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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2020

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



CARPARTS.COM, 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.)

2050 W. 190th Street, Suite 400, Torrance, CA 90504

(Address of Principal Executive Office) (Zip Code)

(424) 702-1455

(Registrant's telephone number, including area code)

U.S. Auto Parts Network, Inc.

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

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

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

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 6, 2020, the registrant had 42,420,566 shares of common stock outstanding, \$0.001 par value.

CARPARTS.COM, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED JUNE 27, 2020

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Unless the context requires otherwise, as used in this report, the terms "CarParts.com," the "Company," "we," "us" and "our" refer to CarParts.com, Inc. and its subsidiaries. Unless otherwise stated, all amounts are presented in thousands.

Carparts.com®, Kool-Vue®, JC Whitney® and Evan Fischer®, 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 II, Item 1A of this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report and the documents that we reference in this report and have filed as exhibits to the report completely and with the understanding that our actual future results may be materially different from what we expect. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CARPARTS.COM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited, In Thousands, Except Par Value and Per Share Liquidation Value)

	June 27, 2020	December 28, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,860	\$ 2,273
Accounts receivable, net	5,278	2,669
Inventory	65,383	52,500
Other current assets	6,552	4,931
Total current assets	102,073	62,373
Property and equipment, net	10,809	9,650
Right-of-use - assets - operating leases, net	13,238	4,544
Right-of-use - assets - financing leases, net	8,808	9,011
Other non-current assets	1,985	2,368
Total assets	\$ 136,913	\$ 87,946
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 68,953	\$ 44,433
Accrued expenses	17,049	9,519
Customer deposits	759	652
Notes payable, current	—	729
Right-of-use - obligation - operating, current	1,857	1,368
Right-of-use - obligation - finance, current	670	640
Other current liabilities	4,169	2,605
Total current liabilities	93,457	59,946
Notes payable, non-current	—	1,060
Right-of-use - obligation - operating, non-current	11,725	3,419
Right-of-use - obligation - finance, non-current	8,667	8,627
Other non-current liabilities	2,688	2,514
Total liabilities	116,537	75,566
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; 0 and 2,771 shares issued and outstanding at June 27, 2020 and December 28, 2019	0	3
Common stock, \$0.001 par value; 100,000 shares authorized; 42,411 and 36,167 shares issued and outstanding at June 27, 2020 and December 28, 2019 (of which 2,525 are treasury stock)	45	38
Treasury stock	(7,146)	(7,146)
Additional paid-in capital	194,693	187,147
Accumulated other comprehensive income	142	214
Accumulated deficit	(167,358)	(167,876)
Total stockholders' equity	20,376	12,380
Total liabilities and stockholders' equity	\$ 136,913	\$ 87,946

See accompanying notes to consolidated financial statements (unaudited).

CARPARTS.COM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE OPERATIONS

(Unaudited, in Thousands, Except Per Share Data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net sales	\$ 118,930	\$ 73,687	\$ 206,748	\$ 148,425
Cost of sales ⁽¹⁾	78,101	51,924	136,140	106,533
Gross profit	40,829	21,763	70,608	41,892
Operating expense	38,653	22,968	68,785	46,543
Income (loss) from operations	2,176	(1,205)	1,823	(4,651)
Other income (expense):				
Other, net	3	46	74	43
Interest expense	(493)	(484)	(1,153)	(895)
Total other expense, net	(490)	(438)	(1,079)	(852)
Income (loss) before income taxes	1,686	(1,643)	744	(5,503)
Income tax provision (benefit)	118	(186)	154	(465)
Net income (loss)	1,568	(1,457)	590	(5,038)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(29)	(28)	(35)	(33)
Unrealized gain (loss) on deferred compensation trust assets	58	—	(37)	—
Total other comprehensive income (loss)	29	(28)	(72)	(33)
Comprehensive income (loss)	<u>\$ 1,597</u>	<u>\$ (1,485)</u>	<u>\$ 518</u>	<u>\$ (5,071)</u>
Net income (loss) per share:				
Basic net income (loss) per share	\$ 0.04	\$ (0.04)	\$ 0.01	\$ (0.14)
Diluted net income (loss) per share	\$ 0.03	\$ (0.04)	\$ 0.01	\$ (0.14)
Weighted-average common shares outstanding:				
Shares used in computation of basis net income (loss) per share	39,386	35,632	38,124	35,506
Shares used in computation of diluted net income (loss) per share	47,329	35,632	42,058	35,506

(1) Excludes depreciation and amortization expense which is included in operating expense.

