has not been or is not being terminated for any reason, Executive and the Company agree to negotiate in good faith prior to the end of the Employment Period to enter into a new Employment Agreement to take effect after the Employment Period.

3. Cash Compensation.

A. **Annual Salary.** Executive's base salary shall be \$235,000 per year (the "**Annual Salary**"), which shall be payable in accordance with the Company's standard payroll schedule (but in no event less frequent than on a monthly basis), and may be increased from time to time at the discretion of the Compensation Committee of the Company's Board of Directors (the "**Compensation Committee**"). The Compensation Committee shall review Executive's Annual Salary at least annually and may increase the Annual Salary from time to time at its sole discretion. Any increased Annual Salary shall thereupon be the "Annual Salary" for the purposes hereof. Executive's Annual Salary shall not be decreased without his prior written consent at any time during the Employment Period.

B. **Annual Target Bonus.** Executive shall also be entitled to receive an annual target incentive bonus of up to 30% of the Executive's current salary. The annual bonus shall be based upon the Company achieving its revenue and EBITDA goals, and Executive meeting the annual goals determined by the Compensation Committee. The amount of the annual target bonus payable to Executive with respect to any given year shall be determined by the Compensation Committee. The annual bonus shall be paid no later than the end of February following the year for which such bonus is being paid.

C. **Applicable Withholdings.** The Company shall deduct and withhold from the compensation payable to Executive hereunder any and all applicable federal, state and local income and employment withholding taxes and any other amounts required to be deducted or withheld by the Company under applicable statutes, regulations, ordinances or orders governing or requiring the withholding or deduction of amounts otherwise payable as compensation or wages to employees.

4. Equity Compensation.

A. **Initial Grant.** As of the close of business on the date of the Executive's first day of employment with the Company, the Company's Compensation Committee shall grant Executive non-statutory stock options (the "***Initial Option***") to purchase up to 135,000 shares of the Company's common stock and shall vest over four years; 25% of the shares shall vest on the first anniversary of the grant date and the balance shall vest in 36 equal monthly installments thereafter. The Initial Option will be granted pursuant to the Company's 2007 Omnibus Incentive Plan (the "***Plan***"), and will be subject to the terms and conditions of the Plan in effect as of the grant date and the related stock option agreements. The exercise price for the options shall be equal to the closing sales price of the Company's common stock as reported by the Nasdaq Global Market on the date of grant of the options. Also, as of the close of business on the date of the Executive's first day of employment with the Company, the Company's Compensation Committee shall grant Executive a restricted stock unit award (the "***Initial Restricted Stock Unit Award***") with respect to 15,666 shares of the Company's common stock which shall vest in full on February 15, 2016, subject to Executive's service through such date. The Initial Restricted Stock Unit Award is subject to the terms and conditions set forth in the Plan and the related stock unit award agreement.

B. **Other Equity Compensation.** Executive shall also be entitled to participate in any other equity incentive plans of the Company. All such other options or other equity awards will be made at the discretion of the Company's Compensation Committee of the Board of Directors pursuant and subject to the terms and conditions of the applicable equity incentive plan, including any provisions for repurchase thereof. The option exercise price or value of any equity award granted to Executive will be established by the Company's Board of Directors as of the date such interests are granted but shall not be less than the fair market value of the class of equity underlying such award. Except with respect to any restricted stock unit awards granted to Executive (the "***RSUs***") (the terms of which shall be governed by the applicable award agreements), the vesting of all stock options and other equity compensation awards (both time-based vesting and performance-based vesting at target level) granted to Executive that are outstanding on the date of Executive's termination or resignation shall accelerate in full in the event that the Executive's employment is terminated without Cause (as defined herein) or Executive resigns for Good Reason (as defined herein) within the period beginning three months before, and ending twelve months following, a Change in Control (as defined in the Company's 2007 Omnibus Incentive Plan (the "***Plan***")) (each, a "***Change in Control Termination***"). In the event of Executive's termination or resignation for any reason, all stock options granted to Executive that are outstanding on the date of such termination or resignation shall remain exercisable until the earlier of (i) the expiration date set forth in the applicable stock option agreement or (ii) the expiration of one (1) year measured from the date of Executive's termination or resignation. The provisions of this Section 4B of this Agreement shall govern the acceleration of Executive's stock options and other equity compensation awards (other than the RSUs) in the event of a Change in Control Termination and the period for which Executive's stock options remain exercisable following Executive's termination or resignation for any reason and shall supersede any provisions to the contrary in any other agreement.

C. **Equity Bonus Eligibility.** Executive shall also be eligible to receive an annual target incentive bonus, additionally or in the alternative to the annual cash target incentive bonus described in Section 3B of this Agreement, in the form of common stock or restricted stock unit awards as determined by the Compensation Committee.

5. **Expense Reimbursement.** In addition to the compensation specified in Section 3, Executive shall be entitled to receive reimbursement from the Company for all reasonable business expenses incurred by Executive in the performance of Executive's duties hereunder, provided that Executive furnishes the Company, not later than the December 31 of the year following the year in which the expense was incurred, with vouchers, receipts and other details of such expenses in the form reasonably required by the Company to substantiate a deduction for such business expenses under all applicable rules and regulations of federal and state taxing authorities.

6. **Fringe Benefits.**

A. **Group Plans.** Executive shall, throughout the Employment Period, continue to be eligible to participate in all of the group term life insurance plans, group health plans, accidental death and dismemberment plans, short-term disability programs, retirement plans, profit sharing plans or other plans (for which Executive qualifies) that are available to the executive officers of the Company. During the Employment Period, the Company will pay for coverage for Executive and his spouse and dependents residing in Executive's household (collectively, the "***Dependent***") under the Company's health plan, and coverage for Executive under the Company's accidental death and dismemberment plan and for short-term disability. In the event Executive elects not to participate in the Company's health plan, the Company shall reimburse Executive for the cost of alternative health care coverage of his choosing for Executive and his Dependents in an amount up to \$1,500 per month. Payment for all other benefit plans will be paid in accordance with the Company's policy in effect for similar executive positions.

B. **Vacation.** Executive shall be entitled to at least four weeks paid vacation per year. Vacation shall accrue pursuant to the Company's vacation benefit policies.

C. **Indemnification.** On or prior to the Start Date, the Company and Executive shall enter into the Company's standard indemnification agreement for its key executives.

7. **Termination of Employment.** Executive's employment with the Company shall be "at-will." This means that it is not for any specified period of time and can be terminated by Executive or the Company at any time, with or without advance notice, and for any or no particular reason or cause. Upon such termination, Executive (or, in the case of Executive's death, Executive's estate and beneficiaries) shall have no further rights to any other compensation or benefits from the Company on or after the termination of employment except as follows:

A. **Termination For Cause.** In the event the Company terminates Executive's employment with the Company prior to expiration of the Employment Period for Cause (as defined below), the Company shall pay to Executive the following: (i) Executive's unpaid Annual Salary that has been earned through the termination date of his employment; (ii) Executive's accrued but unused vacation; (iii) any accrued expenses pursuant to Section 5 above, and (iv) any other payments as may be required under applicable law (subsections (i) through (iv) above shall collectively be referred to herein as the "***Required Payments***"). For purposes of this Agreement, "***Cause***" shall mean that Executive has engaged in any one of the following: (i) misconduct involving the Company or its assets, including, without limitation, misappropriation of the Company's funds or property; (ii) reckless or willful misconduct in the performance of Executive's duties in the event such conduct continues after the Company has provided 30 days written notice to Executive and a reasonable opportunity to cure; (iii) conviction of, or plea of nolo contendere to, any felony or misdemeanor involving dishonesty or fraud; (iv) the violation of any of the Company's policies, including without limitation, the Company's policies on equal employment opportunity and the prohibition against unlawful harassment; (v) the material breach of any provision of this Agreement after 30 days written notice to Executive of such breach and a reasonable opportunity to cure such breach; or (vi) any other misconduct that has a material adverse effect on the business or reputation of the Company.

B. Termination Upon Death or Disability. If Executive dies during the Employment Period, the Executive's employment with the Company shall be deemed terminated as of the date of death, and the obligations of the Company to or with respect to Executive shall terminate in their entirety upon such date except as otherwise provided under this Section 7B. If Executive becomes Disabled (as defined below), then the Company shall have the right, to the extent permitted by law, to terminate the employment of Executive upon 30 days prior written notice in writing to Executive. Upon termination of employment due to the death or Disability of Executive, Executive (or Executive's estate or beneficiaries in the case of the death of Executive) shall be entitled to receive the Required Payments; and Executive shall also be entitled to the following: (i) any unpaid annual target bonus under Section 3B for the year immediately prior to the year of such termination (in an amount equal to the bonus percentage accrued by the Company, pursuant to GAAP, through the last closed accounting month prior to the time of such termination) and a pro-rated share of Executive's annual target bonus under Section 3B for the year of such termination (in an amount equal to the bonus percentage accrued by the Company, pursuant to GAAP, through the last closed accounting month prior to the time of such termination), which bonus amounts shall be paid at the earlier of (A) such time as the Company regularly pays bonuses, or (B) no later than 2 1/2 months following the calendar year in which the termination occurs; and (ii) continuation of his Annual Salary following such termination for a period of one year, which shall be payable in accordance with the Company's standard pay schedules; and (iii) in the case of termination due to Disability, the Company shall reimburse Executive's COBRA payments for Executive's health insurance benefits for a period of one year. For the purposes of this Agreement, "**Disability**" shall mean a physical or mental impairment which, the Board of Directors determines, after consideration and implementation of reasonable accommodations, precludes the Executive from performing his essential job functions for a period longer than three consecutive months or a total of one hundred twenty (120) days in any twelve month period.

C. Termination for Any Other Reason; Resignation for Good Reason. Should the Company terminate Executive's employment (other than for Cause or as a result of Executive's Death or Disability), or in the event Executive resigns for Good Reason (as defined below) within two years following the initial occurrence of the event giving rise thereto, then the Company shall pay Executive the Required Payments; and Executive shall also be entitled to the following: (i) any unpaid annual target bonus under Section 3B for the year immediately prior to the year of such termination or resignation (in an amount equal to the bonus percentage accrued by the Company, pursuant to GAAP, through the last closed accounting month prior to the time of such termination or resignation) and a pro-rated share of Executive's annual target bonus under Section 3B for the year of such termination or resignation (in an amount equal to the bonus percentage accrued by the Company, pursuant to GAAP, through the last closed accounting month prior to the time of such termination or resignation), which bonus amounts shall be paid at the earlier of (A) such time as the Company regularly pays bonuses, or (B) no later than 2 1/2 months following the calendar year in which the termination or resignation occurs; (ii) continuation of Executive's Annual Salary, which shall be payable in accordance with the Company's standard pay schedules for a period of six months; and (iii) the Company shall also reimburse Executive's actual COBRA payments for Executive's health insurance benefits for a period of one year. This Section 7C is intended to qualify as an involuntary separation pay arrangement that is exempt from application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") because certain severance payments are treated as paid on account of an involuntary separation (including a separation for Good Reason) and paid in a lump sum within the "short-term deferral" period following the time the Executive obtains a vested right to such payments. For the purposes of this Agreement, "**Good Reason**" shall mean Executive's voluntary resignation for any of the following events that results in a material negative change to the Executive: (i) a reduction without Executive's prior written consent in either his level of Annual Salary or his target annual bonus as a percentage of Annual Salary; (ii) a reduction in the scope of Executive's authorities, duties and responsibilities or a reduction in the authority, duties or responsibilities of the supervisor to whom the Executive is required to report; (iii) a relocation of Executive more than thirty (30) miles from the Company's current corporate headquarters as of the date hereof; (iv) a material breach of any provision of this Agreement by the Company; or (v) the failure of the Company to have a successor entity specifically assume this Agreement. Following a Change in Control (as defined in the Plan), Good Reason shall include (x) a material negative change in authority, duties or responsibilities resulting from the Executive no longer being an executive officer of a publicly-traded company and (y) the Company's chief executive officer (immediately prior the Change in Control) no longer being the chief executive officer of the successor publicly-traded company. Notwithstanding

anything to the contrary set forth in this Agreement, in addition to the benefits described in this Section 7C and in Section 4B above, upon a Change in Control Termination, the six month Executive Annual Salary severance benefit described above in Section 7C(ii) shall be extended to a period of twelve months Executive Annual Salary (such six month Executive Annual Salary severance extension, the “**Six Month Extension**”) (provided however that if Executive obtains other employment during the Six Month Extension period, then his severance payments in respect of the Six Month Extension shall be reduced by any amounts received by Executive from his new employer during the Six Month Extension period. Notwithstanding the foregoing, “Good Reason” shall only be found to exist if prior to Executive’s resignation for Good Reason, the Executive has provided, not more than 90 days following the initial occurrence thereof, written notice to the Company of such Good Reason event indicating and describing the event resulting in such Good Reason, and the Company does not cure such event within 90 days following the receipt of such notice from Executive.

8. **Non-Competition During the Employment Period** Executive acknowledges and agrees that given the extent and nature of the confidential and proprietary information he will obtain during the course of his employment with the Company, it would be inevitable that such confidential information would be disclosed or utilized by the Executive should he obtain employment from, or otherwise become associated with, an entity or person that is engaged in a business or enterprise that directly competes with the Company. Consequently, during any period for which Executive is receiving payments from the Company, either as wages or as a severance benefit, Executive shall not, without prior written consent of the Chief Executive Officer, directly or indirectly own, manage, operate, control or participate in the ownership, management, operation or control of, or be employed by or provide advice to, any enterprise that is engaged in any business directly competitive to that of the Company in the aftermarket auto parts market in the United States; provided, however, that such restriction shall not apply to any passive investment representing an interest of less than 1% of an outstanding class of publicly-traded securities of any company or other enterprise where Executive does not provide any management, consulting or other services to such company or enterprise.

9. **Proprietary Information.** On or prior to the Start Date, Executive shall execute the Company’s standard Confidential Information and Assignment of Inventions Agreement (the “**Confidentiality Agreement**”), which shall be hereby incorporated by this reference as if set forth fully herein. Executive’s obligations pursuant to the Confidentiality Agreement will survive termination of Executive’s employment with the Company. Executive agrees that he will not use or disclose to the Company any confidential or proprietary information from any of his prior employers.

10. **Successors and Assigns.** This Agreement is personal in its nature and the Executive shall not assign or transfer his rights under this Agreement. The provisions of this Agreement shall inure to the benefit of, and shall be binding on, each successor of the Company whether by merger, consolidation, transfer of all or substantially all assets, or otherwise, and the heirs and legal representatives of Executive.

11. **Notices.** Any notices, demands or other communications required or desired to be given by any party shall be in writing and shall be validly given to another party if served either personally or via overnight delivery service such as Federal Express, postage prepaid, return receipt requested. If such notice, demand or other communication shall be served personally, service shall be conclusively deemed made at the time of such personal service. If such notice, demand or other communication is given by overnight delivery, such notice shall be conclusively deemed given two business days after the deposit thereof addressed to the party to whom such notice, demand or other communication is to be given as hereinafter set forth:

To the Company: U.S. Auto Parts Network, Inc.
16941 Keegan Ave.
Carson, California 90746
Attn: Chief Executive Officer

To Executive: At Executive's last residence as provided by
Executive to the Company for payroll records.

Any party may change such party's address for the purpose of receiving notices, demands and other communications by providing written notice to the other party in the manner described in this Section 11.

12. **Governing Documents.** This Agreement, along with the documents expressly referenced in this Agreement, constitute the entire agreement and understanding of the Company and Executive with respect to the terms and conditions of Executive's employment with the Company and the payment of severance benefits, and supersedes all prior and contemporaneous written or verbal agreements and understandings between Executive and the Company relating to such subject matter. This Agreement may only be amended by written instrument signed by Executive and an authorized officer of the Company. Any and all prior agreements, understandings or representations relating to the Executive's employment with the Company are terminated and cancelled in their entirety and are of no further force or effect.

13. **Governing Law.** The provisions of this letter agreement will be construed and interpreted under the laws of the State of California. If any provision of this Agreement as applied to any party or to any circumstance should be adjudged by a court of competent jurisdiction to be void or unenforceable for any reason, the invalidity of that provision shall in no way affect (to the maximum extent permissible by law) the application of such provision under circumstances different from those adjudicated by the court, the application of any other provision of this Agreement, or the enforceability or invalidity of this Agreement as a whole. Should any provision of this Agreement become or be deemed invalid, illegal or unenforceable in any jurisdiction by reason of the scope, extent or duration of its coverage, then such provision shall be deemed amended to the extent necessary to conform to applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision will be stricken and the remainder of this Agreement shall continue in full force and effect.

14. **Remedies.** All rights and remedies provided pursuant to this Agreement or by law shall be cumulative, and no such right or remedy shall be exclusive of any other. A party may pursue any one or more rights or remedies hereunder, or may seek damages or specific performance in the event of another party's breach hereunder, or may pursue any other remedy by law or equity, whether or not stated in this Agreement.

15. **No Waiver.** The waiver by either party of a breach of any provision of this Agreement shall not operate as, or be construed as, a waiver of any later breach of that provision.

16. **Counterparts.** This Agreement may be executed in more than one counterpart, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument.

17. **Section 409A.**

(a) Notwithstanding anything to the contrary herein, the following provisions apply to the extent severance benefits provided herein are subject to Section 409A of Code and the regulations and other guidance thereunder and any state law of similar effect (collectively "***Section 409A***"). Severance benefits shall not commence until Executive has a "separation from service" for purposes of Section 409A. Each installment of severance benefits is a separate "payment" for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i), and the severance benefits are intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9). However, if such exemptions are not available and Executive is, upon separation from service, a "specified employee" for purposes of Section 409A, then, solely to the extent necessary to avoid adverse personal tax consequences under Section 409A, the timing of the severance benefits payments shall be delayed until the earlier of (i) six (6) months and one day after Executive's separation from service, or (ii) Executive's death. The parties acknowledge that the exemptions from application of Section 409A to severance benefits are fact specific, and any later amendment of this Agreement to alter the timing, amount or conditions that will trigger payment of severance benefits may preclude the ability of severance benefits provided under this Agreement to qualify for an exemption.

(b) It is intended that this Agreement shall comply with the requirements of Section 409A, and any ambiguity contained herein shall be interpreted in such manner so as to avoid adverse personal tax consequences under Section 409A. Notwithstanding the foregoing, the Company shall in no event be obligated to indemnify the Executive for any taxes or interest that may be assessed by the IRS pursuant to Section 409A of the Code to payments made pursuant to this Agreement. To the extent that any severance benefit payments are delayed as required by this Agreement due to the application of Section 409A, all suspended payments shall earn and accrue interest at the prevailing "Prime Rate" of interest as published by The Wall Street Journal at the time the payment is made, and any suspended payment when so made, shall be made as a lump sum payment, including accrued interest.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

U.S. AUTO PARTS NETWORK, INC.

By: /s/ Shane Evangelist
Print Name: Shane Evangelist
Title: Chief Executive Officer
16941 Keegan Avenue
Address: Carson, CA 90746

EXECUTIVE

/s/ David Eisler
David Eisler

**EIGHTH AMENDMENT TO CREDIT AGREEMENT
AND
THIRD AMENDMENT TO PLEDGE AND SECURITY AGREEMENT**

THIS EIGHTH AMENDMENT TO CREDIT AGREEMENT AND THIRD AMENDMENT TO PLEDGE AND SECURITY AGREEMENT (this "Amendment"), dated as of February 5, 2016, is entered into by and among U.S. AUTO PARTS NETWORK, INC., a Delaware corporation ("Company"), PARTSBIN, INC., a Delaware corporation ("PartsBin"), LOCAL BODY SHOPS, INC., a Delaware corporation ("Local Body Shops"), PRIVATE LABEL PARTS, INC., a Delaware corporation ("Private Label Parts"), WHITNEY AUTOMOTIVE GROUP, INC., a Delaware corporation ("Whitney Auto", and together with the Company, PartsBin, Local Body Shops and Private Label Parts, collectively, "Borrowers" and each individually a "Borrower"), the other Loan Parties party hereto, the Lenders (as defined below) party hereto, and JPMORGAN CHASE BANK, N.A., as administrative agent for the Lenders (in such capacity, "Administrative Agent").

RECITALS

- A. Borrowers, the other parties signatory thereto as "Loan Parties" (each individually, a "Loan Party" and collectively, the "Loan Parties"), Administrative Agent, and the financial institutions party thereto as lenders (each individually, a "Lender" and collectively, the "Lenders") have previously entered into that certain Credit Agreement, dated as of April 26, 2012 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which the Lenders have made certain loans and financial accommodations available to Borrowers. Terms used herein without definition shall have the meanings ascribed to them in the Credit Agreement.
- B. Borrowers, the other Loan Parties and Administrative Agent have previously entered into that certain Pledge and Security Agreement, dated as of April 26, 2012 (as amended, restated, supplemented or otherwise modified from time to time, the "Security Agreement").
- C. Borrowers and the other Loan Parties have requested pursuant to Section 2.09 of the Credit Agreement that Administrative Agent and the Lenders amend the Credit Agreement to increase the aggregate amount of the Revolving Commitments to \$30,000,000.
- D. Borrowers and the other Loan Parties have further requested that Administrative Agent and the Lenders amend the Credit Agreement and the Security Agreement, and Administrative Agent and the Lenders are willing to amend the Credit Agreement and the Security Agreement pursuant to the terms and conditions set forth herein.
- E. Each Borrower and each other Loan Party is entering into this Amendment with the understanding and agreement that, except as specifically provided herein, none of Administrative Agent's or any Lender's rights or remedies as set forth in the Credit Agreement and the other Loan Documents are being waived or modified by the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

- 1. Amendments to Credit Agreement.
 - a. The following definitions are hereby added to Section 1.01 of the Credit Agreement in their proper alphabetical order:
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“ ‘Eighth Amendment’ means that certain Eighth Amendment to Credit Agreement and Third Amendment to Pledge and Security Agreement, dated as of the Eighth Amendment Effective Date, by and among Borrowers, the other Loan Parties party thereto, Administrative Agent and the Lenders party thereto.”