See accompanying notes to consolidated financial statements (unaudited).

CARPARTS.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, In Thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as originally reported at December 29, 2018	2,771	\$ 3	34,992	\$ 38	\$ 183,139	\$ (7,146)	\$ 579	\$ (137,791)	\$ 38,822
Effect of new accounting adoption	—	—	—	—	—	—	—	1,623	1,623
Balance as currently reported at December 29, 2018	2,771	3	34,992	38	183,139	(7,146)	579	(136,168)	40,445
Net loss	—	—	—	—	—	—	—	(3,581)	(3,581)
Issuance of shares in connection with restricted stock units vesting	—	—	437	—	(288)	—	—	—	(288)
Issuance of shares in connection with BOD fees	—	—	4	—	4	—	—	—	4
Share-based compensation	—	—	—	—	554	—	—	—	554
Common stock dividend on preferred stock	—	—	—	—	—	—	—	(39)	(39)
Effect of changes in foreign currencies	—	—	—	—	—	—	(5)	—	(5)
Balance, March 30, 2019	2,771	3	35,433	38	183,409	(7,146)	574	(139,788)	37,090
Net Loss	—	—	—	—	—	—	—	(1,457)	(1,457)
Issuance of shares in connection with restricted stock units vesting	—	—	348	—	(2)	—	—	—	(2)
Issuance of shares in connection with BOD fees	—	—	3	—	5	—	—	—	5
Share-based compensation	—	—	—	—	625	—	—	—	625
Common stock dividend on preferred stock	—	—	—	—	40	—	—	(41)	(1)
Effect of changes in foreign currencies	—	—	—	—	—	—	(33)	—	(33)
Balance, June 29, 2019	2,771	3	35,784	38	184,077	(7,146)	541	(141,286)	36,227
Balance, December 28, 2019	2,771	3	36,167	38	187,147	(7,146)	214	(167,876)	12,380
Net loss	—	—	—	—	—	—	—	(978)	(978)
Issuance of shares in connection with stock option exercise	—	—	523	1	1,119	—	—	—	1,120
Issuance of shares in connection with restricted stock units vesting	—	—	1,809	2	(86)	—	—	—	(84)
Issuance of shares in connection with BOD fees	—	—	3	—	6	—	—	—	6
Share-based compensation	—	—	—	—	2,819	—	—	—	2,819
Common stock dividend on preferred stock	—	—	20	—	38	—	—	(39)	(1)
Conversion of preferred stock	(150)	—	150	—	—	—	—	—	—
Unrealized loss on deferred compensation trust assets	—	—	—	—	—	—	(95)	—	(95)
Effect of changes in foreign currencies	—	—	—	—	—	—	(6)	—	(6)
Balance, March 28, 2020	2,621	3	38,672	41	191,043	(7,146)	113	(168,893)	15,161
Net income	—	—	—	—	—	—	—	1,568	1,568
Issuance of shares in connection with stock option exercise	—	—	907	1	1,772	—	—	—	1,773
Issuance of shares in connection with restricted stock units vesting	—	—	183	—	(2)	—	—	—	(2)
Issuance of shares in connection with BOD fees	—	—	3	—	6	—	—	—	6
Share-based compensation	—	—	—	—	1,874	—	—	—	1,874
Dividend on preferred stock	—	—	25	—	—	—	—	(33)	(33)
Conversion of preferred stock	(2,621)	(3)	2,621	3	—	—	—	—	—
Unrealized loss on deferred compensation trust assets	—	—	—	—	—	—	58	—	58
Effect of changes in foreign currencies	—	—	—	—	—	—	(29)	—	(29)
Balance, June 27, 2020	—	\$ —	42,411	\$ 45	\$ 194,693	\$ (7,146)	\$ 142	\$ (167,358)	\$ 20,376

See accompanying notes to consolidated financial statements (unaudited).