“ ‘Eighth Amendment Effective Date’ means February 5, 2016.”

- b. Effective as of the date hereof, the following definition set forth in Section 1.01 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“ ‘Applicable Rate’ means, for any day, with respect to any Loan, or with respect to the commitment fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption “Revolver ABR Spread”, “Revolver Eurodollar Spread” or “Commitment Fee Rate”, as the case may be, based upon the Fixed Charge Coverage Ratio, computed on a trailing three (3) month basis, as of the most recent determination date, provided that until the delivery to the Administrative Agent, pursuant to Section 5.01, of the Company’s consolidated financial information for the Company’s fiscal quarter ending March 31, 2016, the “Applicable Rate” shall be the applicable rate per annum set forth below in Category 2:

<u>Fixed Charge Coverage Ratio</u>	<u>Revolver Eurodollar Spread</u>	<u>Revolver ABR Spread</u>	<u>Commitment Fee Rate</u>
<u>Category 1</u> 1.75 to 1.0	1.25%	-0.25%	0.25%
<u>Category 2</u> 1.15 to 1.0 but 1.75 to 1.0	1.50%	0.00%	0.25%
<u>Category 3</u> 1.15 to 1.0	1.75%	0.25%	0.25%

For purposes of the foregoing, (a) the Applicable Rate shall be determined as of the end of each fiscal quarter of the Company based upon the Company’s annual or quarterly consolidated financial statements delivered pursuant to Section 5.01 and (b) each change in the Applicable Rate resulting from a change in the Fixed Charge Coverage Ratio shall be effective during the period commencing on and including the first day of the month immediately following the date of delivery to the Administrative Agent of such consolidated financial statements indicating such change and ending on the date immediately preceding the effective date of the next such change, provided that the Fixed Charge Coverage Ratio shall be deemed to be in Category 3 at the option of the Administrative Agent or at the request of the Required Lenders if the Borrowers fail to deliver the annual or quarterly consolidated financial statements required to be delivered by it pursuant to Section 5.01, during the period from the expiration of the time for delivery thereof until such consolidated financial statements are delivered.”

- c. The following definitions set forth in Section 1.01 of the Credit Agreement are hereby amended and restated to read in their entirety as follows:

“ ‘Availability Block’ means an amount equal to \$2,000,000; provided that on the Eighth Amendment Effective Date, the Availability Block shall be reduced to \$0.”

“ ‘Covenant Testing Trigger Period’ means the period (a) commencing on any day that Excess Availability is less than 8% of the aggregate amount of the Lenders’ Revolving Commitments for any five (5) Business Days (on a cumulative basis rather than a consecutive basis), and (b) continuing until Excess Availability has been greater than or equal to 8% of the aggregate amount of the Lenders’ Revolving Commitments at all times for 45 consecutive calendar days.”

“ ‘Reporting Trigger Period’ means the period (a) commencing on any day that Excess Availability is less than 12% of the aggregate amount of the Lenders’ Revolving Commitments for any five (5) Business Days (on a cumulative basis rather than a consecutive basis), and (b) continuing until Excess Availability has been greater than or equal to 12% of the aggregate amount of the Lenders’ Revolving Commitments at all times for 45 consecutive calendar days.”

“ ‘Revolving Commitment’ means, with respect to each Lender, the commitment, if any, of such Lender to make Revolving Loans and to acquire participations in Letters of Credit, Overadvances and Swingline Loans hereunder, expressed as an amount representing the maximum possible aggregate amount of such Lender’s Revolving Exposure hereunder, as such commitment may be reduced or increased from time to time pursuant to (a) Section 2.09 and (b) assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender’s Revolving Commitment is set forth on the Commitment Schedule, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Revolving Commitment, as applicable. The initial aggregate amount of the Lenders’ Revolving Commitments as of the Eighth Amendment Effective Date is \$30,000,000.

- d. The first sentence of Section 2.12(a) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“The Borrowers agree to pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue at the Applicable Rate on the average daily amount of the Available Revolving Commitment of such Lender (without giving effect to the increase to the Revolving Commitments in connection with the Eighth Amendment) during the period from and including the Effective Date to but excluding the date on which the Lenders’ Revolving Commitments terminate.”
 - e. A new Section 2.17(i) is hereby added to the end of Section 2.17 of Credit Agreement as follows:

“(i) FATCA. For purposes of determining withholding Taxes imposed under FATCA, from and after the Eighth Amendment Effective Date, Borrowers and the Administrative Agent shall treat (and the Lenders hereby authorize the Administrative Agent to treat) this Agreement as not qualifying as a “grandfathered obligation” within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i).”
 - f. The proviso at the end of the first sentence of Section 5.06 of the Credit Agreement is hereby amended and restated to read as follows:

“provided, however, that if no Event of Default has occurred and is continuing, only one field examination per calendar year (excluding field examinations with respect to Permitted Acquisitions conducted in such year) shall be at the sole expense of the Borrowers (or two field examinations per calendar year for any calendar year during which Excess Availability is less than 15% of the aggregate amount of the Lenders’ Revolving Commitments for 90 days of such calendar year.”
 - g. In Section 6.01(e) of the Credit Agreement, the text “\$1,500,000” is hereby deleted and replaced with the text “\$2,000,000”.
 - h. Sections 6.04(p), (q) and (r) of the Credit Agreement are hereby amended and restated to read in their entirety as follows:

“(p) the funding obligations of the Company pursuant to Section 4.8(e) of the AutoMD Investor Rights Agreement and the payment by the Company of such obligations; provided, that no payment may be made with respect to such obligations unless (A) no Default has occurred and is continuing or would result from any such payment, and (B) both before and after giving effect to any such payment, the Borrowers shall have Excess Availability of at least 8% of the aggregate amount of the Lenders’ Revolving Commitments;
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(q) the reimbursement obligations of the Company with respect to certain obligations of AutoMD pursuant to Section 5.1 of the AutoMD Investor Rights Agreement and the payment by the Company of such obligations; provided, that (i) no payment may be made with respect to such reimbursement obligations unless (A) no Default has occurred and is continuing or would result from any such payment, and (B) both before and after giving effect to any such payment, the Borrowers shall have Excess Availability of at least 8% of the aggregate amount of the Lenders' Revolving Commitments, and (ii) the aggregate amount of all such payments made by the Company may not exceed \$2,500,000; and

(r) the purchase of up to 2,000,000 shares of the common stock of AutoMD for an aggregate purchase price not to exceed \$2,000,000 in accordance with the terms of the AutoMD Transaction Documents, so long as (A) no Default has occurred and is continuing or would result from any such purchase, and (B) both before and after giving effect to any such purchase, the Borrowers shall have Excess Availability of at least 8% of the aggregate amount of the Lenders' Revolving Commitments."

- i. A new Section 6.05(m) is hereby added to the end of Section 6.05 of Credit Agreement as follows:

"(m) sale by Company of up to 2,000,000 shares of AutoMD common stock and/or sale by the Company of all rights to distributions on such shares to Persons that are not Loan Parties, in either case with a preferential right entitling such buyer to any distributions prior and in preference to other shares of AutoMD common stock held by Company; *provided*, that (i) no Change in Control results from such sale, (ii) such sale is made pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent, and (iii) any Restricted Payments or any other payments made with respect to such shares or rights may only be made if expressly permitted by Section 6.08."

- j. Section 6.08(a)(v) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

"(v) any Loan Party or any Subsidiary may make, and agree to make, any other Restricted Payments, so long as (A) no Default has occurred and is continuing or would result from any such Restricted Payment, and (B) both before and after giving effect to any such Restricted Payment, the Borrowers shall have Excess Availability of at least 8% of the aggregate amount of the Lenders' Revolving Commitments."

- k. Section 6.13 of the Credit Agreement is hereby amended and restated in its entirety as follows:

"SECTION 6.13 Fixed Charge Coverage Ratio. Upon the occurrence and during the continuance of a Covenant Testing Trigger Period, the Borrowers will not permit the Fixed Charge Coverage Ratio to be less than the required amount set forth in the following table for the applicable period set forth opposite thereto, when measured on a month-end basis as of (a) the last fiscal month immediately preceding the occurrence of such Covenant Testing Trigger Period for which financial statements have most recently been delivered pursuant to Section 5.01(b), and (b) each fiscal month for which financial statements are delivered pursuant to Section 5.01(b) during such Covenant Testing Trigger Period:

Applicable Amount	Applicable Period
1.0 to 1.0	For the 12 month period ending December 31, 2015, and for the 12 month period ending at the end of each month thereafter"

- l. The Commitment Schedule attached to the Credit Agreement is hereby amended and restated in its entirety with the Commitment Schedule attached hereto identified as such.
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2. Amendment to Security Agreement

- a. The following definition set forth in Article I of the Security Agreement is hereby amended and restated to read in its entirety as follows:
“ ‘Dominion Trigger Period’ means the period (a) commencing on the date that (i) an Event of Default occurs or (ii) Excess Availability is less than 12% of the aggregate amount of the Lenders’ Revolving Commitments for any five (5) Business Days (on a cumulative basis rather than a consecutive basis) and (b) continuing until, during the preceding sixty (60) consecutive days, no Event of Default existed and Excess Availability has been greater than 12% of the aggregate amount of the Lenders’ Revolving Commitments at all times.”

3. Conditions Precedent to Effectiveness of this Amendment. The following shall have occurred before this Amendment is effective:

- a. Amendment. Administrative Agent shall have received this Amendment fully executed in a sufficient number of counterparts for distribution to all parties.
- b. Representations and Warranties. The representations and warranties set forth herein, and in the Credit Agreement and the Security Agreement (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof), must be true and correct in all material respects without duplication of any materiality qualifier contained therein.
- c. Authorizing Resolutions. Administrative Agent shall have received a certificate of each Loan Party dated as of the date hereof signed by a Financial Officer or otherwise acceptable officer of such Loan Party certifying and attaching the resolutions adopted by such Loan Party approving or consenting to this Amendment and any other Loan Documents executed in connection herewith.

4. Representations and Warranties. Each Borrower and each other Loan Party represents and warrants as follows:

- a. Authority. Each Borrower and each other Loan Party has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Loan Documents (as amended or modified hereby) to which it is a party. The execution, delivery, and performance by each Borrower and each other Loan Party of this Amendment have been duly approved by all necessary corporate action, have received all necessary governmental approval, if any, and do not contravene any law or any contractual restriction binding on such Borrower or such Loan Party.
- b. Enforceability. This Amendment has been duly executed and delivered by each Borrower and each other Loan Party. This Amendment and each Loan Document (as amended or modified hereby) is the legal, valid, and binding obligation of each Borrower and each other Loan Party, enforceable against each Borrower and each other Loan Party in accordance with its terms, and is in full force and effect.
- c. Representations and Warranties. The representations and warranties contained in the Credit Agreement and the Security Agreement (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof) are correct on and as of the date hereof in all material respects without duplication of any materiality qualifier contained therein as though made on and as of the date hereof.
- d. No Default. No event has occurred and is continuing that constitutes a Default or Event of Default.

5. Choice of Law. The validity of this Amendment, its construction, interpretation and enforcement, the rights of the parties hereunder, shall be determined under, governed by, and construed in accordance with the laws of the State of New York, but without giving effect to any federal laws applicable to national banks.

6. Counterparts. This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered, shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telefacsimile shall be effective as delivery of a manually executed counterpart of the Amendment.

7. Reference to and Effect on the Loan Documents.

a. Upon and after the effectiveness of this Amendment, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified and amended hereby.

b. Upon and after the effectiveness of this Amendment, each reference in the Security Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Security Agreement, and each reference in the other Loan Documents to “the Security Agreement”, “thereof” or words of like import referring to the Security Agreement, shall mean and be a reference to the Security Agreement as modified and amended hereby.

c. Except as specifically set forth in this Amendment, the Credit Agreement, the Security Agreement and all other Loan Documents, are and shall continue to be in full force and effect and are hereby in all respects ratified, and confirmed and shall constitute the legal, valid, binding, and enforceable obligations of each Borrower and the other Loan Parties to Administrative Agent and the Lenders without defense, offset, claim, or contribution.

d. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of Administrative Agent or any Lender under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

8. Ratification. Each Borrower and each other Loan Party hereby restates, ratifies and reaffirms each and every term and condition set forth in the Credit Agreement and Security Agreement, as amended hereby, and the Loan Documents effective as of the date hereof.

9. Estoppel. To induce Administrative Agent and Lenders to enter into this Amendment and to induce Administrative Agent and the Lenders to continue to make advances to Borrowers under the Credit Agreement, each Borrower and each other Loan Party hereby acknowledges and agrees that, after giving effect to this Amendment, as of the date hereof, there exists no Default or Event of Default and no right of offset, defense, counterclaim, or objection in favor of any Borrower or any other Loan Party as against Administrative Agent or any Lender with respect to the Obligations.

10. Integration. This Amendment, together with the other Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

11. Severability. In case any provision in this Amendment shall be invalid, illegal, or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

12. Submission of Amendment. The submission of this Amendment to the parties or their agents or attorneys for review or signature does not constitute a commitment by Administrative Agent or any Lender to waive any of their respective rights and remedies under the Loan Documents, and this Amendment shall have no binding force or effect until all of the conditions to the effectiveness of this Amendment have been satisfied as set forth herein.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their duly authorized officers as of the day and year first above written.

BORROWERS:

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

By /s/ Shane Evangelist
Name: Shane Evangelist
Title: Chief Executive Officer

PARTSBIN, INC.,
a Delaware corporation

By /s/ Shane Evangelist
Name: Shane Evangelist
Title: President

LOCAL BODY SHOPS, INC.,
a Delaware corporation

By /s/ Robert Hamman
Name: Robert Hamman
Title: President

PRIVATE LABEL PARTS, INC.,
a Delaware corporation

By /s/ Arthur Simitian
Name: Arthur Simitian
Title: President

WHITNEY AUTOMOTIVE GROUP, INC.,
a Delaware corporation

By /s/ Jim Nelson
Name: Jim Nelson
Title: President

OTHER LOAN PARTIES:

LOBO MARKETING, INC.,
a Texas corporation

By /s/ Brian Hafer
Name: Brian Hafer
Title: President

AUTOMD, INC.,
a Delaware corporation

By /s/ Tracey Virtue
Name: Tracey Virtue
Title: President

PACIFIC 3PL, INC.,
a Delaware corporation

By /s/ Aaron Coleman
Name: Aaron Coleman
Title: President

GO FIDO, INC.,
a Delaware corporation

By /s/ Aaron Coleman
Name: Aaron Coleman
Title: President

AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.,
a Delaware corporation

By /s/ David Spangler
Name: David Spangler
Title: President

ADMINISTRATIVE AGENT AND LENDER

JPMORGAN CHASE BANK, N.A.,
individually as a Lender and as Administrative Agent

By /s/ Jolinda N. Walden
Name: Jolinda N. Walden
Title: Authorized Officer

COMMITMENT SCHEDULE

Lender	Revolving Commitment	Commitment
JPMorgan Chase Bank, N.A.	\$30,000,000	\$30,000,000
Total	\$30,000,000	\$30,000,000

AutoMD, Inc.

2014 Equity Incentive Plan

Adopted by the Board of Directors: November 17, 2014

Approved by the Stockholders: November 19, 2014

Termination Date: November 16, 2024

1. General.

(a) **Eligible Stock Award Recipients.** Employees, Directors and Consultants are eligible to receive Stock Awards.

(b) **Available Stock Awards.** The Plan provides for the grant of the following types of Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards and (vi) Other Stock Awards.

(c) **Purpose.** The Plan, through the granting of Stock Awards, is intended to help the Company secure and retain the services of eligible award recipients, provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and provide a means by which the eligible recipients may benefit from increases in value of the Common Stock.

2. Administration.

(a) **Administration by Board.** The Board will administer the Plan. The Board may delegate administration of the Plan to a Committee or Committees, as provided in Section 2(c).

(b) **Powers of Board.** The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine (A) who will be granted Stock Awards; (B) when and how each Stock Award will be granted; (C) what type of Stock Award will be granted; (D) the provisions of each Stock Award (which need not be identical), including when a person will be permitted to exercise or otherwise receive cash or Common Stock under the Stock Award; (E) the number of shares of Common Stock subject to a Stock Award; and (F) the Fair Market Value applicable to a Stock Award.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for administration of the Plan and Stock Awards. The Board, in the exercise of these powers, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it will deem necessary or expedient to make the Plan or Stock Award fully effective.

(iii) To settle all controversies regarding the Plan and Stock Awards granted under it.

(iv) To accelerate, in whole or in part, the time at which a Stock Award may be exercised or vest (or at which cash or shares of Common Stock may be issued).

(v) To suspend or terminate the Plan at any time. Except as otherwise provided in the Plan or a Stock Award Agreement, suspension or termination of the Plan will not impair a Participant's rights under the Participant's then-outstanding Stock Award without the Participant's written consent except as provided in subsection (viii) below.

(vi) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, by adopting amendments relating to Incentive Stock Options and certain nonqualified deferred compensation under Section 409A of the Code and/or to make the Plan or Stock Awards granted under the Plan compliant with the requirements for Incentive Stock Options or exempt from or compliant with the requirements for nonqualified deferred compensation under Section 409A of the Code, subject to the limitations, if any, of applicable law. However, if required by applicable law, and except as provided in Section 9(a) relating to Capitalization Adjustments, the Company will seek stockholder approval of any amendment of the Plan that (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Stock Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan, (D) materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (E) materially extends the term of the Plan, or (F) materially expands the types of Stock Awards available for issuance under the Plan. Except as provided in the Plan (including subsection (viii) below) or a Stock Award Agreement, no amendment of the Plan will impair a Participant's rights under an outstanding Stock Award unless (1) the Company requests the consent of the affected Participant, and (2) such Participant consents in writing.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 422 of the Code regarding Incentive Stock Options.

(viii) To approve forms of Stock Award Agreements for use under the Plan and to amend the terms of any one or more Stock Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Stock Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided however*, that a Participant's rights under any Stock Award will not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, (1) a Participant's rights will not be deemed to have been impaired by any such amendment if the Board, in its sole discretion, determines that the amendment, taken as a whole, does not materially impair the Participant's rights, and (2) subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Stock Awards without the affected Participant's consent (A) to maintain the qualified status of the Stock Award as an Incentive Stock Option under Section 422 of the Code; (B) to change the terms of an Incentive Stock Option, if such change results in impairment of the Award solely because it impairs the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code; (C) to clarify the manner of exemption from, or to bring the Stock Award into compliance with, Section 409A of the Code; or (D) to comply with other applicable laws.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Stock Awards.

(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States (provided that Board approval will not be necessary for immaterial modifications to the Plan or any Stock Award Agreement that are required for compliance with the laws of the relevant foreign jurisdiction).

(xi) To effect, with the consent of any adversely affected Participant, (A) the reduction of the exercise, purchase or strike price of any outstanding Stock Award; (B) the cancellation of any outstanding Stock Award and the grant in substitution thereof of a new (1) Option or SAR, (2) Restricted Stock Award, (3) Restricted Stock Unit Award, (4) Other Stock Award, (5) cash and/or (6) other valuable consideration determined by the Board, in its sole discretion, with any such substituted award (x) covering the same or a different number of shares of Common Stock as the cancelled Stock Award and (y) granted under the Plan or another equity or compensatory plan of the Company; or (C) any other action that is treated as a repricing under generally accepted accounting principles.

(c) **Delegation to Committee.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be to the Committee or subcommittee). Any delegation of administrative powers will be reflected in resolutions, not inconsistent with the provisions of the Plan, adopted from time to time by the Board or Committee (as applicable). The Committee may, at any time, abolish the subcommittee and/or revest in the Committee any powers delegated to the subcommittee. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest in the Board some or all of the powers previously delegated.

(d) **Delegation to an Officer.** The Board may delegate to one (1) or more Officers the authority to do one or both of the following: (i) designate Employees who are not Officers to be recipients of Options and SARs (and, to the extent permitted by applicable law, other Stock Awards) and, to the extent permitted by applicable law, the terms of such Stock Awards, and (ii) determine the number of shares of Common Stock to be subject to such Stock Awards granted to such Employees; *provided, however*, that the Board resolutions regarding such delegation will specify the total number of shares of Common Stock that may be subject to the Stock Awards granted by such Officer and that such Officer may not grant a Stock Award to himself or herself. Any such Stock Awards will be granted on the form of Stock Award Agreement most recently approved for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. The Board may not delegate authority to an Officer who is acting solely in the capacity of an Officer (and not also as a Director) to determine the Fair Market Value pursuant to Section 13(t) below.

(e) **Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

3. **Shares Subject to the Plan.**

(a) **Share Reserve.**

(i) Subject to Section 9(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards from and after the Effective Date will not exceed 1,950,000 shares (the "**Share Reserve**").

(ii) For clarity, the Share Reserve in this Section 3(a) is a limitation on the number of shares of Common Stock that may be issued pursuant to the Plan. Accordingly, this Section 3(a) does not limit the granting of Stock Awards except as provided in Section 7(a).

(b) **Reversion of Shares to the Share Reserve.** If a Stock Award or any portion thereof (i) expires or otherwise terminates without all of the shares covered by such Stock Award having been issued or (ii) is settled in cash (*i.e.*, the Participant receives cash rather than stock), such expiration, termination or settlement will not reduce (or otherwise offset) the number of shares of Common Stock that may be available for issuance under the Plan. If any shares of Common Stock issued pursuant to a Stock Award are forfeited back to or repurchased by the Company because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares that are forfeited or repurchased will revert to and again become available for issuance under the Plan. Any shares reacquired by the Company in satisfaction of tax withholding obligations on a Stock Award or as consideration for the exercise or purchase price of a Stock Award will again become available for issuance under the Plan.

(c) **Incentive Stock Option Limit.** Subject to the Share Reserve and Section 9(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options will be 1,950,000 shares of Common Stock.

(d) **Source of Shares.** The stock issuable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

4. **Eligibility.**

(a) **Eligibility for Specific Stock Awards.** Incentive Stock Options may be granted only to employees of the Company or a “parent corporation” or “subsidiary corporation” thereof (as such terms are defined in Sections 424(e) and 424(f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; *provided, however*, that Stock Awards may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any “parent” of the Company, as such term is defined in Rule 405, unless (i) the stock underlying such Stock Awards is treated as “service recipient stock” under Section 409A of the Code (for example, because the Stock Awards are granted pursuant to a corporate transaction such as a spin off transaction), or (ii) the Company, in consultation with its legal counsel, has determined that such Stock Awards are otherwise exempt from or alternatively comply with the distribution requirements of Section 409A of the Code.

(b) **Ten Percent Stockholders.** A Ten Percent Stockholder will not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) **Consultants.** A Consultant will not be eligible for the grant of a Stock Award if, at the time of grant, either the offer or sale of the Company’s securities to such Consultant is not exempt under Rule 701 because of the nature of the services that the Consultant is providing to the Company, because the Consultant is not a natural person, or because of any other provision of Rule 701, unless the Company determines that such grant need not comply with the requirements of Rule 701 and will satisfy another exemption under the Securities Act as well as comply with the securities laws of all other relevant jurisdictions.

5. **Provisions Relating to Options and Stock Appreciation Rights.**

Each Option or SAR will be in such form and will contain such terms and conditions as the Board deems appropriate. All Options will be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, or if an Option is designated as an Incentive Stock Option but some portion or all of the Option fails to qualify as an Incentive Stock Option under the applicable rules, then the Option (or portion thereof) will be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; *provided, however*, that each Stock Award Agreement will conform to (through incorporation of provisions hereof by reference in the applicable Stock Award Agreement or otherwise) the substance of each of the following provisions:

(a) **Term.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, no Option or SAR will be exercisable after the expiration of ten (10) years from the date of its grant or such shorter period specified in the Stock Award Agreement.

(b) **Exercise Price.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, the exercise or strike price of each Option or SAR will be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Stock Award is granted. Notwithstanding the foregoing, an Option or SAR may be granted with an exercise or strike price lower than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Stock Award if such Stock Award is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Section 409A of the Code and, if applicable, Section 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

(c) **Purchase Price for Options.** The purchase price of Common Stock acquired pursuant to the exercise of an Option may be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board will have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to use a particular method of payment. The permitted methods of payment are as follows:

(i) by cash, check, bank draft or money order payable to the Company;
(ii) pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

(iii) by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

(iv) if an Option is a Nonstatutory Stock Option, by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, that the Company will accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued. Shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are used to pay the exercise price pursuant to the “net exercise,” (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations;

(v) according to a deferred payment or similar arrangement with the Optionholder; *provided, however*, that interest will compound at least annually and will be charged at the minimum rate of interest necessary to avoid (A) the imputation of interest income to the Company and compensation income to the Optionholder under any applicable provisions of the Code, and (B) the classification of the Option as a liability for financial accounting purposes; or

(vi) in any other form of legal consideration that may be acceptable to the Board and specified in the applicable Stock Award Agreement.

(d) **Exercise and Payment of a SAR.** To exercise any outstanding SAR, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Award Agreement evidencing such SAR. The appreciation distribution payable on the exercise of a SAR will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the SAR) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such SAR, and with respect to which the Participant is exercising the SAR on such date, over (B) the aggregate strike price of the number of Common Stock equivalents with respect to which the Participant is exercising the SAR on such date. The appreciation distribution may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the Stock Award Agreement evidencing such SAR.

(e) **Transferability of Options and SARs.** The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board will determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs will apply:

(i) **Restrictions on Transfer.** An Option or SAR will not be transferable except by will or by the laws of descent and distribution (and pursuant to subsections (ii) and (iii) below), and will be exercisable during the lifetime of the Participant only by the Participant. The Board may permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws. Except as explicitly provided herein, neither an Option nor a SAR may be transferred for consideration.

(ii) **Domestic Relations Orders.** Subject to the approval of the Board or a duly authorized Officer, an Option or SAR may be transferred pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulation 1.421-1(b)(2). If an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(iii) **Beneficiary Designation.** Subject to the approval of the Board or a duly authorized Officer, a Participant may, by delivering written notice to the Company, in a form approved by the Company (or the designated broker), designate a third party who, upon the death of the Participant, will thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, upon the death of the Participant, the executor or administrator of the Participant's estate will be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. However, the Company may prohibit designation of a beneficiary at any time, including due to any conclusion by the Company that such designation would be inconsistent with the provisions of applicable laws.

(f) **Vesting Generally.** The total number of shares of Common Stock subject to an Option or SAR may vest and become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of performance goals or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

(g) **Termination of Continuous Service.** Except as otherwise provided in the applicable Stock Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates (other than for Cause and other than upon the Participant's death or Disability), the Participant may exercise the Participant's Option or SAR (to the extent that the Participant was entitled to exercise such Stock Award as of the date of termination of Continuous Service) within the period of time ending on the earlier of (i) the date which occurs three (3) months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the applicable Stock Award Agreement, which period will not be less than thirty (30) days if necessary to comply with applicable laws unless such termination is for Cause) and (ii) the expiration of the term of the Option or SAR as set forth in the Stock Award Agreement. If, after termination of Continuous Service, the Participant does not exercise the Participant's Option or SAR within the applicable time frame, the Option or SAR (as applicable) will terminate.

(h) **Extension of Termination Date.** Except as otherwise provided in the applicable Stock Award Agreement or other agreement between the Participant and the Company, if the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause and other than upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR will terminate on the earlier of (i) the expiration of a total period of time (that need not be consecutive) equal to the applicable post termination exercise period after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Stock Award Agreement. In addition, unless otherwise provided in a Participant's Stock Award Agreement, if the sale of any Common Stock received upon exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's insider trading policy, then the Option or SAR will terminate on the earlier of (i) the expiration of a period of time (that need not be consecutive) equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the sale of the Common Stock received upon exercise of the Option or SAR would not be in violation of the Company's insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Stock Award Agreement.

(i) **Disability of Participant.** Except as otherwise provided in the applicable Stock Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise the Participant's Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date which occurs twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Stock Award Agreement, which period will not be less than six (6) months if necessary to comply with applicable laws), and (ii) the expiration of the term of the Option or SAR as set forth in the Stock Award Agreement. If, after termination of Continuous Service, the Participant does not exercise the Participant's Option or SAR within the applicable time frame, the Option or SAR (as applicable) will terminate.

(j) **Death of Participant.** Except as otherwise provided in the applicable Stock Award Agreement or other agreement between the Participant and the Company, if (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Stock Award Agreement for exercisability after the termination of the Participant's Continuous Service (for a reason other than death), then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant's death, but only within the period ending on the earlier of (i) the date which occurs eighteen (18) months following the date of death (or such longer or shorter period specified in the Stock Award Agreement, which period will not be less than six (6) months if necessary to comply with applicable laws), and (ii) the expiration of the term of such Option or SAR as set forth in the Stock Award Agreement. If, after the Participant's death, the Option or SAR is not exercised within the applicable time frame, the Option or SAR (as applicable) will terminate.

(k) **Termination for Cause.** Except as explicitly provided otherwise in a Participant's Stock Award Agreement or other individual written agreement between the Company or any Affiliate and the Participant, if a Participant's Continuous Service is terminated for Cause, the Option or SAR will terminate immediately upon such Participant's termination of Continuous Service, and the Participant will be prohibited from exercising the Participant's Option or SAR from and after the time of such termination of Continuous Service.

(l) **Non-Exempt Employees.** If an Option or SAR is granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, the Option or SAR will not be first exercisable for any shares of Common Stock until at least six (6) months following the date of grant of the Option or SAR (although the Stock Award may vest prior to such date). Consistent with the provisions of the Worker Economic Opportunity Act, (i) if such non-exempt Employee dies or suffers a Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Stock Award Agreement, in another agreement between the Participant and the Company, or, if no such definition, in accordance with the Company's then current employment policies and guidelines), the vested portion of any Options and SARs may be exercised earlier than six (6) months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from the employee's regular rate of pay. To the extent permitted and/or required for compliance with the Worker Economic Opportunity Act to ensure that any income derived by a non-exempt employee in connection with the exercise, vesting or issuance of any shares under any other Stock Award will be exempt from the employee's regular rate of pay, the provisions of this Section 5(l) will apply to all Stock Awards and are hereby incorporated by reference into such Stock Award Agreements.

(m) **Early Exercise of Options.** An Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of Common Stock subject to the Option prior to the full vesting of the Option. Subject to the "Repurchase Limitation" in Section 8(m), any unvested shares of Common Stock so purchased may be subject to a repurchase right in favor of the Company or to any other restriction the Board determines to be appropriate. Provided that the "Repurchase Limitation" in Section 8(m) is not violated, the Company will not be required to exercise its repurchase right until at least six (6) months (or such longer or shorter period of time required to avoid classification of the Option as a liability for financial accounting purposes) have elapsed following exercise of the Option unless the Board otherwise specifically provides in the Option Agreement.

(n) **Right of Repurchase.** Subject to the "Repurchase Limitation" in Section 8(m), the Option or SAR may include a provision whereby the Company may elect to repurchase all or any part of the vested shares of Common Stock acquired by the Participant pursuant to the exercise of the Option or SAR.

6. **Provisions of Stock Awards Other than Options and SARs.**

(a) **Restricted Stock Awards.** Each Restricted Stock Award Agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. To the extent consistent with the Company's bylaws, at the Board's election, shares of Common Stock underlying a Restricted Stock Award may be (i) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse; or (ii) evidenced by a certificate, which certificate will be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical. Each Restricted Stock Award Agreement will conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **Consideration.** A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past services to the Company or an Affiliate, or (C) any other form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) **Vesting.** Subject to the "Repurchase Limitation" in Section 8(m), shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

(iii) **Termination of Participant's Continuous Service** . If a Participant's Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right, any or all of the shares of Common Stock held by the Participant as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

(iv) **Transferability**. Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement will be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board will determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

(v) **Dividends**. A Restricted Stock Award Agreement may provide that any dividends paid on Restricted Stock will be subject to the same vesting and forfeiture restrictions as apply to the shares subject to the Restricted Stock Award to which they relate.

(b) **Restricted Stock Unit Awards**. Each Restricted Stock Unit Award Agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical. Each Restricted Stock Unit Award Agreement will conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

(i) **Consideration**. At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) **Vesting**. At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) **Payment**. A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

(iv) **Additional Restrictions**. At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

(v) **Dividend Equivalents**. Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

(vi) **Termination of Participant's Continuous Service**. Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

(vii) **Compliance with Section 409A of the Code.** Notwithstanding anything to the contrary set forth herein, any Restricted Stock Unit Award granted under the Plan that is not exempt from the requirements of Section 409A of the Code shall contain such provisions so that such Restricted Stock Unit Award will comply with the requirements of Section 409A of the Code. Such restrictions, if any, shall be determined by the Board and contained in the Restricted Stock Unit Award Agreement evidencing such Restricted Stock Unit Award. For example, such restrictions may include, without limitation, a requirement that any Common Stock that is to be issued in a year following the year in which the Restricted Stock Unit Award vests must be issued in accordance with a fixed pre-determined schedule.

(c) **Other Stock Awards.** Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof (e.g., options or stock rights with an exercise price or strike price less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the time of grant) may be granted either alone or in addition to Stock Awards provided for under Section 5 and the preceding provisions of this Section 6. Subject to the provisions of the Plan, the Board will have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards.

7. **Covenants of the Company.**

(a) **Availability of Shares.** The Company will keep available at all times the number of shares of Common Stock reasonably required to satisfy then-outstanding Stock Awards.

(b) **Securities Law Compliance.** The Company will seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided, however*, that this undertaking will not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts and at a reasonable cost, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company will be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant will not be eligible for the grant of a Stock Award or the subsequent issuance of cash or Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities law.

(c) **No Obligation to Notify or Minimize Taxes.** The Company will have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of a Stock Award or a possible period in which the Stock Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of a Stock Award to the holder of such Stock Award.

8. **Miscellaneous.**

(a) **Use of Proceeds from Sales of Common Stock.** Proceeds from the sale of shares of Common Stock pursuant to Stock Awards will constitute general funds of the Company.

(b) **Corporate Action Constituting Grant of Stock Awards.** Corporate action constituting a grant by the Company of a Stock Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Stock Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., exercise price, vesting schedule or number of shares) that are inconsistent with those in the Stock Award Agreement as a result of a clerical error in the papering of the Stock Award Agreement, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Stock Award Agreement.

(c) **Stockholder Rights.** No Participant will be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to a Stock Award unless and until (i) such Participant has satisfied all requirements for exercise of, or the issuance of shares of Common Stock under, the Stock Award pursuant to its terms, and (ii) the issuance of the Common Stock subject to the Stock Award has been entered into the books and records of the Company.

(d) **No Employment or Other Service Rights.** Nothing in the Plan, any Stock Award Agreement or any other instrument executed thereunder or in connection with any Stock Award granted pursuant thereto will confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or will affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without Cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(e) **Change in Time Commitment.** In the event a Participant's regular level of time commitment in the performance of the Participant's services for the Company and any Affiliates is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a full-time Employee to a part-time Employee) after the date of grant of any Stock Award to the Participant, the Board has the right in its sole discretion to (x) make a corresponding reduction in the number of shares subject to any portion of such Stock Award that is scheduled to vest or become payable after the date of such change in time commitment, and (y) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Stock Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Stock Award that is so reduced or extended.

(f) **Incentive Stock Option Limitations.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds one hundred thousand dollars (\$100,000) (or such other limit established in the Code) or otherwise does not comply with the rules governing Incentive Stock Options, the Options or portions thereof that exceed such limit (according to the order in which they were granted) or otherwise do not comply with such rules will be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

(g) **Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant'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 the Participant is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant'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, will be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act, or (B) 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 issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(h) **Withholding Obligations.** Unless prohibited by the terms of a Stock Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to a Stock Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Stock Award; *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from a Stock Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Stock Award Agreement.

(i) **Electronic Delivery.** Any reference herein to a "written" agreement or document will include any agreement or document delivered electronically or posted on the Company's intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

(j) **Deferrals.** To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Stock Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Stock Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

(k) **Compliance with Section 409A of the Code.** To the extent that the Board determines that any Stock Award granted hereunder is subject to Section 409A of the Code, the Stock Award Agreement evidencing such Stock Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Stock Award Agreements shall be interpreted in accordance with Section 409A of the Code.

(l) **Compliance with Exemption Provided by Rule 12h-1(f).** If at the end of the Company's most recently completed fiscal year: (i) the aggregate of the number of persons who hold outstanding compensatory employee stock options to purchase shares of Common Stock granted pursuant to the Plan or otherwise (such persons, "**Holders of Options**") equals or exceeds five hundred (500), and (ii) the Company's assets exceed \$10 million, then the following restrictions will apply during any period during which the Company does not have a class of its securities registered under Section 12 of the Exchange Act and is not required to file reports under Section 15(d) of the Exchange Act, to the extent required by the Exchange Act or other applicable laws: (A) the Options and, prior to exercise, the shares of Common Stock to be issued on exercise of the Options may not be transferred until the Company is no longer relying on the exemption provided by Rule 12h-1(f) promulgated under the Exchange Act ("**Rule 12h-1(f)**"), except: (1) as permitted by Rule 701(c) promulgated under the Securities Act, (2) to a guardian upon the disability of the Holder of Options, or (3) to an executor upon the death of the Holder of Options (collectively, the "**Permitted Transferees**"); provided, however, the following transfers are permitted: (i) transfers by Holders of Options to the Company, and (ii) transfers in connection with a change of control or other acquisition involving the Company, if following such transaction, the Options no longer remain outstanding and the Company is no longer relying on the exemption provided by Rule 12h-1(f); provided further, that any Permitted Transferees may not further transfer the Options; (B) except as otherwise provided in (A) above, the Options and shares of Common Stock issuable on exercise of the Options are restricted as to any pledge, hypothecation, or other transfer, including any short position, any "put equivalent position" as defined by Rule 16a-1(h) promulgated under the Exchange Act, or any "call equivalent position" as defined by Rule 16a-1(b) promulgated under the Exchange Act by Holders of Options prior to exercise of an Option until the Company is no longer relying on the exemption provided by Rule 12h-1(f); and (C) at any time that the Company is relying on the exemption provided by Rule 12h-1(f), the Company will deliver to Holders of Options (whether by physical or electronic delivery or written notice of the availability of the information on an internet site) the information required by Rule 701(e)(3), (4), and (5) promulgated under the Securities Act every six (6) months, including financial statements that are not more than one hundred eighty (180) days old; provided, however, that the Company may condition the delivery of such information upon the Holder of Options' agreement to maintain its confidentiality.

(m) **Repurchase Limitation.** The terms of any repurchase right will be specified in the Stock Award Agreement. The repurchase price for vested shares of Common Stock will be the Fair Market Value of the shares of Common Stock on the date of repurchase. The repurchase price for unvested shares of Common Stock will be the lower of (i) the Fair Market Value of the shares of Common Stock on the date of repurchase or (ii) their original purchase price. However, the Company will not exercise its repurchase right until at least six (6) months (or such longer or shorter period of time necessary to avoid classification of the Stock Award as a liability for financial accounting purposes) have elapsed following delivery of shares of Common Stock subject to the Stock Award, unless otherwise specifically provided by the Board.

9. **Adjustments upon Changes in Common Stock; Other Corporate Events.**

(a) **Capitalization Adjustments.** In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3(c), and (iii) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board will make such adjustments, and its determination will be final, binding and conclusive.

(b) **Dissolution or Liquidation.** Except as otherwise provided in the Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company's right of repurchase) will terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service; *provided, however*, that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

(c) **Corporate Transactions.** The following provisions will apply to Stock Awards in the event of a Transaction unless otherwise provided in the Stock Award Agreement or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of a Stock Award. In the event of a Transaction, then, notwithstanding any other provision of the Plan, the Board may take one or more of the following actions with respect to Stock Awards, contingent upon the closing or completion of the Transaction:

(i) arrange for the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) to assume or continue the Stock Award or to substitute a similar stock award for the Stock Award (including, but not limited to, an award to acquire the same consideration paid to the stockholders of the Company pursuant to the Transaction);

(ii) arrange for the assignment of any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to the Stock Award to the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company);

(iii) accelerate the vesting, in whole or in part, of the Stock Award (and, if applicable, the time at which the Stock Award may be exercised) to a date prior to the effective time of such Transaction as the Board determines (or, if the Board does not determine such a date, to the date that is five (5) days prior to the effective date of the Transaction), with such Stock Award terminating if not exercised (if applicable) at or prior to the effective time of the Transaction; provided, however, that the Board may require Participants to complete and deliver to the Company a notice of exercise before the effective date of a Transaction, which exercise is contingent upon the effectiveness of such Transaction;

(iv) arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by the Company with respect to the Stock Award;

(v) cancel or arrange for the cancellation of the Stock Award, to the extent not vested or not exercised prior to the effective time of the Transaction, in exchange for such cash consideration, if any, as the Board, in its sole discretion, may consider appropriate; and

(vi) make a payment, in such form as may be determined by the Board equal to the excess, if any, of (A) the value of the property the Participant would have received upon the exercise of the Stock Award immediately prior to the effective time of the Transaction, over (B) any exercise price payable by such holder in connection with such exercise. For clarity, this payment may be zero (\$0) if the value of the property is equal to or less than the exercise price. Payments under this provision may be delayed to the same extent that payment of consideration to the holders of the Company's Common Stock in connection with the Transaction is delayed as a result of escrows, earn outs, holdbacks or any other contingencies.

The Board need not take the same action or actions with respect to all Stock Awards or portions thereof or with respect to all Participants. The Board may take different actions with respect to the vested and unvested portions of a Stock Award.

(d) **Change in Control.** A Stock Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration will occur.

10. **Plan Term; Earlier Termination or Suspension of the Plan.**

(a) **Plan Term.** The Board may suspend or terminate the Plan at any time. Unless terminated sooner by the Board, the Plan will automatically terminate on the day before the tenth (10th) anniversary of the earlier of (i) the date the Plan is adopted by the Board, or (ii) the date the Plan is approved by the stockholders of the Company. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) **No Impairment of Rights.** Suspension or termination of the Plan will not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the affected Participant or as otherwise permitted in the Plan.

11. **Effective Date of Plan.**

This Plan will become effective on the Effective Date.

12. **Choice of Law.**

The laws of the State of California will govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

13. **Definitions.** As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

(a) **"Affiliate"** means, at the time of determination, any "parent" or "majority-owned subsidiary" of the Company, as such terms are defined in Rule 405. The Board will have the authority to determine the time or times at which "parent" or "majority-owned subsidiary" status is determined within the foregoing definition.

(b) **"Board"** means the Board of Directors of the Company.