CARPARTS.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, In Thousands)

	Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019
Operating activities		
Net income (loss)	\$ 590	\$ (5,038)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	3,532	3,040
Amortization of intangible assets	50	50
Deferred income taxes	—	(559)
Share-based compensation expense	4,385	1,163
Stock awards issued for non-employee director service	12	7
Loss from disposition of assets	1	—
Amortization of deferred financing costs	9	2
Changes in operating assets and liabilities:		
Accounts receivable	(2,609)	(313)
Inventory	(12,883)	(2,926)
Other current assets	(1,597)	(1,517)
Other non-current assets	(296)	24
Accounts payable and accrued expenses	32,055	8,473
Other current liabilities	1,671	345
Right-of-Use Obligation - Operating Leases - Current	483	1,595
Right-of-Use Obligation - Operating Leases - Long-term	(383)	(1,530)
Other non-current liabilities	148	134
Net cash provided by operating activities	<u>25,168</u>	<u>2,950</u>
Investing activities		
Additions to property and equipment	(3,840)	(3,431)
Net cash used in investing activities	<u>(3,840)</u>	<u>(3,431)</u>
Financing activities		
Borrowings from revolving loan payable	1,273	7,641
Payments made on revolving loan payable	(1,273)	(7,641)
Proceeds from notes payable	4,107	—
Payment of notes payable	(5,333)	—
Payments on finance leases	(315)	(299)
Statutory tax withholding payment for share-based compensation	(85)	(289)
Proceeds from exercise of stock options	2,893	—
Preferred stock dividends paid	—	(80)
Net cash provided by (used in) financing activities	<u>1,267</u>	<u>(668)</u>
Effect of exchange rate changes on cash	(8)	1
Net change in cash and cash equivalents	22,587	(1,148)
Cash and cash equivalents, beginning of period	2,273	2,031
Cash and cash equivalents, end of period	<u>\$ 24,860</u>	<u>\$ 883</u>
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use operating asset acquired	\$ 9,065	\$ —
Right-of-use financed asset acquired	\$ 385	\$ —
Accrued asset purchases	\$ 665	\$ 825
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	\$ 90	\$ 43
Cash paid during the period for interest	\$ 1,125	\$ 834

See accompanying notes to consolidated financial statements (unaudited).

CARPARTS.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(In Thousands, Except Per Share Data)

Note 1 – Basis of Presentation and Description of Company

CarParts.com, Inc. (including its subsidiaries) is a leading online provider of aftermarket auto parts and accessories. The Company sells its products to individual consumers through its flagship website located at www.carparts.com, online marketplaces and offline to wholesale distributors. Our corporate website is also located at www.carparts.com/investor. References to the “Company,” “we,” “us,” or “our” refer to CarParts.com, Inc. and its consolidated subsidiaries.

On July 23, 2020, the Company’s Board of Directors approved an amendment to change the name of the Company from U.S. Auto Parts Network, Inc. to CarParts.com, Inc. and subsequently adopted Amendment No. 2 to the Company’s Bylaws. On July 27, 2020, the Company filed a Certificate of Amendment to the Certificate of Incorporation reflecting the change of the Company’s name to CarParts.com, Inc.

The Company’s products consist of collision parts serving the body repair market, engine parts to serve the replacement parts market, 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 including our private label brand of catalytic converters called Evan Fischer®. 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 also 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 Torrance, California. The Company has employees located in both the United States and the Philippines.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to U.S. Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company as of June 27, 2020 and the consolidated results of operations and cash flows for the thirteen and twenty-six weeks ended June 27, 2020 and June 29, 2019. The Company’s results for the interim periods are not necessarily indicative of the results that may be expected for any other interim period, or for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 28, 2019, which was filed with the SEC on March 10, 2020 and all our other periodic filings, including Current Reports on Form 8-K, filed with the SEC after the end of our 2019 fiscal year, and throughout the date of this report.