(c) **"Capitalization Adjustment"** means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Effective Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, reverse stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure, or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

(d) “**Cause**” will have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, such term means, with respect to a Participant, the occurrence of any of the following events: (i) such Participant’s commission of any felony or any crime involving fraud, dishonesty or moral turpitude under the laws of the United States or any state thereof; (ii) such Participant’s attempted commission of, or participation in, a fraud or act of dishonesty against the Company; (iii) such Participant’s intentional, material violation of any contract or agreement between the Participant and the Company or of any statutory duty owed to the Company; (iv) such Participant’s unauthorized use or disclosure of the Company’s confidential information or trade secrets; or (v) such Participant’s gross misconduct. The determination that a termination of the Participant’s Continuous Service is either for Cause or without Cause will be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Stock Awards held by such Participant will have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(e) “**Change in Control**” means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control will not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company’s securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities or (C) solely because the level of Ownership held by any Exchange Act Person (the “**Subject Person**”) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control will be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

(iii) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company will otherwise occur, except for a liquidation into a parent corporation; or

(iv) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition.

Notwithstanding the foregoing definition or any other provision of this Plan, (A) the term Change in Control will not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company, and (B) the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant will supersede the foregoing definition with respect to Stock Awards subject to such agreement; *provided, however*, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition will apply.

(f) **“Code”** means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(g) **“Committee”** means a committee of one (1) or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

(h) **“Common Stock”** means the common stock of the Company.

(i) **“Company”** means AutoMD, Inc., a Delaware corporation.

(j) **“Consultant”** means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, will not cause a Director to be considered a “Consultant” for purposes of the Plan.

(k) **“Continuous Service”** means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Director or Consultant or a change in the Entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service with the Company or an Affiliate, will not terminate a Participant’s Continuous Service; *provided, however*, that if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board in its sole discretion, such Participant’s Continuous Service will be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or to a Director will not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service will be considered interrupted in the case of (i) any leave of absence approved by the Board or chief executive officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence will be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company’s leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(l) **“Corporate Transaction”** means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(m) **"Director"** means a member of the Board.

(n) **"Disability"** means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and will be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

(o) **"Effective Date"** means the effective date of this Plan, which is the earlier of (i) the date that this Plan is first approved by the Company's stockholders, and (ii) the date this Plan is adopted by the Board.

(p) **"Employee"** means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an "Employee" for purposes of the Plan.

(q) **"Entity"** means a corporation, partnership, limited liability company or other entity.

(r) **"Exchange Act"** means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(s) **"Exchange Act Person"** means any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that "Exchange Act Person" will not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities.

(t) **"Fair Market Value"** means, as of any date, the value of the Common Stock determined by the Board in compliance with Section 409A of the Code or, in the case of an Incentive Stock Option, in compliance with Section 422 of the Code.

(u) **"Incentive Stock Option"** means an option granted pursuant to Section 5 of the Plan that is intended to be, and that qualifies as, an "incentive stock option" within the meaning of Section 422 of the Code.

(v) **"Nonstatutory Stock Option"** means any option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

(w) **"Officer"** means any person designated by the Company as an officer.

(x) **"Option"** means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(y) **“Option Agreement”** means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement will be subject to the terms and conditions of the Plan.

(z) **“Optionholder”** means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(aa) **“Other Stock Award”** means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(c).

(ab) **“Other Stock Award Agreement”** means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement will be subject to the terms and conditions of the Plan.

(ac) **“Own,” “Owned,” “Owner,” “Ownership”** A person or Entity will be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(ad) **“Participant”** means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(ae) **“Plan”** means this AutoMD, Inc. 2014 Equity Incentive Plan, as it may be amended from time to time.

(af) **“Restricted Stock Award”** means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

(ag) **“Restricted Stock Award Agreement”** means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement will be subject to the terms and conditions of the Plan.

(ah) **“Restricted Stock Unit Award”** means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(b).

(ai) **“Restricted Stock Unit Award Agreement”** means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement will be subject to the terms and conditions of the Plan.

(aj) **“Rule 405”** means Rule 405 promulgated under the Securities Act.

(ak) **“Rule 701”** means Rule 701 promulgated under the Securities Act.

(al) **“Securities Act”** means the Securities Act of 1933, as amended.

(am) **“Stock Appreciation Right”** or **“SAR”** means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

(an) **“Stock Appreciation Right Agreement”** means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement will be subject to the terms and conditions of the Plan.

(ao) **“Stock Award”** means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right or any Other Stock Award.

(ap) **“Stock Award Agreement”** means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement will be subject to the terms and conditions of the Plan.

(aq) **“Subsidiary”** means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation will have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%) .

(ar) **“Ten Percent Stockholder”** means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.

(as) **“Transaction”** means a Corporate Transaction or a Change in Control.

AutoMD, Inc.

Stock Option Grant Notice

(2014 Equity Incentive Plan)

AutoMD, Inc. (the “**Company**”), pursuant to its 2014 Equity Incentive Plan (the “**Plan**”), hereby grants to Optionholder an option to purchase the number of shares of the Company’s Common Stock set forth below. This option is subject to all of the terms and conditions as set forth in this Stock Option Grant Notice (this “**Grant Notice**”), in the Option Agreement, the Plan and the Notice of Exercise, all of which are attached hereto and incorporated herein in their entirety. Capitalized terms not explicitly defined herein but defined in the Plan or the Option Agreement will have the same definitions as in the Plan or the Option Agreement. If there is any conflict between the terms herein and the Plan, the terms of the Plan will control.

Optionholder:	Shane Evangelist
Date of Grant:	January 29, 2015
Vesting Commencement Date:	January 29, 2015
Number of Shares Subject to Option:	975,000
Exercise Price (Per Share):	\$1.00
Total Exercise Price:	\$975,000
Expiration Date:	January 28, 2025

Type of Grant: ☐ Incentive Stock Option ¹ ☒ Nonstatutory Stock Option

Exercise Schedule: ☒ Same as Vesting Schedule ☐ Early Exercise Permitted

Vesting Schedule: One-fourth (1/4th) of the shares vest one year after the Vesting Commencement Date; the balance of the shares vest in a series of thirty-six (36) successive equal monthly installments measured from the first anniversary of the Vesting Commencement Date, subject to Optionholder’s Continuous Service as of each such date.

Payment: By one or a combination of the following items (described in the Option Agreement):

- By cash, check, bank draft or money order payable to the Company
- Pursuant to a Regulation T Program if the shares are publicly traded
- By delivery of already-owned shares if the shares are publicly traded
- By deferred payment

If and only to the extent this option is a Nonstatutory Stock Option, and subject to the Company’s consent at the time of exercise, by a “net exercise” arrangement

¹ If this is an Incentive Stock Option, it (plus other outstanding Incentive Stock Options) cannot be first *exercisable* for more than \$100,000 in value (measured by exercise price) in any calendar year. Any excess over \$100,000 is a Nonstatutory Stock Option.

Additional Terms/Acknowledgements: Optionholder acknowledges receipt of, and understands and agrees to, this Grant Notice, the Option Agreement and the Plan. Optionholder acknowledges and agrees that this Grant Notice and the Option Agreement may not be modified, amended or revised except as provided in the Plan. By accepting this option, Optionholder consents to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company. Optionholder further acknowledges that as of the Date of Grant, this Grant Notice, the Option Agreement, and the Plan set forth the entire understanding between Optionholder and the Company regarding the acquisition of stock in the Company and supersede all prior oral and written agreements, promises and/or representations on that subject with the exception of (i) options or other compensatory stock awards previously granted and delivered to Optionholder, and (ii) the following agreements only.

Other Agreements:

AutoMD, Inc.

By: /s/ Bryan Stevenson
Signature
Title: Corporate Secretary
Date: 2/16/15

Optionholder:

/s/ Shane Evangelist
Signature
Date: 2/16/15

Attachments: Option Agreement, 2014 Equity Incentive Plan and Notice of Exercise

Attachment I

Option Agreement

AutoMD, Inc.

2014 Equity Incentive Plan

Option Agreement - Single Trigger Vesting Acceleration; Revised Post Termination Exercise Periods

(Incentive Stock Option or Nonstatutory Stock Option)

Pursuant to your Stock Option Grant Notice (the “**Grant Notice**”) and this Option Agreement (the “**Option Agreement**”), AutoMD, Inc. (the “**Company**”) has granted you an option (the “**Option**”) under its 2014 Equity Incentive Plan (the “**Plan**”) to purchase the number of shares of the Company’s Common Stock indicated in your Grant Notice at the exercise price indicated in your Grant Notice. The Option is granted to you effective as of the date of grant set forth in the Grant Notice (the “**Date of Grant**”). If there is any conflict between the terms in this Option Agreement and the Plan, the terms of the Plan will control. Capitalized terms not explicitly defined in this Option Agreement or in the Grant Notice but defined in the Plan will have the same definitions as in the Plan.

The details of your Option, in addition to those set forth in the Grant Notice and the Plan, are as follows:

1. **Vesting.** Your Option will vest as provided in your Grant Notice. Vesting will cease upon the termination of your Continuous Service.
 2. **Number of Shares and Exercise Price.** The number of shares of Common Stock subject to your Option and your exercise price per share in your Grant Notice will be adjusted for Capitalization Adjustments.
 3. **Exercise Restriction for Non-Exempt Employees.** If you are an Employee eligible for overtime compensation under the Fair Labor Standards Act of 1938, as amended (that is, a “**Non-Exempt Employee**”), and except as otherwise provided in the Plan, you may not exercise your option until you have completed at least six (6) months of Continuous Service measured from the Date of Grant.
 4. **Exercise prior to Vesting (“Early Exercise”).** If permitted in your Grant Notice (*i.e.*, the “Exercise Schedule” indicates “Early Exercise Permitted”) and subject to the provisions of your Option, you may elect at any time that is both (i) during the period of your Continuous Service and (ii) during the term of your Option, to exercise all or part of your Option, including the unvested portion of your Option; *provided, however*, that:
-

(a) a partial exercise of your Option will be deemed to cover first vested shares of Common Stock and then the earliest vesting installment of unvested shares of Common Stock;

(b) any shares of Common Stock so purchased from installments that have not vested as of the date of exercise will be subject to the purchase option in favor of the Company as described in the Company's form of Early Exercise Stock Purchase Agreement;

(c) you will enter into the Company's form of Early Exercise Stock Purchase Agreement with a vesting schedule that will result in the same vesting as if no early exercise had occurred; and

(d) if your Option is an Incentive Stock Option, then, to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the shares of Common Stock with respect to which your Option plus all other Incentive Stock Options you hold are exercisable for the first time by you during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars (\$100,000), your Option(s) or portion thereof that exceed such limit (according to the order in which they were granted) will be treated as Nonstatutory Stock Options.

5. **Method of Payment.** You must pay the full amount of the exercise price for the shares you wish to exercise. You may pay the exercise price in cash or by check, bank draft or money order payable to the Company or in any other manner ***permitted by your Grant Notice***, which may include one or more of the following:

(a) Provided that at the time of exercise the Common Stock is publicly traded, pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds. This manner of payment is also known as a "broker-assisted exercise", "same day sale", or "sell to cover".

(b) Provided that at the time of exercise the Common Stock is publicly traded, by delivery to the Company (either by actual delivery or attestation) of already-owned shares of Common Stock that are owned free and clear of any liens, claims, encumbrances or security interests, and that are valued at Fair Market Value on the date of exercise. "Delivery" for these purposes, in the sole discretion of the Company at the time you exercise your Option, will include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. You may not exercise your Option by delivery to the Company of Common Stock if doing so would violate the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

(c) If this Option is a Nonstatutory Stock Option, subject to the consent of the Company at the time of exercise, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Common Stock issued upon exercise of your Option by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price. You must pay any remaining balance of the aggregate exercise price not satisfied by the "net exercise" in cash or other permitted form of payment. Shares of Common Stock will no longer be outstanding under your Option and will not be exercisable thereafter if those shares (i) are used to pay the exercise price pursuant to the "net exercise," (ii) are delivered to you as a result of such exercise, and (iii) are withheld to satisfy your tax withholding obligations.

(d) Pursuant to the following deferred payment alternative:

(i) Not less than one hundred percent (100%) of the aggregate exercise price, plus accrued interest, will be due four (4) years from date of exercise or, at the Company's election, upon termination of your Continuous Service.

(ii) Interest will be compounded at least annually and will be charged at the minimum rate of interest necessary to avoid (1) the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement and (2) the classification of your option as a liability for financial accounting purposes.

(iii) In order to elect the deferred payment alternative, you must, as a part of your written notice of exercise, give notice of the election of this payment alternative and, in order to secure the payment of the deferred exercise price to the Company hereunder, if the Company so requests, you must tender to the Company a promissory note and a pledge agreement covering the purchased shares of Common Stock, both in form and substance satisfactory to the Company, or such other or additional documentation as the Company may request.

6. **Whole Shares.** You may exercise your option only for whole shares of Common Stock.

7. **Securities Law Compliance.** In no event may you exercise your Option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act or, if not registered, the Company has determined that such exercise and the issuance of the shares would be exempt from the registration requirements of the Securities Act. The exercise of your Option also must comply with all other applicable laws and regulations governing your Option, and you may not exercise your Option if the Company determines that such exercise would not be in material compliance with such laws and regulations (including any restrictions on exercise required for compliance with Treas. Reg. 1.401(k)-1(d)(3), if applicable).

8. **Term.** You may not exercise your Option before the Date of Grant or after the expiration of the Option's term. The term of your Option expires, subject to the provisions of Section 5(h) of the Plan, upon the earliest of the following:

- (a) one (1) year after the termination of your Continuous Service for Cause;
- (b) one (1) year after the termination of your Continuous Service as a result of your resignation without Good Reason (as defined below);
- (c) two (2) years after the termination of your Continuous Service without Cause;
- (d) two (2) years after the termination of your Continuous Service as a result of your resignation for Good Reason;
- (e) two (2) years after the termination of your Continuous Service due to (i) your Disability or (ii) your death;
- (f) the Expiration Date indicated in your Grant Notice; or
- (g) the day before the tenth (10th) anniversary of the Date of Grant.

If your Option is an Incentive Stock Option, note that to obtain the federal income tax advantages associated with an Incentive Stock Option, the Code requires that at all times beginning on the Date of Grant and ending on the day three (3) months before the date of your Option's exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or your permanent and total disability, as defined in Section 22(e)(3) of the Code. The Company has provided for extended exercisability of your Option under certain circumstances for your benefit but cannot guarantee that your Option will necessarily be treated as an Incentive Stock Option if you continue to provide services to the Company or an Affiliate as a Consultant or Director after your employment terminates or if you otherwise exercise your Option more than three (3) months after the date your employment with the Company or an Affiliate terminates.

For purposes of this Section 8, "**Good Reason**" shall have the meaning set forth in the Employment Agreement, dated February 14, 2014, by and between you and U.S. Auto Parts Network, Inc.

9. **Exercise.**

(a) You may exercise the vested portion of your Option (and the unvested portion of your Option if your Grant Notice so permits) during its term by (i) delivering a Notice of Exercise (in a form designated by the Company) or completing such other documents and/or procedures designated by the Company for exercise and (ii) paying the exercise price and any applicable withholding taxes to the Company's Secretary, stock plan administrator, or such other person as the Company may designate, together with such additional documents as the Company may then require.

(b) By exercising your Option you agree that, as a condition to any exercise of your Option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (i) the exercise of your Option, (ii) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (iii) the disposition of shares of Common Stock acquired upon such exercise.

(c) If your Option is an Incentive Stock Option, by exercising your Option you agree that you will notify the Company in writing within fifteen (15) days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your Option that occurs within two (2) years after the Date of Grant or within one (1) year after such shares of Common Stock are transferred upon exercise of your Option.

(d) By accepting your Option you agree that you will not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale with respect to any shares of Common Stock or other securities of the Company held by you, for a period of one hundred eighty (180) days following the effective date of a registration statement of the Company filed under the Securities Act or such longer period as the underwriters or the Company will request to facilitate compliance with FINRA Rule 2711 or NYSE Member Rule 472 or any successor or similar rules or regulation (the "**Lock-Up Period**"); *provided, however*, that nothing contained in this section will prevent the exercise of a repurchase option, if any, in favor of the Company during the Lock-Up Period. You further agree to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriters that are consistent with the foregoing or that are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to your shares of Common Stock until the end of such period. You also agree that any transferee of any shares of Common Stock (or other securities) of the Company held by you will be bound by this Section 9(d). The underwriters of the Company's stock are intended third party beneficiaries of this Section 9(d) and will have the right, power and authority to enforce the provisions hereof as though they were a party hereto.

10. **Transferability.** Except as otherwise provided in this Section 10, your Option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you.

(a) **Certain Trusts.** Upon receiving written permission from the Board or its duly authorized designee, you may transfer your Option to a trust if you are considered to be the sole beneficial owner (determined under Section 671 of the Code and applicable state law) while the Option is held in the trust. You and the trustee must enter into transfer and other agreements required by the Company.

(b) **Domestic Relations Orders.** Upon receiving written permission from the Board or its duly authorized designee, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your Option pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulation 1.421-1(b)(2) that contains the information required by the Company to effectuate the transfer. You are encouraged to discuss the proposed terms of any division of this Option with the Company prior to finalizing the domestic relations order or marital settlement agreement to help ensure the required information is contained within the domestic relations order or marital settlement agreement. If this Option is an Incentive Stock Option, this Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(c) **Beneficiary Designation.** Upon receiving written permission from the Board or its duly authorized designee, you may, by delivering written notice to the Company, in a form approved by the Company and any broker designated by the Company to handle option exercises, designate a third party who, on your death, will thereafter be entitled to exercise this Option and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, your executor or administrator of your estate will be entitled to exercise this Option and receive, on behalf of your estate, the Common Stock or other consideration resulting from such exercise.

11. **Right of First Refusal.** Shares of Common Stock that you acquire upon exercise of your Option are subject to any right of first refusal that may be described in the Company's bylaws in effect at such time the Company elects to exercise its right; *provided, however*, that if there is no right of first refusal described in the Company's bylaws at such time, the right of first refusal described below will apply. The Company's right of first refusal will expire on the first date upon which any security of the Company is listed (or approved for listing) upon notice of issuance on a national securities exchange or quotation system (the "**Listing Date**").

(a) Prior to the Listing Date, you may not validly Transfer (as defined below) any shares of Common Stock acquired upon exercise of your Option, or any interest in such shares, unless such Transfer is made in compliance with the following provisions:

(i) Before there can be a valid Transfer of any shares of Common Stock or any interest therein, the record holder of the shares of Common Stock to be transferred (the "**Offered Shares**") will give written notice (by registered or certified mail) to the Company. Such notice will specify the identity of the proposed transferee, the cash price offered for the Offered Shares by the proposed transferee (or, if the proposed Transfer is one in which the holder will not receive cash, such as an involuntary transfer, gift, donation or pledge, the holder will state that no purchase price is being proposed), and the other terms and conditions of the proposed Transfer. The date such notice is mailed will be hereinafter referred to as the "**Notice Date**" and the record holder of the Offered Shares will be hereinafter referred to as the "**Offeror**." If, from time to time, there is any stock dividend, stock split or other change in the character or amount of any of the outstanding Common Stock which is subject to the provisions of your Option, then in such event any and all new, substituted or additional securities to which you are entitled by reason of your ownership of the shares of Common Stock acquired upon exercise of your Option will be immediately subject to the Company's Right of First Refusal (as defined below) with the same force and effect as the shares subject to the Right of First Refusal immediately before such event.

(ii) For a period of thirty (30) calendar days after the Notice Date, or such longer period as may be required to avoid the classification of your Option as a liability for financial accounting purposes, the Company will have the option to purchase all (but not less than all) of the Offered Shares at the purchase price and on the terms set forth in Section 11(a)(iii) (the Company's "**Right of First Refusal**"). In the event that the proposed Transfer is one involving no payment of a purchase price, the purchase price will be deemed to be the Fair Market Value of the Offered Shares as determined in good faith by the Board in its discretion. The Company may exercise its Right of First Refusal by mailing (by registered or certified mail) written notice of exercise of its Right of First Refusal to the Offeror prior to the end of said thirty (30) days (including any extension required to avoid classification of the Option as a liability for financial accounting purposes).

(iii) The price at which the Company may purchase the Offered Shares pursuant to the exercise of its Right of First Refusal will be the cash price offered for the Offered Shares by the proposed transferee (as set forth in the notice required under Section 11(a)(i)), or the Fair Market Value as determined by the Board in the event no purchase price is involved. To the extent consideration other than cash is offered by the proposed transferee, the Company will not be required to pay any additional amounts to the Offeror other than the cash price offered (or the Fair Market Value, if applicable). The Company's notice of exercise of its Right of First Refusal will be accompanied by full payment for the Offered Shares and, upon such payment by the Company, the Company will acquire full right, title and interest to all of the Offered Shares.

(iv) If, and only if, the option given pursuant to Section 11(a)(ii) is not exercised, the Transfer proposed in the notice given pursuant to Section 11(a)(i) may take place; *provided, however*, that such Transfer must, in all respects, be exactly as proposed in said notice except that such Transfer may not take place either before the tenth (10th) calendar day after the expiration of the thirty (30) day option exercise period or after the ninetieth (90th) calendar day after the expiration of the thirty (30) day option exercise period, and if such Transfer has not taken place prior to said ninetieth (90th) day, such Transfer may not take place without once again complying with this Section 11(a). The option exercise periods in this Section 11(a)(iv) will be adjusted to include any extension required to avoid the classification of your option as a liability for financial accounting purposes.