During the thirteen and twenty-six weeks ended June 27, 2020, the Company incurred net income of \$1,568 and \$590, respectively, compared to a net loss of \$1,457 and \$5,038 during the thirteen and twenty-six weeks ended June 29, 2019, respectively. 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.

Prior period operating expense amounts have been classified to conform to the current period presentation of operating expense in the consolidated results of operations.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-15, “*Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40)*” (“ASU 2018-15”). The objective of this update is to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company adopted the standard on December 29, 2019 and the adoption did not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and other subsequent amendments including ASU 2019-04 Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, collectively referred to as (“ASC 326”), which provides a new impairment model that require measurement and recognition of expected credit losses for most financial assets and certain other instruments, including but not limited to accounts receivable, contract assets, available for sale securities and certain financial guarantees. The Company adopted the standard on December 29, 2019 and the adoption did not have a material impact on the consolidated financial statements.

Recently Early Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*. The update is intended to simplify the current rules regarding the accounting for income taxes and addresses several technical topics including accounting for franchise taxes, allocating income taxes between a loss in continuing operations and in other categories such as discontinued operations, reporting income taxes for legal entities that are not subject to income taxes, and interim accounting for enacted changes in tax laws. The new standard is effective for fiscal years beginning after December 15, 2020; however, early adoption is permitted. The Company early adopted the standard on December 29, 2019 and the adoption did not have a material impact on the consolidated financial statements.

Note 2 – Borrowings

The Company maintains an asset-based revolving credit facility (“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. As of June 27, 2020, our outstanding revolving loan balance was \$0. The outstanding letters of credit balance as of June 27, 2020 was \$13,609, of which \$11,900 was utilized and included in accounts payable in our consolidated balance sheet.

Loans drawn under the Credit Facility bear interest, at the Company’s option, at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.25% to 1.75% per annum based on the Company’s fixed charge coverage ratio, or (b) an “alternate prime base rate” subject to an increase or reduction by up to 0.25% per annum based on the Company’s fixed charge coverage ratio. As of June 27, 2020, the Company’s LIBOR based interest rate was 1.94% (on \$0 principal) and the Company’s prime based rate was 3.50% (on \$0 principal). A commitment fee, based upon undrawn availability under the Credit Facility bearing interest at a rate of 0.25% per annum, is payable monthly. Under the terms of the credit agreement with JPMorgan Chase Bank (the “Credit 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 three consecutive business days and will continue until, during the preceding 45 consecutive days, no event of default existed and excess availability has been greater than \$3,600 at all times (with such trigger subject to adjustment based on the Company’s revolving commitment). In addition, in the event that “excess availability,” as defined under the Credit Agreement, is less than \$3,000, 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 \$11,452 as of June 27, 2020. As of the date hereof, the cash dominion period has not been in effect; accordingly, no principal payments are due. 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. The Credit Facility matures on December 16, 2022.

Note 3 – Stockholders' Equity and Share-Based Compensation

Options and Restricted Stock Units

The Company had the following common stock option activity during the twenty-six weeks ended June 27, 2020:

- Granted options to purchase 2,536 common shares.
- Exercise of 1,430 options to purchase common shares.
- Forfeiture of 21 options to purchase common shares.
- Expiration of 740 options to purchase common shares.

The following table summarizes the Company's restricted stock unit ("RSU") activity for the twenty-six weeks ended June 27, 2020, and details regarding the awards outstanding and exercisable at June 27, 2020 (in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Vested and expected to vest at December 28, 2019	1,654	\$ —		
Awarded	3,436	\$ —		
Vested	(2,029)	\$ —		
Forfeited	(8)	\$ —		
Awards outstanding, June 27, 2020	3,053	\$ —	1.33	\$ 26,382
Vested and expected to vest at June 27, 2020	3,053	\$ —	1.33	\$ 26,382

During the twenty-six weeks ended June 27, 2020, 210 RSUs that vested were time-based and 1,762 were performance-based. In addition, 56 shares were released to a departing employee and 6 shares were issued as partial payment for director's fee as elected by a current Board member. For the RSUs awarded, the number of shares issued on the date of vest is 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 the twenty-six weeks ended June 27, 2020, we withheld 37 shares to satisfy \$883 of employees' tax obligations. Although shares withheld are not issued, they are treated as a common stock repurchase in our consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting.

For the thirteen and twenty-six weeks ended June 27, 2020, we recorded compensation costs related to stock options and RSUs of \$1,874 and \$4,693, respectively. For the thirteen and twenty-six weeks ended June 29, 2019, we recorded compensation costs related to stock options and RSUs of \$625 and \$1,180, respectively. As of June 27, 2020, there was unrecognized compensation expense related to stock options and RSUs of \$10,190 that will be expensed through June 2024.

Note 4 – Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net income (loss) per share:				
Numerator:				
Net income (loss)	\$ 1,568	\$ (1,457)	590	(5,038)
Dividends on Series A Convertible Preferred Stock	33	40	71	80
Net income (loss) allocable to common shares	<u>\$ 1,535</u>	<u>\$ (1,497)</u>	<u>\$ 519</u>	<u>\$ (5,118)</u>
Denominator:				
Weighted-average common shares outstanding (basic)	39,386	35,632	38,124	35,506
Common equivalent shares from common stock options, restricted stock and preferred stock	7,943	—	3,934	—
Weighted-average common shares outstanding (diluted)	<u>47,329</u>	<u>35,632</u>	<u>42,058</u>	<u>35,506</u>
Basic net income (loss) per share	\$ 0.04	\$ (0.04)	\$ 0.01	\$ (0.14)
Diluted net income (loss) per share	\$ 0.03	\$ (0.04)	\$ 0.01	\$ (0.14)

The anti-dilutive securities, which are excluded from the calculation of diluted earnings per share due to their anti-dilutive effect are as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Performance stock units	—	651	—	332
Restricted stock units	3	248	2	289
Series A Convertible Preferred Stock (a)	—	2,771	2,551	2,771
Options to purchase common stock	236	7,238	619	6,774
Total	<u>239</u>	<u>10,908</u>	<u>3,172</u>	<u>10,166</u>

- (a) On June 19, 2020, each outstanding share of the Series A Convertible Preferred Stock (“Preferred Stock”) automatically converted to one share of the Company’s common stock. This automatic conversion was required pursuant to Section 4 of the Preferred Stock purchase agreement (dated March 25, 2013) because the volume weighted average price for the common stock price was equal to, or exceeded, \$4.35 for 30 consecutive trading days. The Company issued an aggregate of 2,620,687 shares of common stock in connection with the automatic conversion.

Note 5 – Income Taxes

The Company is subject to U.S. federal income tax as well as income tax of foreign and state tax jurisdictions. The tax years 2015-2019 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 2016-2019 remain open.

For the thirteen and twenty-six weeks ended June 27, 2020, the effective tax rate for the Company’s operations was 7.0% and 20.7%, respectively. The effective tax rate differed from the U.S. federal statutory rate primarily due to state income taxes, income of our Philippines subsidiary that is subject to different effective tax rates, share-based compensation that is either not deductible for tax purposes or for which the tax deductible amount is different than the financial reporting amount, and a change in the valuation allowance that offset the tax on the current period pre-tax income.

For the thirteen and twenty-six weeks ended June 29, 2019, the effective tax rate for the Company’s operations was 11.3% and 8.4%, respectively. The effective tax rate differed from the U.S. federal statutory rate primarily due to state income taxes, income of our Philippines subsidiary that is subject to different effective tax rates, and share-based compensation that is either non-deductible for tax purposes or for which the tax deductible amount is different than the financial reporting amount.