(b) As used in this Section 11, the term "**Transfer**" means any sale, encumbrance, pledge, gift or other form of disposition or transfer of shares of Common Stock or any legal or equitable interest therein; *provided, however*, that the term Transfer does not include a transfer of such shares or interests by will or intestacy to your Immediate Family (as defined below). In such case, the transferee or other recipient will receive and hold the shares of Common Stock so transferred subject to the provisions of this Section, and there will be no further transfer of such shares except in accordance with the terms of this Section. As used herein, the term "**Immediate Family**" will mean your spouse, the lineal descendant or antecedent, father, mother, brother or sister, child, adopted child, grandchild or adopted grandchild of you or your spouse, or the spouse of any child, adopted child, grandchild or adopted grandchild of you or your spouse.

(c) None of the shares of Common Stock purchased on exercise of your Option will be transferred on the Company's books nor will the Company recognize any such Transfer of any such shares or any interest therein unless and until all applicable provisions of this Section 11 have been complied with in all respects. The certificates of stock evidencing shares of Common Stock purchased on exercise of your Option will bear an appropriate legend referring to the transfer restrictions imposed by this Section 11.

(d) To ensure that the shares subject to the Company's Right of First Refusal will be available for repurchase by the Company, the Company may require you to deposit the certificates evidencing the shares that you purchase upon exercise of your Option with an escrow agent designated by the Company under the terms and conditions of an escrow agreement approved by the Company. If the Company does not require such deposit as a condition of exercise of your Option, the Company reserves the right at any time to require you to so deposit the certificates in escrow. As soon as practicable after the expiration of the Company's Right of First Refusal, the agent will deliver to you the shares and any other property no longer subject to such restriction. In the event the shares and any other property held in escrow are subject to the Company's exercise of its Right of First Refusal, the notices required to be given to you will be given to the escrow agent, and any payment required to be given to you will be given to the escrow agent. Within thirty (30) days after payment by the Company for the Offered Shares, the escrow agent will deliver the Offered Shares that the Company has repurchased to the Company and will deliver the payment received from the Company to you.

12. **Right of Repurchase.** To the extent provided in the Company's bylaws in effect at such time the Company elects to exercise its right, the Company will have the right to repurchase all or any part of the shares of Common Stock you acquire pursuant to the exercise of your Option.

13. **Change in Control.**

(a) If a Change in Control occurs and your Continuous Service has not terminated as of, or more than three months prior to, the effective time of the Change in Control, then, as of the effective time of such Change in Control, the vesting and exercisability of your Option will be accelerated in full.

(b) If any payment or benefit you would receive from the Company or otherwise in connection with a Change in Control or other similar transaction ("**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then such Payment will be equal to the Reduced Amount. The "**Reduced Amount**" will be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax, or (y) the largest portion, up to and including the total, of the Payment, whichever amount ((x) or (y)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in your receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount, reduction will occur in the manner that results in the greatest economic benefit for you.

The independent registered public accounting firm engaged by the Company for general audit purposes as of the day prior to the effective date of the event described in Section 280G(b)(2)(A)(i) of the Code will perform the foregoing calculations. If the independent registered public accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting such Change in Control or similar transaction, the Company will appoint a nationally recognized independent registered public accounting firm to make the determinations required hereunder. The Company will bear all expenses with respect to the determinations by such independent registered public accounting firm required to be made hereunder. The independent registered public accounting firm engaged to make the determinations hereunder will provide its calculations, together with detailed supporting documentation, to the Company and you within thirty (30) calendar days after the date on which your right to a Payment is triggered (if requested at that time by the Company or you) or such other time as reasonably requested by the Company or you. Any good faith determinations of the independent registered public accounting firm made hereunder will be final, binding and conclusive upon the Company and you.

14. **Option not a Service Contract.** Your Option is not an employment or service contract, and nothing in your Option will be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your Option will obligate the Company or an Affiliate, their respective stockholders, boards of directors, officers or employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

15. **Withholding Obligations.**

(a) At the time you exercise your Option, in whole or in part, and at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "same day sale" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with the exercise of your Option.

(b) If this Option is a Nonstatutory Stock Option, then upon your request and subject to approval by the Company, and compliance with any applicable legal conditions or restrictions, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your Option a number of whole shares of Common Stock having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid classification of your option as a liability for financial accounting purposes). If the date of determination of any tax withholding obligation is deferred to a date later than the date of exercise of your Option, share withholding pursuant to the preceding sentence shall not be permitted unless you make a proper and timely election under Section 83(b) of the Code, covering the aggregate number of shares of Common Stock acquired upon such exercise with respect to which such determination is otherwise deferred, to accelerate the determination of such tax withholding obligation to the date of exercise of your Option. Notwithstanding the filing of such election, shares of Common Stock shall be withheld solely from fully vested shares of Common Stock determined as of the date of exercise of your Option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your Option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your Option when desired even though your Option is vested, and the Company will have no obligation to issue a certificate for such shares of Common Stock or release such shares of Common Stock from any escrow provided for herein, if applicable, unless such obligations are satisfied.

16. **Tax Consequences.** You hereby agree that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes your tax liabilities. You will not make any claim against the Company, or any of its Officers, Directors, Employees or Affiliates related to tax liabilities arising from your Option or your other compensation. In particular, you acknowledge that this Option is exempt from Section 409A of the Code only if the exercise price per share specified in the Grant Notice is at least equal to the "fair market value" per share of the Common Stock on the Date of Grant and there is no other impermissible deferral of compensation associated with the Option. Because the Common Stock is not traded on an established securities market, the Fair Market Value is determined by the Board, perhaps in consultation with an independent valuation firm retained by the Company. You acknowledge that there is no guarantee that the Internal Revenue Service will agree with the valuation as determined by the Board, and you will not make any claim against the Company, or any of its Officers, Directors, Employees or Affiliates in the event that the Internal Revenue Service asserts that the valuation determined by the Board is less than the "fair market value" as subsequently determined by the Internal Revenue Service.

17. **Notices.** Any notices provided for in your Option or the Plan will be given in writing (including electronically) and will be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company. The Company may, in its sole discretion, decide to deliver any documents related to participation in the Plan and this Option by electronic means or to request your consent to participate in the Plan by electronic means. By accepting this Option, you consent to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

18. **Governing Plan Document.** Your Option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Option, and is further subject to all interpretations, amendments, rules and regulations, which may from time to time be promulgated and adopted pursuant to the Plan. If there is any conflict between the provisions of your Option and those of the Plan, the provisions of the Plan will control.

19. **Effect on Other Employee Benefit Plans.** The value of this Option will not be included as compensation, earnings, salaries, or other similar terms used when calculating your benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

20. **Voting Rights.** You will not have voting or any other rights as a stockholder of the Company with respect to the shares to be issued pursuant to this Option until such shares are issued to you. Upon such issuance, you will obtain full voting and other rights as a stockholder of the Company. Nothing contained in this Option, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

21. **Severability.** If all or any part of this Option Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity will not invalidate any portion of this Option Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Option Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

22. **Miscellaneous.**

(a) The rights and obligations of the Company under your Option will be transferable to any one or more persons or entities, and all covenants and agreements hereunder will inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Option.

(c) You acknowledge and agree that you have reviewed your Option in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Option, and fully understand all provisions of your Option.

(d) This Option Agreement will be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Option Agreement will be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

* * *

This Option Agreement will be deemed to be signed by you upon the signing by you of the Stock Option Grant Notice to which it is attached.

DEED OF LEASE

LIBERTY PROPERTY LIMITED PARTNERSHIP

Landlord

AND

U.S. AUTO PARTS NETWORK, INC.

Tenant

AT

**Indian River Distribution Center
2601 Indian River Road
Chesapeake, Virginia 23325**

DEED OF LEASE

INDEX

<u>§ Section</u>	<u>Page</u>
1. <u>Basic Lease Terms and Definitions</u>	1
2. <u>Premises</u>	2
3. <u>Use</u>	2
4. <u>Term; Possession</u>	2
5. <u>Rent; Taxes</u>	2
6. <u>Operating Expenses</u>	2
7. <u>Utilities</u>	2
8. <u>Insurance; Waivers; Indemnification</u>	3
9. <u>Maintenance and Repairs</u>	4
10. <u>Compliance</u>	4
11. <u>Signs</u>	4
12. <u>Alterations</u>	5
13. <u>Mechanics' Liens</u>	5
14. <u>Landlord's Right of Entry</u>	5
15. <u>Damage by Fire or Other Casualty</u>	5
16. <u>Condemnation</u>	6
17. <u>Quiet Enjoyment</u>	6
18. <u>Assignment and Subletting</u>	6
19. <u>Subordination; Mortgagee's Rights</u>	7
20. <u>Tenant's Certificate; Financial Information</u>	7
21. <u>Surrender</u>	7
22. <u>Defaults - Remedies</u>	8
23. <u>Tenant's Authority</u>	9
24. <u>Liability of Landlord</u>	9
25. <u>Miscellaneous</u>	9
26. <u>Notices</u>	10
27. <u>Security Deposit</u>	10
28. <u>Additional Contiguous Space</u>	10
29. <u>Tenant Improvements; Allowance</u>	11
30. <u>Option to Extend Term</u>	11

THIS DEED OF LEASE (this “Lease”) is made by and between **LIBERTY PROPERTY LIMITED PARTNERSHIP**, a Pennsylvania limited partnership (“Landlord”), and **U.S. AUTO PARTS NETWORK, INC.**, a corporation organized under the laws of Delaware (“Tenant”), and is dated as of the date on which this Lease has been fully executed by Landlord and Tenant.

1. Basic Lease Terms and Definitions

- (a) **Premises:** Suite 100, consisting of approximately 159,294 rentable square feet as shown on **Exhibit “A”**.
- (b) **Building:** Approximate rentable square feet: 231,852.
Address: 2601 Indian River Road, Chesapeake, Virginia 23225.
- (c) **Term:** Thirty-Six (36) months (plus any partial month from the Commencement Date until the first day of the next full calendar month during the Term).
- (d) **Commencement Date:** July 1, 2016.
- (e) **Expiration Date:** The last day of the Term.
- (f) **Minimum Annual Rent:** Payable in monthly installments as follows:

Lease Period	Monthly
7/1/16 - 6/30/17	\$53,098.00
7/1/17 - 6/30/18	\$54,425.00
7/1/18 - 6/30/19	\$55,753.00

- (g) **Annual Operating Expenses:** \$168,851.64, payable in monthly installments of \$14,070.97, subject to adjustment as provided in this Lease.
- (h) **Tenant's Share:** 68.7% (also see Definitions).
- (i) **Use:** General warehouse with appurtenant offices.
- (j) **Security Deposit:** \$15,000.00 (which is currently being held by Landlord).
- (k) **Addresses For Notices:**

Landlord: Liberty Property Limited Partnership Tenant: Premises
5626 Eastport Boulevard
Richmond, Virginia 23231
Attn: Vice President/City Manager

- (l) **Guarantor:** N/A.
- (m) **Additional Defined Terms:** See Rider 1 for the definitions of other capitalized terms.
- (n) **Contents:** The following are attached to and made a part of this Lease:
Rider 1 - Additional Definitions Exhibits: "A" - Plan showing Premises
Rider 2 - Maintenance and Repair Responsibilities "B" - Building Rules
"C" - Estoppel Certificate Form
"D" - Authorization For Automatic Payments Form

2. **Premises**

Landlord leases to Tenant and Tenant leases from Landlord the Premises, together with the right in common with others to use the Common Areas. Tenant accepts the Premises, Building and Common Areas "AS IS", without relying on any representation, covenant or warranty by Landlord other than as expressly set forth in this Lease. Landlord and Tenant stipulate and agree to the rentable square footage set forth in Section 1(a) above without regard to actual measurement.

3. **Use**

Tenant shall occupy and use the Premises only for the Use specified in Section 1 above. Tenant shall not permit any conduct or condition which may endanger, disturb or interfere (whether through excessive noise, odor, vibration or otherwise) with any other Building occupant's normal operations or with the management of the Building. Tenant shall not use or permit the use of any portion of the Property for outdoor storage or installations outside of the Premises. Tenant may use all Common Areas only for their intended purposes. Landlord shall have exclusive control of all Common Areas at all times.

4. **Term;**
Possession

The Term of this Lease shall commence on the Commencement Date and shall end on the Expiration Date, unless sooner terminated in accordance with this Lease. If Landlord is delayed in delivering possession of all or any portion of the Premises to Tenant as of the Commencement Date, Tenant will take possession on the date Landlord delivers possession, which date will then become the Commencement Date (and the Expiration Date will be extended so that the length of the Term remains unaffected by such delay).

5. **Rent;**
Taxes

Tenant agrees to pay to Landlord, without demand, deduction or offset, Minimum Annual Rent and Annual Operating Expenses for the Term. Tenant shall pay the Monthly Rent, in advance, on the first day of each calendar month during the Term to an account designated by Landlord via the Authorization For Automatic Payments form attached as **Exhibit "D"** (unless Landlord designates otherwise) and which Authorization For Automatic Payments shall be executed by Tenant simultaneously with the execution of this Lease. In addition, the Monthly Rent for the first full month shall be paid at the signing of this Lease. If the Commencement Date is not the first day of the month, the Monthly Rent for that partial month shall be apportioned on a per diem basis at the rate of \$2,216.83 per day and shall be paid on or before the Commencement Date. Tenant shall pay Landlord a service and handling charge equal to 5% of any Rent not paid within five (5) business days after the date due. In addition, any Rent, including such charge, not paid within five (5) business days after the due date will bear interest at the Interest Rate from the date due to the date paid. Tenant shall pay before delinquent all taxes or other charges levied or assessed upon, measured by, or arising from: (a) the conduct of Tenant's business; (b) Tenant's leasehold estate; or (c) Tenant's property. Additionally, Tenant shall pay to Landlord all sales, use, transaction privilege, or other excise tax that may at any time be levied or imposed upon, or measured by, any amount payable by Tenant under this Lease. Landlord shall timely pay any and all applicable taxes for which it is responsible for hereunder.

6. **Operating**
Expenses

The amount of the Annual Operating Expenses set forth in Section 1(g) above represents Tenant's Share of the Operating Expenses for the calendar year in which the Term commences as reasonably estimated by Landlord. Landlord may reasonably adjust such amount from time to time if the estimated Annual Operating Expenses increase or decrease in which case Landlord shall send written notice of such increase or decrease to Tenant, together with reasonable documentation supporting such adjustment; Landlord may also invoice Tenant separately from time to time for Tenant's Share of any extraordinary or unanticipated Operating Expenses. By April 30th of each year (and as soon as practical after the expiration or termination of this Lease or, at Landlord's option, after a sale of the Property), Landlord shall provide Tenant with a statement of Operating Expenses for the preceding calendar year or part thereof. Within thirty (30) days after delivery of the statement to Tenant, Landlord or Tenant shall pay to the other the amount of any overpayment or deficiency then due from one to the other or, at Landlord's option, Landlord may credit Tenant's account for any overpayment. If Tenant does not give Landlord notice within thirty (30) days after receiving Landlord's statement that Tenant disagrees with the statement and specifying the items and amounts in dispute, Tenant shall be deemed to have waived the right to contest the statement. Landlord's and Tenant's obligation to pay any overpayment or deficiency due the other pursuant to this Section shall survive the expiration or termination of this Lease.

7. **Utilities**

Tenant shall pay for water, sewer, gas, electricity, heat, power, telephone, telecommunications, data and other communication services and any other utilities supplied to the Premises. Tenant shall obtain service in its own name and timely pay all charges directly to the provider. Landlord shall not be responsible or liable for any interruption in such services, nor shall such interruption affect the continuation or validity of this Lease. Any wiring, cabling or other equipment necessary to connect Tenant's telecommunications equipment shall be Tenant's responsibility, and shall be installed in a manner approved by Landlord. In the event Tenant's consumption of any utility or other service included in Operating Expenses is excessive when compared with other occupants of the Property, Landlord may invoice Tenant separately for, and Tenant shall pay on demand, the cost of Tenant's excessive consumption, as reasonably determined by Landlord.

8. **Insurance; Waivers;**
Indemnification

(a) Landlord shall maintain insurance against loss or damage to the Building or the Property with coverage for perils as set forth under the "Causes of Loss-Special Form" or equivalent property insurance policy in an amount equal to the full insurable replacement cost of the Building (excluding coverage of Tenant's personal property and any Alterations by Tenant), and such other insurance, including rent loss coverage, as Landlord may reasonably deem appropriate or as any Mortgagee may require.

(b) Tenant, at its expense, shall keep in effect commercial general liability insurance, including blanket contractual liability insurance, covering Tenant's use of the Property, with such coverages and limits of liability as Landlord may reasonably require, but not less than a \$1,000,000.00 combined single limit with a \$5,000,000.00 general aggregate limit (which general aggregate limit may be satisfied by an umbrella liability policy) for bodily injury or property damage; however, such limits shall not limit Tenant's liability hereunder. The policy shall name Landlord, Liberty Property Trust and any other associated or affiliated entity as their interests may appear and at Landlord's request, any Mortgagee(s), as additional insureds, shall be written on an "occurrence" basis and not on a "claims made" basis and shall be endorsed to provide that it is primary to and not contributory to any policies carried by Landlord and to provide that it shall not be cancelable or reduced without at least thirty (30) days prior notice to Landlord. The insurer shall be authorized to issue such insurance, licensed to do business and admitted in the state in which the Property is located and rated at least A VII in the most current edition of *Best's Insurance Reports*. Tenant shall deliver to Landlord on or before the Commencement Date or any earlier date on which Tenant accesses the Premises, and at least thirty (30) days prior to the date of each policy renewal and upon written request of Landlord, a certificate of insurance evidencing such coverage.

(c) Landlord and Tenant each waive, and release each other from and against, all claims for recovery against the other for any loss or damage to the property of such party arising out of fire or other casualty coverable by a standard "Causes of Loss-Special Form" property insurance policy with, in the case of Tenant, such endorsements and additional coverages as are considered good business practice in Tenant's business, even if such loss or damage shall be brought about by the fault or negligence of the other party or its Agents; provided, however, such waiver by Landlord shall not be effective with respect to Tenant's liability described in Section 10(d) below. This waiver and release is effective regardless of whether the releasing party actually maintains the insurance described above in this subsection and is not limited to the amount of insurance actually carried, or to the actual proceeds received after a loss. Each party shall have its insurance company that issues its property coverage waive any rights of subrogation, and shall have the insurance company include an endorsement acknowledging this waiver, if necessary. Tenant assumes all risk of damage to the property of (i) Tenant, or Tenant's Agents in or about the Premises or Property, and (ii) any other person whose property is used, leased or stored by Tenant in or about the Premises or Property, including in each case any loss or damage caused by water leakage, fire, windstorm, explosion, theft, act of any other tenant, or other cause.

(d) Tenant shall not be permitted to satisfy any of its insurance obligations set forth in this Lease through any self-insurance or self-insured retention in excess of \$25,000.00.

(e) Subject to subsection (c) above, and except to the extent caused by the gross negligence or willful misconduct of Landlord or its Agents, Tenant will indemnify, defend, and hold harmless Landlord and its Agents from and against any and all claims, actions, damages, liability and expense (including fees of attorneys, investigators and experts) which may be asserted against, imposed upon, or incurred by Landlord or its Agents and arising out of or in connection with loss of life, personal injury or damage to property in or about the Premises or arising out of the occupancy or use of the Premises by Tenant or its Agents or occasioned wholly or in part by any negligent act or omission or willful misconduct of Tenant or its Agents, whether during or after the Term. Tenant's obligations pursuant to this subsection shall survive the expiration or termination of this Lease.

(f) Subject to subsection (c) above, and except to the extent caused by the gross negligence or willful misconduct of Tenant or its Agents, Landlord will indemnify, defend, and hold harmless Tenant and its Agents from and against any and all claims, actions, damages, liability and expense (including fees of attorneys, investigators and experts) which may be asserted against, imposed upon, or incurred by Tenant or its Agents arising out of or in connection with loss of life, personal injury or damage to property in or about the Premises and occasioned wholly or in part by any negligent act of Landlord, whether during or after the Term. Landlord's obligations pursuant to this subsection shall survive the expiration or termination of this Lease.

9. **Maintenance and Repairs**

(a) Maintenance obligations, and the responsibility for payment associated with the performance of such Maintenance, shall be allocated between Landlord and Tenant in accordance with Rider 2, except as otherwise set forth in this Section 9.

(b) Notwithstanding anything contained in this Lease to the contrary, Tenant shall be solely responsible for all costs and expenses incurred by Landlord for any Alterations, or other Maintenance made necessary because of (i) Tenant's Alterations, Major Repairs or installations, (ii) circumstances special or particular to Tenant, including Tenant's special or particular use of the Premises, or (iii) the acts or omissions of Tenant or its Agents, in each case, to the extent not covered by applicable insurance proceeds paid to Landlord (Tenant being responsible for Landlord's commercially reasonable deductible notwithstanding the waiver of claims set forth in Section 8(c)). Moreover, provided Tenant has been informed of the conditions of the applicable warranty, Tenant shall be solely responsible for all costs and expenses incurred by Landlord for any Maintenance that would have been covered by warranty but is no longer covered by warranty due to the failure on the part of Tenant or its Agents to observe the conditions of the applicable warranty. Tenant agrees to pay to Landlord, within ten (10) days after being billed therefor, all costs and expenses for which Tenant is liable pursuant to this paragraph.

10. **Compliance**

(a) Tenant will, at its expense, promptly comply with all Laws now or subsequently pertaining to the Premises or Tenant's use or occupancy. Neither Tenant nor its Agents shall use the Premises in any manner that under any Law would require Landlord to make any Alteration to or in the Building or Common Areas (without limiting the foregoing, Tenant shall not use the Premises in any manner that would cause the Premises or the Property to be deemed a "place of public accommodation" under the ADA if such use would require any such Alteration). Tenant shall be responsible for compliance with the ADA, and any other Laws regarding accessibility, with respect to the Premises. Landlord shall, at its expense and subject to reimbursement by Tenant as an Operating Expense, comply with all Laws pertaining to the Property, except for those Laws with which Tenant is responsible to comply hereunder.