The Company accounts for income taxes in accordance with ASC Topic 740 - Income Taxes ("ASC 740"). Under the provisions of ASC 740, management is required to evaluate whether a valuation allowance should be established against its deferred tax assets. We currently have a full valuation allowance against our deferred tax assets. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. For the twenty-six weeks ended June 27, 2020, there was no material change from fiscal year ended 2019 in the amount of the Company's deferred tax assets that are not more likely than not to be realized in future years.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act contains numerous income tax provisions, such as relaxing limitations on the deductibility of interest and the use of net operating losses arising in taxable years beginning after December 31, 2017. Due to the existence of previously incurred losses, the NOL carryback provisions of the CARES Act did not result in a cash benefit to the Company, however, we do anticipate increased interest expense deductions for tax purposes in 2020 and 2021 as a result of the relaxation of the limitations on the deductibility of interest.

Note 6 – Commitments and Contingencies

Leases

During March and April 2020, the Company entered into new lease agreements for office space for its Philippines subsidiary and Torrance headquarters, respectively.

Philippines office lease: The lease commenced on March 15, 2020 with a ten-year lease term set to expire in March of 2030. The Company is obligated to pay approximately \$500 in annual base rent, which shall increase by 5% each year beginning on the second year of the lease term and then increase by 4% each year beginning on the sixth year of the lease term. In accordance with ASU 842 – *Leases* ("ASC 842"), the Company recorded \$5,325 in Right-of-use assets – operating, non-current, and \$4,981 in Right-of-use obligation – operating, non-current, with \$344 recorded in Right-of-use obligation – operating, current, on the consolidated balance sheet at the commencement of the lease.

Torrance headquarters office lease: The lease commenced on April 13, 2020 with a seventy-month lease term set to expire in March of 2026. The Company is obligated to pay approximately \$73 in monthly base rent (free rent for five months in the first two years), which shall increase by 3% each year beginning on the second-year anniversary of the lease term. In accordance with ASU 842 – *Leases* ("ASC 842"), the Company recorded \$4,338 in Right-of-use assets – operating, non-current, and \$3,916 in Right-of-use obligation – operating, non-current, with \$422 recorded in Right-of-use obligation – operating, current, on the consolidated balance sheet at the commencement of the lease.

Legal Matters

Asbestos. A wholly-owned subsidiary of the Company, Automotive Specialty Accessories and Parts, Inc. and its wholly-owned subsidiary Whitney Automotive Group, Inc. ("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.

Customs Issues. On April 2, 2018, the Company filed a complaint against the United States of America, the United States Department of Homeland Security ("DHS"), in the United States Court of International Trade (the "Court") (Case No. 1:18-cv-00068) seeking (i) relief from a single entry bonding requirement set by the United States Customs and Border Protection ("CBP"), at a level equivalent to three times the commercial invoice value of each shipment (the "Bonding Requirement"), (ii) a declaration that the Bonding Requirement is unlawful, (iii) an injunction prohibiting additional delayed entry for all of the Company's currently-held goods being denied entry into the United States. The genesis for the action is CBP's wrongful seizure of aftermarket vehicle grilles and associated parts being imported by the Company ("Repair Grilles") on the basis that the Repair Grilles allegedly bear counterfeit trademarks of the original automobile manufacturers (i.e., original-equipment manufacturers, or "OEMs"). Generally, these trademarks, as applied against the Company, purport to cover the shape of the grilles themselves, or the OEM's logo or name. However, the Repair Grilles are not counterfeit and do not cause a likelihood of confusion amongst purchasers or

the relevant consuming public which are prerequisites for seizures under the pertinent provision of the Tariff Act being relied upon by CBP to seize the Repair Grilles.