(b) Tenant will comply, and will cause its Agents to comply, with the Building Rules. Landlord may adopt and Tenant shall comply with reasonable rules and regulations to promote energy efficiency, sustainability and environmental standards for the Property, as the same may be changed from time to time upon reasonable notice to Tenant and provided that such rules and regulations are uniformly applied and enforced among all tenants of the Building.

(c) Tenant agrees not to do anything or fail to do anything which will increase the cost of Landlord's insurance or which will prevent Landlord from procuring policies (including public liability) from companies and in a form satisfactory to Landlord. If any breach of the preceding sentence by Tenant causes the rate of fire or other insurance to be increased, Tenant shall pay the amount of such increase as additional Rent within thirty (30) days after being billed. Landlord represents that Tenant's permitted use hereunder will not increase the cost of Landlord's insurance nor prevent Landlord from procuring policies (including public liability) from companies and in a form satisfactory to Landlord.

(d) Tenant agrees that (i) no activity will be conducted on the Premises that will use or produce any Hazardous Materials, except for activities which are part of the ordinary course of Tenant's business, including, without limitation, stock and resale of motor oil and additives, wheel and lubricants and other similar substances, and are conducted in accordance with all Environmental Laws ("Permitted Activities"); (ii) the Premises will not be used for storage of any Hazardous Materials, except for materials used in the Permitted Activities which are properly stored in a manner and location complying with all Environmental Laws; (iii) no portion of the Premises or Property will be used by Tenant or Tenant's Agents for disposal of Hazardous Materials; (iv) Tenant will deliver to Landlord copies of all Material Safety Data Sheets and other written information prepared by manufacturers, importers or suppliers of any chemical; and (v) Tenant will immediately notify Landlord of any violation by Tenant or Tenant's Agents of any Environmental Laws or the release or suspected release of Hazardous Materials in, under or about the Premises, and Tenant shall immediately deliver to Landlord a copy of any notice, filing or permit sent or received by Tenant with respect to the foregoing. If at any time during or after the Term, any portion of the Property is found to be contaminated by Tenant or Tenant's Agents or subject to conditions prohibited in this Lease caused by Tenant or Tenant's Agents, Tenant will indemnify, defend and hold Landlord harmless from all third party claims, demands, actions, liabilities, costs, expenses, attorneys' fees, damages and obligations of any nature arising from or as a result thereof, and Landlord shall have the right to direct remediation activities, all of which shall be performed at Tenant's cost. Tenant's obligations pursuant to this subsection shall survive the expiration or termination of this Lease.

11. Signs

Tenant shall not place any signs on the Property without the prior consent of Landlord, other than signs that are located wholly within the interior of the Premises and not visible from the exterior of the Premises. Tenant shall maintain all signs installed by Tenant in good condition. Tenant shall remove its signs at the termination of this Lease, shall repair any resulting damage, and shall restore the Property to its condition existing prior to the installation of Tenant's signs, normal wear and tear excepted.

12. Alterations

Except for non-structural Alterations or Major Repairs that, in either instance, (i) do not exceed \$5,000.00 in the aggregate, (ii) are not visible from the exterior of the Premises, (iii) do not affect any Building System or the structural strength of the Building, (iv) do not require penetrations into the floor, ceiling or walls, and (v) do not require work within the walls, below the floor or above the ceiling, Tenant shall not make or permit any Alterations or Major Repairs in or to the Premises without first obtaining Landlord's consent, which consent shall not be unreasonably withheld. With respect to any Alterations or Major Repairs made by or on behalf of Tenant (whether or not the Alteration or Major Repair requires Landlord's consent): (i) not less than ten (10) days prior to commencing any Alteration or Major Repair, Tenant shall deliver to Landlord the plans, specifications and necessary permits for the Alteration or Major Repair, together with certificates evidencing that Tenant's contractors and subcontractors have adequate insurance coverage naming Landlord, Liberty Property Trust and any other associated or affiliated entity as their interests may appear as additional insureds; (ii) Tenant shall obtain Landlord's prior written approval of any contractor or subcontractor; (iii) the Alteration or Major Repair shall be constructed with new materials, in a good and workmanlike manner, and in compliance with all Laws and the plans and specifications delivered to, and, if required above, approved by Landlord; (iv) the Alteration or Major Repair shall be performed in accordance with Landlord's reasonable requirements relating to sustainability and energy efficiency; (v) Tenant shall pay Landlord all reasonable third party costs and expenses in connection with Landlord's review of Tenant's plans and specifications, and of any supervision or inspection of the construction Landlord deems necessary; and (vi) upon Landlord's request Tenant shall, prior to commencing any Alteration or Major Repair, provide Landlord reasonable security against liens arising out of such construction. Any Alteration by Tenant shall be the property of Tenant until the expiration or termination of this Lease; at that time without payment by Landlord the Alteration shall remain on the Property and become the property of Landlord unless Landlord gives notice to Tenant to remove it, in which event Tenant will remove it, will repair any resulting damage and will restore the Premises to the condition existing prior to Tenant's Alteration, normal wear and tear excepted. At Tenant's request prior to Tenant making any Alterations, Landlord will notify Tenant whether Tenant is required to remove the Alterations at the expiration or termination of this Lease. Tenant may install its trade fixtures, furniture and equipment in the Premises, provided that the installation and removal of them will not affect any structural portion of the Property, any Building System or any other equipment or facilities serving the Building or any occupant.

13. Mechanics'

Liens

Tenant promptly shall pay for any labor, services, materials, supplies or equipment furnished to Tenant in or about the Premises. Tenant shall keep the Premises and the Property free from any liens arising out of any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to Tenant. Tenant shall take all steps permitted by law in order to avoid the imposition of any such lien. Should any such lien or notice of such lien be filed against the Premises or the Property, Tenant shall discharge the same by bonding or otherwise within fifteen (15) days after Tenant has notice that the lien or claim is filed regardless of the validity of such lien or claim.

14. Landlord's Right of Entry

Tenant shall permit Landlord and its Agents to enter the Premises at all reasonable times following reasonable notice (except in an emergency) to inspect, Maintain, or make Alterations to the Premises or Property, to verify that Tenant is performing its Maintenance obligations in accordance with this Lease, to exhibit the Premises for the purpose of sale or financing, and, during the last twelve (12) months of the Term, to exhibit the Premises to any prospective tenant, provided that in each case Landlord uses commercially reasonable efforts to not interfere with the operation of Tenant's business within the Premises. Landlord will make reasonable efforts not to inconvenience Tenant in exercising such rights, but Landlord shall not be liable for any interference with Tenant's occupancy resulting from Landlord's entry.

15. Damage by Fire or Other Casualty

If the Premises or Common Areas shall be damaged or destroyed by fire or other casualty, Tenant shall promptly notify Landlord, and Landlord, subject to the conditions set forth in this Section, shall repair such damage and restore the Premises or Common Areas to substantially the same condition in which they were immediately prior to such damage or destruction, but not including the repair, restoration or replacement of the fixtures, equipment, or Alterations installed by or on behalf of Tenant. Landlord shall notify Tenant, within thirty (30) days after the date of the casualty, if Landlord anticipates that the restoration will take more than one hundred eighty (180) days from the date of the casualty to complete; in such event, either Landlord or Tenant may terminate this Lease effective as of the date of casualty by giving notice to the other within ten (10) days after Landlord's notice. In addition, if a casualty occurs during the last twelve (12) months of the Term, Landlord may terminate this Lease unless Tenant has the right to extend the Term for at least three (3) more years and does so within thirty (30) days after the date of the casualty. Moreover, Landlord may terminate this Lease if the loss is not covered by the insurance required to be maintained by Landlord under this Lease. Tenant will receive an abatement of Minimum Annual Rent and Annual Operating Expenses to the extent the Premises are rendered untenantable as a result of the casualty.

16. Condemnation

If (a) all of the Premises are Taken, (b) any part of the Premises is Taken and the remainder is insufficient in Landlord's opinion for the reasonable operation of Tenant's business, or (c) any of the Property is Taken, and, in Landlord's opinion, it would be impractical or the condemnation proceeds are insufficient to restore the remainder, then this Lease shall terminate as of the date the condemning authority takes possession. If this Lease is not terminated, Landlord shall restore the Building to a condition as near as reasonably possible to the condition prior to the Taking, the Minimum Annual Rent shall be abated for the period of time all or a part of the Premises is untenantable in proportion to the square foot area untenantable, and this Lease shall be amended appropriately. The compensation awarded for a Taking shall belong to Landlord, except for any compensation awarded to Tenant that does not reduce the compensation awarded to Landlord.

17. Quiet Enjoyment

Landlord covenants that Tenant, upon performing all of its covenants, agreements and conditions of this Lease, shall have quiet and peaceful possession of the Premises, subject, however, to the terms of this Lease.

18. Assignment and Subletting

(a) Except as provided in Section (b) below, Tenant shall not enter into nor permit any Transfer voluntarily or by operation of law, without the prior consent of Landlord, which consent shall not be unreasonably withheld. Without limitation, Tenant agrees that Landlord's consent shall not be considered unreasonably withheld if (i) the proposed transferee is an existing tenant of Landlord or an affiliate of Landlord within the greater Chesapeake metropolitan market area, (ii) the business, business reputation or creditworthiness of the proposed transferee is unacceptable to Landlord (as determined in Landlord's reasonable discretion), (iii) intentionally deleted, or (iv) Tenant is in default under this Lease or any act or omission has occurred which would constitute a default with the giving of notice and/or the passage of time. A consent to one Transfer shall not be deemed to be a consent to any subsequent Transfer. In no event shall any Transfer relieve Tenant from any obligation under this Lease. Landlord's acceptance of Rent from any person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any Transfer. Any Transfer not in conformity with this Section 18 shall be void at the option of Landlord.

(b) Landlord's consent shall not be required in the event of any Transfer by Tenant to an Affiliate provided that (i) the Affiliate has a tangible net worth at least equal to that of Tenant as of the date of this Lease, (ii) Tenant provides Landlord notice of the Transfer at least fifteen (15) days prior to the effective date, together with current financial statements of the Affiliate certified by an executive officer of the Affiliate and a copy of the proposed Transfer documents, (iii) in the case of an assignment or sublease, Tenant delivers to Landlord an assumption agreement or a sublease (as applicable) reasonably acceptable to Landlord executed by Tenant and the Affiliate, together with a certificate of insurance evidencing the Affiliate's compliance with the insurance requirements of Tenant under this Lease, and (iv) if there is a guaranty of this Lease, Tenant delivers to Landlord a confirmation of such guaranty by the guarantor hereunder, or, in the event the applicable Transfer results in a change of control (directly or indirectly) of Tenant, Tenant delivers to Landlord a new guaranty (on the same form as the existing guaranty) from an entity reasonably acceptable to Landlord.

(c) The provisions of subsection (a) above notwithstanding, if Tenant proposes to Transfer all of the Premises (other than a Transfer to an Affiliate) for the remainder of the Term, Tenant shall pay to Landlord, immediately upon receipt, one-half (1/2) of the excess of (i) all compensation received by Tenant for the Transfer over (ii) the Rent allocable to the Premises transferred (after deducting all of Tenant's actual and reasonable out-of-pocket costs associated therewith, including brokerage commissions, lease concessions, improvement allowances and legal fees, which costs shall be reimbursed to Tenant prior to any payments to Landlord).

(d) If Tenant requests Landlord's consent to a Transfer, Tenant shall provide Landlord, at least fifteen (15) days prior to the proposed Transfer, current financial statements of the transferee certified by an executive officer of the transferee, a complete copy of the proposed Transfer documents, and any other information Landlord reasonably requests. Immediately following any approved assignment or sublease, Tenant shall deliver to Landlord an assumption agreement or a sublease (as applicable) reasonably acceptable to Landlord executed by Tenant and the transferee, together with a certificate of insurance evidencing the transferee's compliance with the insurance requirements of Tenant under this Lease. Furthermore, if there is a guaranty of this Lease, Tenant and transferee shall deliver to Landlord a confirmation of such guaranty by the guarantor hereunder, or, in the event the applicable Transfer results in a change of control (directly or indirectly) of Tenant, Tenant shall deliver to Landlord a new guaranty (on the same form as the existing guaranty) from an entity reasonably acceptable to Landlord. Tenant agrees to reimburse Landlord for reasonable administrative and attorneys' fees in connection with the processing and documentation of any Transfer for which Landlord's consent is requested.

19. Subordination; Mortgagee's Rights

(a) Tenant accepts this Lease subject and subordinate to any Mortgage now or in the future affecting the Premises, provided that Tenant's right of possession of the Premises shall not be disturbed by the Mortgagee so long as Tenant is not in default under this Lease. This clause shall be self-operative, but within ten (10) days after request, Tenant shall execute and deliver any further instruments confirming the subordination of this Lease and any further instruments of attornment that the Mortgagee may reasonably request. However, any Mortgagee may at any time subordinate its Mortgage to this Lease, without Tenant's consent, by giving notice to Tenant, and this Lease shall then be deemed prior to such Mortgage without regard to their respective dates of execution and delivery; provided that such subordination shall not affect any Mortgagee's rights with respect to condemnation awards, casualty insurance proceeds, intervening liens or any right which shall arise between the recording of such Mortgage and the execution of this Lease. Notwithstanding the foregoing, upon the request from Tenant, Landlord shall use commercially reasonable efforts to obtain a subordination, non-disturbance and attornment agreement from its Mortgagee using the Mortgagee's standard form agreement.

(b) No Mortgagee shall be (i) liable for any act or omission of a prior landlord, (ii) subject to any rental offsets or defenses against a prior landlord, (iii) bound by any amendment of this Lease made without its written consent, or (iv) bound by payment of Monthly Rent more than one month in advance or liable for any other funds paid by Tenant to Landlord unless such funds actually have been transferred to the Mortgagee by Landlord.

(c) The provisions of Sections 15 and 16 above notwithstanding, Landlord's obligation to restore the Premises after a casualty or condemnation shall be subject to the consent and prior rights of any Mortgagee.

20. **Tenant's Certificate: Financial Information**

Within ten (10) days after Landlord's request from time to time, (a) Tenant shall execute, acknowledge and deliver to Landlord, for the benefit of Landlord, Mortgagee, any prospective Mortgagee, and any prospective purchaser of Landlord's interest in the Property, an estoppel certificate in the form of attached **Exhibit "C"** (or other form requested by Landlord), modified as necessary to accurately state the facts represented, and (b) Tenant shall furnish to Landlord, Landlord's Mortgagee, prospective Mortgagee and/or prospective purchaser reasonably requested financial information to the extent that Tenant's financial information is not available on the following website: www.sec.gov. Landlord agrees to keep any private financial information provided to it by Tenant confidential (except for disclosure to the parties listed in this subsection (b)), and any Mortgagee, prospective Mortgagee and/or prospective purchaser with which Landlord shares such information shall be informed by Landlord of the obligation to keep such information confidential and must agree to be bound by the same confidentiality obligations as Landlord prior to receiving any of Tenant's financial information which is not publicly disclosed

21. **Surrender**

(a) On the date on which this Lease expires or terminates, Tenant shall return possession of the Premises to Landlord in good condition, except for ordinary wear and tear, and except for casualty damage or other conditions that Tenant is not required to remedy under this Lease. Prior to the expiration or termination of this Lease, and subject to Section 12 above, Tenant shall remove from the Property all furniture, trade fixtures and equipment, wiring and cabling (unless Landlord directs Tenant otherwise), and all other personal property installed by Tenant or its assignees or subtenants. Tenant shall repair any damage resulting from such removal and shall restore the Property to good order and condition. Any of Tenant's personal property not removed as required shall be deemed abandoned, and Landlord, at Tenant's expense, may remove, store, sell or otherwise dispose of such property in such manner as Landlord may see fit and/or Landlord may retain such property or sale proceeds as its property. If Tenant does not return possession of the Premises to Landlord in the condition required under this Lease, Tenant shall pay Landlord all resulting damages Landlord may suffer.

(b) If Tenant remains in possession of the Premises after the expiration or termination of this Lease, Tenant's occupancy of the Premises shall be that of a tenancy at will. Tenant's occupancy during any holdover period shall otherwise be subject to the provisions of this Lease (unless clearly inapplicable), except that the Monthly Rent shall be one hundred fifty percent (150%) of the Monthly Rent payable for the last full month immediately preceding the holdover for the first two (2) months of holdover and double the Monthly Rent payable for the last full month immediately preceding the holdover. No holdover or payment by Tenant after the expiration or termination of this Lease shall operate to extend the Term or prevent Landlord from immediate recovery of possession of the Premises by summary proceedings or otherwise. Any provision in this Lease to the contrary notwithstanding, any holdover by Tenant shall constitute a default on the part of Tenant under this Lease entitling Landlord to exercise, without obligation to provide Tenant any notice or cure period, all of the remedies available to Landlord in the event of a Tenant default, and Tenant shall be liable for all damages, including consequential damages (to the extent that a holdover lasts more than two (2) months), that Landlord suffers as a result of the holdover.

22. **Defaults** -
Remedies

(a) It shall be an Event of Default:

(i) If Tenant does not pay in full when due any and all Rent and, except as provided in Section 22(c) below, Tenant fails to cure such default on or before the date that is ten (10) days after Landlord gives Tenant notice of default;

(ii) If Tenant enters into or permits any Transfer in violation of Section 18 above;

(iii) If Tenant fails to observe and perform or otherwise breaches any other provision of this Lease, and Tenant fails to cure the default on or before the date that is thirty (30) days after Landlord gives Tenant notice of default; provided, however, if the default cannot reasonably be cured within thirty (30) days following Landlord's giving of notice, Tenant shall be afforded additional reasonable time (not to exceed sixty (60) days following Landlord's notice) to cure the default if Tenant begins to cure the default within thirty (30) days following Landlord's notice and continues diligently in good faith to completely cure the default; or

(iv) If Tenant becomes insolvent or makes a general assignment for the benefit of creditors or offers a settlement to creditors, or if a petition in bankruptcy or for reorganization or for an arrangement with creditors under any federal or state law is filed by or against Tenant, or a bill in equity or other proceeding for the appointment of a receiver for any of Tenant's assets is commenced, or if any of the real or personal property of Tenant shall be levied upon; provided that any proceeding brought by anyone other than Landlord or Tenant under any bankruptcy, insolvency, receivership or similar law shall not constitute an Event of Default until such proceeding has continued unstayed for more than sixty (60) consecutive days.

Any notice periods provided for in this Lease shall run concurrently with any statutory notice periods and any notice given hereunder may be given simultaneously with or incorporated into any such statutory notice.

(b) If an Event of Default occurs, Landlord shall have the following rights and remedies:

(i) Landlord, without any obligation to do so, may elect to cure the default on behalf of Tenant, in which event Tenant shall reimburse Landlord upon demand for any reasonable sums paid or reasonable attorneys' fees and reasonable costs incurred by Landlord (together with an administrative fee of 12% thereof) in curing the default, plus interest at the Interest Rate from the respective dates of Landlord's incurring such costs, which sums and costs together with interest at the Interest Rate shall be deemed additional Rent;

(ii) To lawfully enter and repossess the Premises by judicial process, and remove all persons and all or any property, by action at law, using self-help without an action at law, or otherwise, without being liable for prosecution or damages. Landlord may, at Landlord's option, make Alterations and repairs in order to relet the Premises and relet all or any part(s) of the Premises for Tenant's account. Tenant agrees to pay to Landlord on demand any deficiency (taking into account all costs incurred by Landlord) that may arise by reason of such reletting. In the event of reletting without termination of this Lease, Landlord may at any time thereafter elect to terminate this Lease for such previous breach;

(iii) Subject to Section 22 (c) below, to accelerate the whole or any part of the Rent for the balance of the Term, and declare the same to be immediately due and payable after discounting the same to present worth, against which Tenant shall be entitled to a credit equal to the present worth of such rental loss, if any, that Tenant affirmatively approves could reasonably be avoided by Landlord (with "present worth" being computed using a discount rate equal to one percentage point above the discount rate then in effect at the Federal Reserve Bank nearest to the location of the Building); and

(iv) To terminate this Lease and the Term without any right on the part of Tenant to save the forfeiture by payment of any sum due or by other performance of any condition, term or covenant broken.

(c) If Landlord terminates Tenant's right of possession (but not this Lease), Landlord shall use commercially reasonable efforts to relet the Premises for the account of Tenant for such rent and upon such terms as shall be satisfactory to Landlord without thereby releasing Tenant from any liability hereunder and without demand or notice of any kind to Tenant; provided, however (i) Landlord shall not be obligated to accept any prospective tenant proposed by Tenant, unless such proposed tenant meets all of Landlord's standard leasing criteria and (ii) Landlord shall have the right to lease any other space controlled by Landlord first.

(d) Any provision to the contrary in this Section 22 notwithstanding, (i) Landlord shall not be required to give Tenant the notice and opportunity to cure provided in Section 22(a) above more than twice in any consecutive 12-month period, and thereafter Landlord may declare an Event of Default without affording Tenant any of the notice and cure rights provided under this Lease, and (ii) Landlord shall not be required to give such notice prior to exercising its rights under Section 22(b) if Tenant fails to comply with the provisions of Sections 13, 20, or 27 or in an emergency.

(e) No waiver by Landlord of any breach by Tenant shall be a waiver of any subsequent breach, nor shall any forbearance by Landlord to seek a remedy for any breach by Tenant be a waiver by Landlord of any rights and remedies with respect to such or any subsequent breach. Efforts by Landlord to mitigate the damages caused by Tenant's default shall not constitute a waiver of Landlord's right to recover damages hereunder. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy provided herein or by law, but each shall be cumulative and in addition to every other right or remedy given herein or now or hereafter existing at law or in equity. No payment by Tenant or receipt or acceptance by Landlord of a lesser amount than the total amount due Landlord under this Lease shall be deemed to be other than on account, nor shall any endorsement or statement on any check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of Rent due, or Landlord's right to pursue any other available remedy.

(f) If either party commences an action against the other party arising out of or in connection with this Lease, the prevailing party shall be entitled to have and recover from the other party attorneys' fees, costs of suit, investigation expenses and discovery and other litigation costs, including costs of appeal.

(g) Landlord and Tenant waive the right to a trial by jury in any action or proceeding based upon or related to, the subject matter of this Lease.

23. **Authority**

Tenant represents and warrants to Landlord that: (a) Tenant is duly formed, validly existing and in good standing under the laws of the state under which Tenant is organized, and qualified to do business in the state in which the Property is located, and (b) the person(s) signing this Lease are duly authorized to execute and deliver this Lease on behalf of Tenant. Landlord represents and warrants to Tenant that: (a) Landlord is duly formed, validly existing and in good standing under the laws of the state under which Landlord is organized, and qualified to do business in the state in which the Property is located, and (b) the person(s) signing this Lease are duly authorized to execute and deliver this Lease on behalf of Landlord.

24. **Liability of Landlord**

The word “**Landlord**” in this Lease includes the Landlord executing this Lease as well as its successors and assigns, each of which shall have the same rights, remedies, powers, authorities and privileges as it would have had it originally signed this Lease as Landlord. Any such person or entity, whether or not named in this Lease, shall have no liability under this Lease after it ceases to hold title to the Premises except for obligations already accrued (and, as to any unapplied portion of Tenant’s Security Deposit, Landlord shall be relieved of all liability upon transfer of such portion to its successor in interest). Tenant shall look solely to Landlord’s successor in interest for the performance of the covenants and obligations of the Landlord hereunder which subsequently accrue. Landlord shall not be deemed to be in default under this Lease unless Tenant gives Landlord notice specifying the default and Landlord fails to cure the default within thirty (30) days following Tenant’s notice, provided, however, if the default cannot reasonably be cured within thirty (30) days following Tenant’s giving of notice, Landlord shall be afforded additional reasonable time. Except as otherwise expressly provided in this Lease, in no event shall either party be liable to the other party for any loss of business or profits or for consequential, punitive or special damages of any kind. Neither Landlord nor any principal of Landlord nor any owner of the Property, whether disclosed or undisclosed, shall have any personal liability with respect to any of the provisions of this Lease or the Premises; provided, however, any claim by Tenant against Landlord as a result of Landlord’s default shall be limited to and satisfied solely from the equity of Landlord in the Property.

25. **Miscellaneous**

(a) The captions in this Lease are for convenience only, are not a part of this Lease and do not in any way define, limit, describe or amplify the terms of this Lease.

(b) This Lease represents the entire agreement between the parties hereto and there are no collateral or oral agreements or understandings between Landlord and Tenant with respect to the Premises or the Property. No rights, easements or licenses are acquired in the Property or any land adjacent to the Property by Tenant by implication or otherwise except as expressly set forth in this Lease. This Lease shall not be modified in any manner except by an instrument in writing executed by the parties. The masculine (or neuter) pronoun and the singular number shall include the masculine, feminine and neuter genders and the singular and plural number. The word “including” followed by any specific item(s) is deemed to refer to examples rather than to be words of limitation. The word “person” includes a natural person, a partnership, a corporation, a limited liability company, an association and any other form of business association or entity. Both parties having participated fully and equally in the negotiation and preparation of this Lease, this Lease shall not be more strictly construed, nor any ambiguities in this Lease resolved, against either Landlord or Tenant.

(c) Each covenant, agreement, obligation, term, condition or other provision contained in this Lease shall be deemed and construed as a separate and independent covenant of the party bound by, undertaking or making the same, not dependent on any other provision of this Lease unless otherwise expressly provided. All of the terms and conditions set forth in this Lease shall apply throughout the Term unless otherwise expressly set forth herein.

(d) If any provisions of this Lease shall be declared unenforceable in any respect, such unenforceability shall not affect any other provision of this Lease, and each such provision shall be deemed to be modified, if possible, in such a manner as to render it enforceable and to preserve to the extent possible the intent of the parties as set forth herein. This Lease shall be construed and enforced in accordance with the laws of the state in which the Property is located.

(e) This Lease shall be binding upon and inure to the benefit of Landlord and Tenant and their respective heirs, personal representatives and permitted successors and assigns.

(f) This Lease may be executed in counterparts, each of which shall constitute an original, but which, taken together, shall be one original agreement. Any counterpart of this Lease may be executed and delivered by electronic transmission (including, without limitation, e-mail) or by portable document format (pdf) and shall have the same force and effect as an original.

(g) Tenant shall not record this Lease or any memorandum thereof in the applicable land records, or otherwise file this Lease with any governmental authority (other than a filing required by the SEC), without Landlord’s prior consent.

(h) Landlord and Tenant shall keep all information obtained from, or made available by or on behalf of, the other side confidential and will use such information only in connection with its respective obligations hereunder, except that Landlord or Tenant may disclose such information to its officers, directors, employees, agents and representatives, on a need to know basis only and will ensure that all such persons are informed of the confidentiality of and use restrictions relating to such information and will keep such information strictly confidential and only use such information to assist Landlord or Tenant in connection with such party satisfying its obligations hereunder. No such obligation of confidentiality shall apply to information that: (i) is in the public domain as of the date hereof or hereafter enters the public domain without a breach by such party, (ii) was known or became known by Landlord or Tenant prior to the disclosure thereof to such party, (iii) becomes known to Landlord or Tenant from a source other than the other party, and other than by the breach of an obligation of confidentiality owed to such party, (iv) is disclosed by Landlord or Tenant to a third party without restrictions on its disclosure, (v) is independently developed by Landlord or Tenant without reference to the other party's information, or (vi) is required to be disclosed by Landlord or Tenant or its respective officers, directors, employees, agents or attorneys pursuant to any order of a court of competent jurisdiction or other governmental body or as may otherwise be required by law; provided that Landlord and Tenant provides the other party with notice prior to any such disclosure and reasonably assists the other party in obtaining a protective order or other appropriate relief.

26. Notices

Any notice, consent or other communication under this Lease shall be in writing and addressed to Landlord or Tenant at their respective addresses specified in Section 1 above (or to such other address as either may designate by notice to the other) with a copy to any Mortgagee or other party designated by Landlord. Each notice or other communication shall be deemed given if sent by prepaid overnight delivery service or by certified mail, return receipt requested, postage prepaid or in any other manner, with delivery in any case evidenced by a receipt, and shall be deemed to have been given on the day of actual delivery to the intended recipient or on the business day delivery is refused. The giving of notice by Landlord's attorneys, representatives and agents under this Section shall be deemed to be the acts of Landlord.

27. Security Deposit

At the time of signing this Lease, Tenant shall deposit with Landlord the Security Deposit to be retained by Landlord as cash security for the faithful performance and observance by Tenant of the provisions of this Lease. Tenant shall not be entitled to any interest on the Security Deposit. Landlord shall have the right to commingle the Security Deposit with its other funds. Landlord may use the whole or any part of the Security Deposit for the payment of any amount as to which Tenant is in default or to compensate Landlord for any loss or damage it may suffer by reason of Tenant's default under this Lease. If Landlord uses all or any portion of the Security Deposit as herein provided, within ten (10) days after demand, Tenant shall pay Landlord cash in an amount equal to that portion of the Security Deposit used by Landlord. If Tenant complies fully and faithfully with all of the provisions of this Lease, the Security Deposit shall be returned to Tenant after the Expiration Date and surrender of the Premises to Landlord.

28. Additional Contiguous Space. If and when the space within the Building that is located contiguous to the Premises (individually, the "Additional Space") first becomes available for rental during the term of this Lease and provided that Landlord has not given Tenant notice of default more than two (2) times during the immediately preceding twelve (12) months, that there then exists no Event of Default by Tenant under this Lease nor any event that with the giving of notice and/or the passage of time would constitute a default, and that Tenant is the sole occupant of the Premises, Tenant shall have the right of first offer to lease all of the Additional Space, subject to the following:

(a) Landlord shall notify Tenant when the Additional Space first becomes available for rental by any party other than the tenant then in occupancy of the Additional Space and Tenant shall have five (5) days following receipt of such notice within which to notify Landlord in writing that Tenant is interested in negotiating terms for leasing such Additional Space and to have its offer considered by Landlord prior to the leasing by Landlord of the Additional Space to a third party. If Tenant notifies Landlord within such time period that Tenant is so interested, then Landlord and Tenant shall have thirty (30) days following Landlord's receipt of such notice from Tenant within which to negotiate mutually and in good faith satisfactory terms for the leasing of the Additional Space by Tenant and to execute an amendment to this Lease incorporating such terms or a new lease for the Additional Space.

(b) If Tenant does not notify Landlord within such five (5) business days of its interest in leasing the Additional Space or if Tenant does not execute such amendment or lease within such thirty (30) days, if applicable, then this right of first offer to lease the Additional Space will lapse and be of no further force or effect and Landlord shall have the right to lease all or part of the Additional Space to any other party at any time on any terms and conditions acceptable to Landlord.

(c) This right of first offer to lease the Additional Space is a one-time right if and when each Additional Space first becomes available, is personal to Tenant and is non-transferable to any assignee or sublessee (regardless of whether any such assignment or sublease was made with or without Landlord's consent) or other party.

Landlord's approval: /s/ Joseph Trinkle
Senior Vice President, Regional Director

29. Tenant Improvements:
Allowance.

(a) Tenant shall construct certain improvements to the Premises (collectively, the "Tenant Improvements") pursuant to the terms of this Section 29. Promptly following execution of this Lease, Tenant shall submit in writing to Landlord the construction plans and specifications (the "Plans and Specs") for the Tenant Improvements. Landlord shall respond to Tenant in writing within ten (10) business days after receipt of the Plans and Specs either approving or rejecting such Plans and Specs; provided, however, Landlord's approval shall not be unreasonably withheld, conditioned or delayed. In the event Landlord rejects the Plans and Specs, Landlord shall include the reasons for such rejection in its written response to Tenant. Tenant shall then have ten (10) business days to revise the Plans and Specs and resubmit such Plans and Specs to Landlord. This process shall continue until Landlord approves the Plans and Specs. Tenant shall construct the Tenant Improvements in accordance with the Plans and Specs using a contractor or contractors reasonably approved in writing by Landlord before the commencement of construction. Tenant may not change the Plans and Specs without first obtaining Landlord's consent, not to be unreasonably withheld, conditioned or delayed for non-structural changes.

(b) Landlord shall pay for the Tenant Improvements up to a maximum amount of \$35,000.00 (the "Allowance"). In the event the actual cost of the Tenant Improvements exceeds the Allowance, such overage shall be borne exclusively by Tenant. Landlord makes no representation or warranty whatsoever as to the total cost of the Tenant Improvements and Tenant acknowledges that the cost of the Tenant Improvements may exceed the Allowance. Any portion of the Allowance not used by Tenant by July 1, 2017 shall be retained by Landlord.

(c) All Tenant Improvements shall be deemed Alterations (for purposes of this Lease), and shall be performed by licensed contractors or subcontractors selected by Tenant and approved by Landlord (such approval not to be unreasonably withheld, conditioned or delayed), in a good and workmanlike manner and shall comply at the time of completion with all Laws. Landlord shall pay the Allowance to Tenant in progress payments provided that the following conditions have been satisfied: (i) Tenant observes and complies with all applicable provisions of this Lease, including, without limitation, Section 12 with respect to Alterations and this Section 29, (ii) as of the payment date, all work completed shall have been done in a good and workmanlike manner, (iii) no Event of Default exists under this Lease, (iv) Tenant delivers a copy to Landlord of the paid or unpaid receipts or invoices substantiating the costs for which reimbursement or payment is requested, and (v) Tenant delivers signed lien waivers from the general contractor and all subcontractors and materialmen providing services or supplying materials in connection with the work completed as of such payment date. Provided the foregoing conditions are met, Landlord shall reimburse Tenant or pay directly to Tenant's contractor(s), as requested by Tenant, the required amount within thirty (30) days after Landlord's receipt and approval of Tenant's request for reimbursement or payment.

(d) The Commencement Date will occur on the date set forth in Section 1(d) hereof, regardless of whether the Tenant Improvements are substantially completed by such date. The failure of Tenant to take possession of or to occupy the Premises shall not serve to relieve Tenant of obligations arising on the Commencement Date or delay the payment of Rent by Tenant hereunder, nor shall such failure serve to extend the Term of this Lease.

30. **Option To Extend Term**. Provided that Landlord has not given Tenant notice of default more than two (2) times preceding the Expiration Date, that there then exists no Event of Default by Tenant under this Lease nor any event that with the giving of notice and/or the passage of time would constitute a default, and that Tenant is the sole occupant of the Premises, Tenant shall have the right and option to extend the Term for one (1) additional period of thirty-six (36) months, exercisable by giving Landlord prior written notice, at least nine (9) months in advance of the Expiration Date, of Tenant's election to extend the Term; it being agreed that time is of the essence and that this option is personal to Tenant and is non-transferable to any assignee or sublessee (regardless of whether any such assignment or sublease was made with or without Landlord's consent) or other party. Such extension shall be under the same terms and conditions as provided in this lease except as follows:

(a) the additional period shall begin on the Expiration Date and thereafter the Expiration Date shall be deemed to be the thirty-sixth (36th) month anniversary thereof;

(b) there shall be no further options to extend; and

(c) the Minimum Annual Rent payable by Tenant shall be in the following amounts:

Lease Period	Monthly
7/1/19 - 6/30/20	\$57,080.00
7/1/20 - 6/30/21	\$58,408.00
7/1/21 - 6/30/22	\$59,735.00

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURES ON FOLLOWING PAGE]

Landlord and Tenant have executed this Lease on the respective date(s) set forth below.

Landlord:

LIBERTY PROPERTY LIMITED PARTNERSHIP, a Pennsylvania limited liability company

By: Liberty Property Trust, its sole general partner

Date signed:

By: /s/ Joseph Trinkle

2/4/16

Name: Joseph Trinkle

Title: SVP, Regional Director

Date signed: **Tenant:**

2/3/16 **U.S. AUTO PARTS NETWORK, INC.**, a Delaware corporation

Attest/Witness:

/s/ David Eisler

By: /s/ Shane Evangelist

Name: David Eisler

Name: Shane Evangelist

Title: SVP, General Counsel

Title: Chief Executive Officer

Rider 1 to Deed of Lease

(Multi-Tenant Industrial)

ADDITIONAL DEFINITIONS

“ADA” means the Americans With Disabilities Act of 1990 (42 U.S.C. § 1201 et seq.), as amended and supplemented from time to time.

“Affiliate” means (i) any entity controlling, controlled by, or under common control of, Tenant, (ii) any successor, directly or indirectly, to Tenant by merger, consolidation or reorganization, and (iii) any purchaser of all or substantially all of the assets, directly or indirectly, of Tenant as a going concern.

“Agents” of a party means such party’s employees, agents, representatives, contractors, and invitees, and, in the case of Tenant, also means subtenants, licensees and other occupants of the Premises.

“Alteration” means any addition, alteration or improvement to the Premises or Property, as the case may be.

“Building Rules” means the rules and regulations attached to this Lease as **Exhibit “B”** as they may be amended from time to time.

“Building Systems” means any electrical, mechanical, plumbing, heating, ventilating, air conditioning, sprinkler, life safety or security systems serving the Building.

“Common Areas” means all areas and facilities as provided by Landlord from time to time for the use or enjoyment of all tenants in the Building or Property, including, if applicable, driveways, sidewalks, parking, loading and landscaped areas.

“Environmental Laws” means all present or future federal, state or local laws, ordinances, rules or regulations (including the rules and regulations of the federal Environmental Protection Agency and comparable state agency) relating to the protection of human health or the environment.

“Event of Default” means a default described in Section 22(a) of this Lease.

“Hazardous Materials” means pollutants, contaminants, toxic or hazardous wastes or other materials the removal of which is required or the use, treatment, storage or disposal of which is regulated, restricted, or prohibited by any Environmental Law.

“Interest Rate” means interest at the rate of 1½% per month.

“Land” means the lot or plot of land on which the Building is situated or the portion thereof allocated by Landlord to the Building.

“Laws” means all applicable laws, ordinances, rules, orders, regulations, guidelines and other requirements of federal, state or local governmental authorities or of any private association or contained in any restrictive covenants or other declarations or agreements, now or subsequently pertaining to the Property or the use and occupation of the Property.

“Lease Year” means the period from the Commencement Date through the succeeding 12 full calendar months (including for the first Lease Year any partial month from the Commencement Date until the first day of the first full calendar month) and each successive 12-month period thereafter during the Term.

“Maintain” or “Maintenance” means to provide such maintenance, repair and, to the extent necessary and appropriate, replacement, as may be needed to keep the subject property in good condition and repair. Maintenance also includes utilizing such Building or Building Systems-performance assessment tools or optimizing practices that Landlord in its discretion reasonably deems necessary or appropriate for planning, designing, installing, testing, operating and maintaining the Building, Building Systems

and Common Areas in a sustainable, energy efficient manner and providing a safe and comfortable work environment, with a view toward achieving improved overall performance and minimizing impact on the environment.

“Major Repair” means with respect to Maintenance to be performed by Tenant, any (i) structural Maintenance, (ii) non-routine Maintenance to any Building System, (iii) roof Maintenance, or (iv) Maintenance project reasonably expected to cost more than \$10,000.

“Monthly Rent” means the monthly installment of Minimum Annual Rent plus the monthly installment of estimated Annual Operating Expenses payable by Tenant under this Lease.

“Mortgage” means any mortgage, deed of trust or other lien or encumbrance on Landlord’s interest in the Property or any portion thereof, including without limitation any ground or master lease if Landlord’s interest is or becomes a leasehold estate.

“Mortgagee” means the holder of any Mortgage, including any ground or master lessor if Landlord’s interest is or becomes a leasehold estate.

“Operating Expenses” means the following costs, fees, charges and expenses incurred or charged by Landlord in connection with the ownership, operation, maintenance and repair of, and services provided to, the Property: (i) the charges at standard retail rates for any utilities provided by Landlord pursuant to Section 7 of this Lease; (ii) the cost of insurance carried by Landlord pursuant to Section 8 of this Lease together with the cost of any deductible paid by Landlord in connection with an insured loss; (iii) Landlord’s cost to Maintain the Property (other than as provided in subsection (a) of Rider 2 of this Lease); (iv) to the extent not otherwise payable by Tenant pursuant to Section 5 of this Lease, all levies, taxes (including real estate taxes, sales taxes and gross receipt taxes), assessments, liens, license and permit fees, together with the reasonable cost of contesting any of the foregoing, which are applicable to the Term, and which are imposed by any authority or under any Law, or pursuant to any recorded covenants or agreements, upon or with respect to the Property, or any improvements thereto, or directly upon this Lease or the Rent or upon amounts payable by any subtenants or other occupants of the Premises, or against Landlord because of Landlord’s estate or interest in the Property; (v) the annual amortization (over their estimated economic useful life or payback period, whichever is shorter) of the costs (including reasonable financing charges) of improvements or replacements that would be classified as a capital expenditure under sound real estate accounting practices consistently applied; (vi) a management fee (provided, however, the management fee shall not increase by more than five percent (5%) per annum on a cumulative basis from the first calendar year during the Term); (vii) a property service fee covering employees of and vehicles utilized by Landlord providing repair, maintenance and related services to the Property, and equipment, tools and materials used in connection with and other costs related to such services, all of which shall be consistent with the service level set forth in Rider 2 of this Lease; and (viii) costs to process the certification or re-certification of the Building pursuant to any applicable environmental or energy rating/benchmarking system (such as Energy Star or LEED) including applying, reporting, and tracking costs and related reasonable consultant’s fees associated therewith to the extent required by Law. The foregoing notwithstanding, Operating Expenses will not include: (i) depreciation on the Building; (ii) financing and refinancing costs (except as provided above), interest on debt or amortization payments on any mortgage, or rental under any ground or underlying lease; (iii) leasing commissions, advertising expenses, tenant improvements or other costs directly related to the leasing of the Property; or (iv) income, excess profits or corporate capital stock tax imposed or assessed upon Landlord, unless such tax or any similar tax is levied or assessed in lieu of all or any part of any taxes includable in Operating Expenses above. Landlord shall have the right to directly perform (by itself or through an affiliate) any services provided under this Lease provided that the Landlord’s charges included in Operating Expenses for any such services shall not exceed competitive market rates for comparable services.

“Property” means the Land, the Building, the Common Areas, and all appurtenances to them.

“Rent” means the Minimum Annual Rent, Annual Operating Expenses and any other amounts payable by Tenant to Landlord under this Lease.

“Taken” or “Taking” means acquisition by a public authority having the power of eminent domain by condemnation or conveyance in lieu of condemnation.

“Tenant’s Share” means the percentage obtained by dividing the rentable square feet of the Premises by the rentable square feet of the Building, as set forth in Section 1 of this Lease.

“Transfer” means (i) any assignment, transfer, pledge or other encumbrance of all or a portion of Tenant’s interest in this Lease, (ii) any sublease, license or concession of all or a portion of Tenant’s interest in the Premises, or (iii) any transfer, directly or indirectly, of a controlling interest in Tenant, including, without limitation, by merger, consolidation or reorganization.

Rider 2 to Deed of Lease

MAINTENANCE AND REPAIR RESPONSIBILITIES

Maintenance obligations, and the responsibility for payment associated with the performance of such Maintenance, shall be allocated between Landlord and Tenant in accordance with this Rider 2, except as otherwise set forth in Section 9 of this Lease.

(a) **Landlord's Obligation to Maintain at Landlord's Expense.** Landlord shall Maintain the Building footings, foundations, structural steel columns and girders, at Landlord's sole expense, without reimbursement from Tenant; unless (i) the costs of such Maintenance would have been covered by warranty but is no longer covered by warranty due to the acts or omissions of Tenant or its Agents, provided Tenant receives a copy of such warranty from Landlord, or (ii) such Maintenance is required due to the acts or omissions of Tenant or its Agents, in which event, Tenant agrees to pay to Landlord, within ten (10) days after being billed therefor, any and all costs incurred by Landlord in performing such Maintenance.

(b) **Landlord's Obligation to Maintain at Tenant's Expense.** Landlord shall Maintain the following, the costs of which shall be included as Operating Expenses: (i) the Building roof and exterior walls (including, without limitation, exterior façade painting and caulk repair); (ii) the base Building life safety systems (including, but not limited to, fire sprinkler systems, fire pumps and fire alarm panels and devices); (iii) the main utility lines to the point of connection into the Building (e.g., main electricity and water/sewer service to the Building); (iv) any Building Systems not exclusively serving the Premises or the premises of another tenant; (v) the irrigation systems, storm water facilities and detention ponds; and (vi) the Common Areas (including, without limitation, any fencing (other than fencing exclusively serving the Premises), exterior landscaping, asphalt/concrete, snow and ice removal from sidewalks, parking areas, loading areas and driveways). In addition to the foregoing, Landlord shall, as an Operating Expense, be responsible for the following: exterior window cleaning; exterior stair systems; and sanitary lift stations.

(c) **Supplemental Service.** If Tenant requests and Landlord then furnishes any service or maintenance over and above the scope of services or maintenance required to be provided by Landlord under this Lease, then Tenant shall pay to Landlord, within ten (10) days after being billed therefor, Landlord's charge for such supplemental service or maintenance (together with a supplemental service fee of 12% thereof).

(d) **Tenant's Obligation to Maintain at Tenant's Expense.** Except as otherwise expressly provided in subsections (a) and (b) above, Tenant shall Maintain, at its sole expense, the following: (i) the Building Systems exclusively serving the Premises (including, without limitation, exterior lighting and supplemental life safety systems relating to Tenant's use of the Premises (including, but not limited to, specialty sprinkler systems and fire suppression systems)); (ii) the Premises and all fixtures and equipment in the Premises (including, without limitation, the floor/concrete slab, all interior and exterior doors and windows, all dock equipment (including dock doors, levelers, bumpers, dock shelters, ramps and dock lights) and all telephone, telecommunications, data and other communication lines); and (iii) any fencing exclusively serving the Premises. In addition to the foregoing, Tenant, at its sole cost, shall be responsible for the following: security; interior pest control; interior window cleaning; janitorial; trash and recyclables collection services (including dumpsters); elevators; office/warehouse lighting (including all bulbs and ballasts); and ceiling tiles. Major Repairs shall be subject to Landlord consent and other applicable provisions of Section 12 of this Lease. Tenant shall perform each of its Maintenance obligations (i) with a service provider and a service agreement reasonably acceptable to Landlord and, if applicable, within such scope and frequency and otherwise in accordance with any manufacturer's recommendations, warranty specifications, and Landlord reasonable requirements established from time to time, and (ii) provide Landlord with documentation evidencing the satisfactory payment and completion (or results) of any such Maintenance. Tenant shall provide Landlord with a copy of a new contract meeting such requirements on or before the tenth (10th) day prior to the expiration of the then-existing service agreement. All Maintenance by Tenant shall utilize materials and equipment which are comparable to those originally used in constructing the Building and Premises. Tenant, upon receipt and any Landlord request, shall provide Landlord with copies of all written information (including, without limitation, agreements, contracts, records, reports, certificates, invoices and receipts) relating to any Tenant Maintenance hereunder documenting the satisfactory completion (or results) of such work (or testing) throughout the Term of the Lease. Should Tenant fail to provide such written information as required, then Landlord, at its election, may utilize a third-party vendor to perform inspections with regard to Tenant's Maintenance obligations and, in such case, Tenant shall pay to Landlord, within ten (10) days after being billed therefor, the out-of-pocket costs actually incurred by Landlord to verify that Tenant is performing its Maintenance obligations in accordance with this Lease. Tenant, at its sole expense, will be solely responsible for ensuring that any Maintenance affecting the Building roof is performed in a manner that does not violate the Building's roof warranty, and Tenant shall be solely responsible for any costs or expenses that are not covered by such warranty. Notwithstanding the foregoing, if a replacement of any Building System, equipment or fixture exclusively serving the Premises, is required during the Term of this Lease, then Landlord, at its sole option, may elect to replace

such system itself, at Tenant's sole expense, in which event Tenant agrees to pay to Landlord, within ten (10) days after being billed therefor, any and all costs incurred by Landlord in performing such replacement.

(e) **Tenant's Failure to Maintain.** If Tenant fails to Maintain the Premises or Property in accordance with this Lease, then Landlord, subject to Tenant's notice and cure rights expressly provided in this Lease, shall have the rights and remedies set forth in Section 22 of this Lease; provided, however, that in the case of a condition that Landlord reasonably believes poses an imminent threat to life, safety or damage to property, Landlord may take immediate action to correct such failure, and Tenant shall pay to Landlord, within ten (10) days after being billed therefor, any and all costs incurred by Landlord in connection with such correction, together with an administrative fee of 20% of such costs.

(f) **Tenant Notice Requirement.** If Tenant becomes aware of any condition that is Landlord's responsibility to repair, Tenant shall promptly notify Landlord in writing of the condition. Moreover, regardless of which party bears responsibility for repair, Tenant shall immediately notify Landlord in writing if Tenant becomes aware of any areas of water intrusion or mold in or about the Premises.

A-1

EXHIBIT "A"

PLAN SHOWING PREMISES

B-1

EXHIBIT "B"

BUILDING RULES

1. Any sidewalks, lobbies, passages and stairways shall not be obstructed or used by Tenant for any purpose other than ingress and egress from and to the Premises. Landlord shall in all cases retain the right to control or prevent access by all persons whose presence, in the judgment of Landlord, shall be prejudicial to the safety, peace or character of the Property.
 2. The toilet rooms, toilets, urinals, sinks, faucets, plumbing or other service apparatus of any kind shall not be used for any purposes other than those for which they were installed, and no sweepings, rubbish, rags, ashes, chemicals or other refuse or injurious substances shall be placed therein or used in connection therewith or left in any lobbies, passages, elevators or stairways.
 3. Tenant shall not impair in any way the fire safety system and shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord, any governmental agency or any insurance company insuring the Building, including without limitation the insurer's Red Tag Permit System, Hot Work Permit System and all other fire protection impairment procedures. No person shall go on the roof without Landlord's prior written permission.
 4. Skylights, windows, doors and transoms shall not be covered or obstructed by Tenant, and Tenant shall not install any window covering which would affect the exterior appearance of the Building, except as approved in writing by Landlord. Tenant shall not remove, without Landlord's prior written consent, any shades, blinds or curtains in the Premises.
 5. Without Landlord's prior written consent, Tenant shall not hang, install, mount, suspend or attach anything from or to any sprinkler, plumbing, utility or other lines. If Tenant hangs, installs, mounts, suspends or attaches anything from or to any doors, windows, walls, floors or ceilings, Tenant shall spackle and sand all holes and repair any damage caused thereby or by the removal thereof at or prior to the expiration or termination of the Lease. If Tenant elects to seal the floor, Tenant shall seal the entire unfinished floor area within the Premises.
 6. Tenant shall not change any locks or place additional locks upon any doors.
 7. Tenant shall not use or keep in the Building any matter having an offensive odor or which may negatively affect the indoor air quality of the Building, or any explosive or highly flammable material; nor shall any animals other than service animals in the company of their handlers be brought into or kept in or about the Property.
 8. If Tenant desires to introduce electrical, signaling, telegraphic, telephonic, protective alarm or other wires, apparatus or devices, Landlord shall direct where and how the same are to be placed, and except as so directed, no installation boring or cutting shall be permitted. Landlord shall have the right to prevent and to cut off the transmission of excessive or dangerous current of electricity or annoyances into or through the Building or the Premises and to require the changing of wiring connections or layout at Tenant's expense, to the extent that Landlord may deem necessary, and further to require compliance with such reasonable rules as Landlord may establish relating thereto, and in the event of non-compliance with the requirements or rules, Landlord shall have the right immediately to cut wiring or to do what it considers necessary to remove the danger, annoyance or electrical interference with apparatus in any part of the Building. All wires installed by Tenant must be clearly tagged at the distributing boards and junction boxes and elsewhere where required by Landlord, with the number of the office to which said wires lead, and the purpose for which the wires respectively are used, together with the name of the concern, if any, operating same.
 9. Tenant shall not place weights anywhere beyond the safe carrying capacity of the Building.
 10. The use of rooms as sleeping quarters is strictly prohibited at all times.
 11. Tenant shall have the right, at Tenant's sole risk and responsibility, to use only Tenant's Share of the parking spaces at the Property as reasonably determined by Landlord. Tenant shall comply with all parking regulations promulgated by Landlord from time to time for the orderly use of the vehicle parking areas, including without limitation the following: Parking shall be limited to automobiles, passenger or equivalent vans, motorcycles, light four wheel pickup trucks and (in designated areas) bicycles. No vehicles shall be left in the parking lot overnight without Landlord's prior written approval. Parked vehicles shall not be used for vending or any other business or other activity while parked in the parking areas. Vehicles shall be parked only in striped parking spaces, except for loading and unloading, which shall occur solely in zones marked for such purpose, and be so conducted as to not unreasonably interfere with traffic flow within the Property or with loading and unloading areas of other tenants. Employee and tenant vehicles shall not be parked in spaces marked for visitor parking or other specific use. All vehicles entering or parking in the parking areas shall do so at owner's sole risk and Landlord assumes no responsibility for any damage, destruction, vandalism or theft. Tenant shall cooperate with Landlord in any measures implemented by Landlord to control abuse of the parking areas, including without limitation access control programs, tenant and guest vehicle identification programs, and validated parking programs, provided that no such validated parking program shall result in Tenant being charged for spaces to which it has a right to free use under its Lease. Each vehicle owner shall promptly respond to any sounding vehicle alarm or horn, and failure to do so may result in temporary or permanent exclusion of such vehicle from the parking areas. Any vehicle which violates the parking regulations may be cited, towed at the expense of the owner, temporarily or permanently excluded from the parking areas, or subject to other lawful consequence.
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12. If Landlord designates the Building as a non-smoking building, Tenant and its Agents shall not smoke in the Building or at the Building entrances and exits or in any other areas around the Building designated by Landlord as non-smoking areas.

13. If at Tenant's request, Landlord consents to Tenant having a dumpster at the Property, Tenant shall locate the dumpster in the area designated by Landlord and shall keep and maintain the dumpster clean and painted with lids and doors in good working order and, at Landlord's request, locked.

14. Tenant shall provide Landlord with a written identification of any vendors engaged by Tenant to perform services for Tenant at the Premises (examples: cleaners, security guards/monitors, trash haulers, telecommunications installers/maintenance). Tenant assumes all responsibility for protecting the Premises from theft and vandalism.

15. Tenant shall comply with any move-in/move-out rules provided by Landlord.

16. Tenant shall comply with the following additional sustainability requirements:

a. Tenant shall provide, within ten (10) days after Landlord's request from time to time, reasonably requested energy and water consumption data and related information in connection with Tenant's use of the Premises and all construction, maintenance, repairs, cleaning, trash disposal and recycling relating to the Premises performed by or on behalf of Tenant - all to be used for purposes of monitoring and improving building efficiencies.

b. Low/No VOC Paint. Tenant shall use only interior paints and coatings (including primers) meeting the environmental requirements of the current Green Seal™ Environmental Standard For Paints And Coatings - GS-11.

c. Green Cleaning Products. All cleaning products used in the Premises must be certified under the current Green Seal™ Environmental Standard for Industrial and Institutional Cleaners - GS-37.

d. Recycling. The following items must be recycled according to local capabilities, guidelines and regulations: (i) Paper; (ii) Cardboard; (iii) Plastics; (iv) Aluminum Cans/Metals; and (v) Glass.

17. Tenant shall cause all of Tenant's Agents to comply with these Building Rules.

18. Landlord reserves the right to rescind, suspend or modify any rules or regulations, either on a temporary or permanent basis, and to make such other rules and regulations as, in Landlord's reasonable judgment, may from time to time be needed for the safety, care, maintenance, operation and cleanliness of the Property. Notice of any action by Landlord referred to in this section, given to Tenant, shall have the same force and effect as if originally made a part of the foregoing Lease. New rules or regulations will not, however, be unreasonably inconsistent with the proper and rightful enjoyment of the Premises by Tenant under the Lease.

19. These Building Rules are not intended to give Tenant any rights or claims in the event that Landlord does not enforce any of them against any other tenants or if Landlord does not have the right to enforce them against any other tenants and such nonenforcement will not constitute a waiver as to Tenant.

EXHIBIT "C"

TENANT ESTOPPEL CERTIFICATE

Please refer to the documents described in Schedule 1 hereto, (the "Lease Documents") including the "Lease" therein described; all defined terms in this Certificate shall have the same meanings as set forth in the Lease unless otherwise expressly set forth herein. The undersigned Tenant hereby certifies that it is the tenant under the Lease. Tenant hereby further acknowledges that it has been advised that the Lease may be collaterally assigned in connection with a proposed financing secured by the Property and/or may be assigned in connection with a sale of the Property and certifies both to Landlord and to any and all prospective mortgagees and purchasers of the Property, including any trustee on behalf of any holders of notes or other similar instruments, any holders from time to time of such notes or other instruments, and their respective successors and assigns (the "Beneficiaries") that as of the date hereof:

20. The information set forth in attached Schedule 1 is true and correct.

21. Tenant is in occupancy of the Premises and the Lease is in full force and effect, and, except by such writings as are identified on Schedule 1, has not been modified, assigned, supplemented or amended since its original execution, nor are there any other agreements between Landlord and Tenant concerning the Premises, whether oral or written.

22. All conditions and agreements under the Lease to be satisfied or performed by Landlord have been satisfied and performed.

23. Tenant is not in default under the Lease Documents, Tenant has not received any notice of default under the Lease Documents, and, to Tenant's knowledge, there are no events which have occurred that, with the giving of notice and/or the passage of time, would result in a default by Tenant under the Lease Documents.

24. Tenant has not paid any Rent due under the Lease more than thirty (30) days in advance of the date due under the Lease and Tenant has no rights of setoff, counterclaim, concession or other rights of diminution of any Rent due and payable under the Lease except as set forth in Schedule 1.

25. To Tenant's knowledge, there are no uncured defaults on the part of Landlord under the Lease Documents, Tenant has not sent any notice of default under the Lease Documents to Landlord, and there are no events which have occurred that, with the giving of notice and/or the passage of time, would result in a default by Landlord thereunder, and that at the present time Tenant has no claim against Landlord under the Lease Documents.

26. Except as expressly set forth in Part G of Schedule 1, there are no provisions for any, and Tenant has no, options with respect to the Premises or all or any portion of the Property.

27. No action, voluntary or involuntary, is pending against Tenant under federal or state bankruptcy or insolvency law.

28. The undersigned has the authority to execute and deliver this Certificate on behalf of Tenant and acknowledges that all Beneficiaries will rely upon this Certificate in purchasing the Property or extending credit to Landlord or its successors in interest.

29. This Certificate shall be binding upon the successors, assigns and representatives of Tenant and any party claiming through or under Tenant and shall inure to the benefit of all Beneficiaries.

IN WITNESS WHEREOF, Tenant has executed this Certificate this ____ day of _____, 2____.

Name of Tenant

By:

Title:

SCHEDULE 1 TO TENANT ESTOPPEL CERTIFICATE

Lease Documents, Lease Terms and Current Status

- A. Date of Lease:
 - B. Parties:
 - 1. Landlord:
 - 2. Tenant:
 - C. Premises:
 - D. Modifications, Assignments, Supplements or Amendments to Lease:

 - E. Commencement Date:
 - F. Expiration of Current Term:
 - G. Option Rights:
 - H. Security Deposit Paid to Landlord: \$
 - I. Current Minimum Annual Rent: \$
 - J. Current Annual Operating Expenses: \$
 - K. Current Total Rent: \$
 - L. Square Feet Demised:
-

EXHIBIT "D"

Liberty Property Limited Partnership ("Liberty") is pleased to offer you the ability to make your rent payment without the hassle of writing a check , the expense of mailing it overnight, or sending a wire transfer. We are now offering an Automatic Payment Plan and would like you to take advantage of this service.

To take advantage of this convenient plan, complete this authorization form , and return the form to us.

Authorization Agreement for Automatic Payments (ACH Debits)

I authorize Liberty Property Limited Partnership and the bank named below to initiate automatic debits to the bank account noted below in the full amounts due on my account on the first day of each month during the term of my lease agreement (which amounts shall include, but are not limited to, regularly scheduled monthly amounts owed and all other amounts due, if any). This authorization will remain in effect until I notify Liberty and the bank in writing to cancel this agreement in such time as to afford the parties a reasonable opportunity to terminate this agreement. I can stop payment of any entry by notifying Liberty and the bank three days before my account is charged. I understand that Liberty's liability shall be limited to its exercise of ordinary care in initiating debit entries. Rejected ACH Debits may be subject to an insufficient funds charge and other applicable late fees as per my lease agreement.

Name and Address of Your Financial Institution

Signature Printed Name Date

Name of Tenant

Tenant Billing Address

Billing Contact Person Email or Fax Number Phone Number

Checking Account Number OR Savings Account Number AND Bank Routing Number

The bank will automatically deduct the payment due from my account on the due date of the payment or the business day thereafter . You will receive an email or fax notification of the payment before it occurs.

Return this form to:
Liberty Property Limited Partnership
Attn: AR Department
500 Chesterfield Parkway Malvern, PA 19355
accountsreceivable@libertyproperty.com

Attach a voided Check to Ensure Proper Set Up

Automatic Payment cannot be set up without a voided check or , for savings accounts only , deposit slip is required. Completed forms received by the 10th of the month will take effect the 1st of the following month and you will be notified before the first payment is taken.

Accounting Use Only: form creation 5/24/12

Notified PM last modified 8/12/14

<https://portal.lptoffice.com/Documentation/Accounting/FormsInfo/default.aspx>

SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction	DBA
PartsBin, Inc.	Delaware	
Power Host, Inc. (1)	Ontario, Canada	
U.S. Auto Parts Network (Philippines) Corporation	Philippines	
Lobo Marketing, Inc.	Texas	
Go Fido, Inc.	Delaware	
Private Label Parts, Inc.	Delaware	Kool-Vue
Pacific 3PL, Inc.	Delaware	
AutoMD, Inc. (2)	Delaware	
Local Body Shops, Inc.	Delaware	Perfect Fit
Automotive Specialty Accessories and Parts, Inc. (3)	Delaware	
Whitney Automotive Group, Inc. (4)	Delaware	

(1) Subsidiary of PartsBin, Inc.

(2) Registrant owns 64.1% of AutoMD, Inc. The remaining ownership interest is held by third-parties.

(3) Subsidiary of Go Fido, Inc.

(4) Subsidiary of Automotive Specialty Accessories and Parts, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-143179, 333-149973, 333-158224, 333-165493, 333-173851 and 333-204096 on Form S-8 and Registration Statement Nos. 333-163811, 333-188492 and 333-197903 on Form S-3 of U.S. Auto Parts Network, Inc. of our report dated March 10, 2016 relating to our audit of the consolidated financial statements, which appears in this Annual Report on Form 10-K of U.S. Auto Parts Network, Inc. for the fiscal year ended January 2, 2016.

/s/ RSM US LLP

Los Angeles, CA
March 10, 2016

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-143179, 333-149973, 333-158224, 333-165493, 333-173851 and 333-204096 on Form S-8 and Registration Statement Nos. 333-163811, 333-188492 and 333-197903 on Form S-3 of our report dated March 19, 2015 (March 10, 2016, as to the disclosure of the approximate distribution of Base USAP online revenue by product type for fiscal years 2014 and 2013 included in Note 15 - Segment Information), relating to the consolidated financial statements of U.S. Auto Parts Network, Inc. for the fiscal years ended January 3, 2015, and December 28, 2013, appearing in this Annual Report on Form 10-K of U.S. Auto Parts Network, Inc. for the fiscal year ended January 2, 2016.

/s/ Deloitte & Touche LLP

Los Angeles, CA
March 10, 2016

**CERTIFICATION PURSUANT TO EXCHANGE ACT
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Shane Evangelist, certify that:

1. I have reviewed this annual report on Form 10-K of U.S. Auto Parts Network, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2016

/s/ SHANE EVANGELIST

Shane Evangelist
Chief Executive Officer
(principal executive officer)

**CERTIFICATION PURSUANT TO EXCHANGE ACT
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Neil Watanabe, certify that:

1. I have reviewed this annual report on Form 10-K of U.S. Auto Parts Network, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2016

/s/ NEIL WATANABE

Neil Watanabe
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 Annual Report of U.S. Auto Parts Network, Inc. (the “Company”) on Form 10-K for the fiscal year ended January 2, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shane Evangelist, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2016

/s/ SHANE EVANGELIST

Shane Evangelist

Chief Executive 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 Annual Report of U.S. Auto Parts Network, Inc. (the “Company”) on Form 10-K for the fiscal year ended January 2, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Neil Watanabe, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2016

/s/ NEIL WATANABE

Neil Watanabe

Chief Financial Officer