On May 25, 2018, the Court granted the Company's motion for preliminary injunction and ordered, among other things, that the Defendants are restrained from enforcing the 3X Bonding Requirement. On July 24, 2019, the Company further reached confidential terms with CBP to settle these matters. As part of the settlement: (i) Customs will release to the Company certain inventory mistakenly seized, (ii) the Company and CBP enter into mutual releases, and (iii) without admitting liability, the Company will forfeit to CBP certain goods which CBP deems to be violative. All outstanding CBP enforcement issues are resolved, and the Company has no outstanding damage or duty claims from CBP.

Ordinary course litigation. 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 7 – Product Information

As described in Note 1 above, the Company's products consist of collision parts serving the body repair market, engine parts to serve the replacement parts market, and performance parts and accessories. The following table summarizes the approximate distribution of the Company's revenue by product type.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Private Label				
Collision	68 %	60 %	70 %	58 %
Engine	19 %	19 %	19 %	19 %
Performance	1 %	1 %	1 %	1 %
Branded				
Collision	1 %	1 %	1 %	1 %
Engine	6 %	10 %	5 %	11 %
Performance	5 %	9 %	4 %	10 %
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Note 8 – Subsequent Events

In July 2020, the Company signed the First Amendment to the Las Vegas, Nevada distribution center lease agreement (originally dated April 25, 2019). Pursuant to the amendment, among other changes, the Company is increasing the rentable square footage by approximately 68,000 square feet and the monthly base rent will increase by approximately \$32 effective on September 1, 2020.

Also in July 2020, the Company entered into a thirty-eight month lease for approximately 6,000 square feet of space for quality control testing of products in Torrance, California. The monthly base rent is expected to be \$6 in the first year with a commencement date of August 1, 2020.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (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 I, Item 1 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 II, 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. We sell our products to individual consumers through www.carparts.com, online marketplaces and offline to wholesale distributors. Our user friendly and flagship website, www.carparts.com, provides 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. Our corporate website is located at www.carparts.com/investor. The inclusion of our website addresses in this report does not include or incorporate by reference into this report any information on our websites.

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 approximately 830,000 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. light vehicles, an indicator of auto parts demand, remained near record-highs at 11.8 years during 2019, according to the U.S. Auto Care Association. In addition, IHS, a market analytics firm, found that the total number of light vehicles in operation in the U.S. has increased to record levels, and should continue to rise through 2020. 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.* The U.S. Auto Care Association estimated that overall revenue from online sales of auto parts and accessories would reach almost \$20 billion by 2022. 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.

Impact of COVID-19

The challenges posed by the COVID-19 pandemic on the United States and global economy increased significantly in March and some challenges continued through the second quarter of 2020. Since the onset of the pandemic, our top priority remains the health and safety of our employees as most have continued to work from home, in addition to ensuring our customers continue receiving our high-quality, personalized service. Our distribution centers had no significant disruptions and remain operational while our safety protocols direct employees onsite to continue to adhere to, and follow, the COVID-19 safety guidelines recommended from the Centers for Disease Control and Prevention (“CDC”).

COVID-19 had only minimal disruptions on our business as sales for the twenty-six weeks ended June 27, 2020 were unfavorably impacted primarily in mid to late March during the initial stages of COVID-19 stay-at-home orders. However, the ultimate extent of the effects from the COVID-19 pandemic on the Company, our financial condition, results of operations, liquidity, and cash flows will be dependent on evolving developments which are uncertain and cannot be predicted at this time. See the “*Risk Factors*” section set forth in *Part II, Item 1A* for further discussion of risks related to COVID-19.

Cybersecurity Matters

On June 28, 2020, we detected a ransomware attack on our network that disrupted access to some of our systems. We immediately took steps to isolate the affected systems and contain the disruption to our information technology infrastructure, including taking some systems offline as a precautionary measure. Our internal IT team subsequently restored and recovered the affected IT systems to full functionality. We engaged third party consultants and law enforcement to investigate the incident, and we internally have found no evidence that sensitive customer data was compromised or stolen from the IT systems, although our investigation is continuing. We believe there has not been any, current or expected future, material impact to our business, results of operations or financial condition because of this ransomware attack. In order to mitigate the likelihood of similar future events, we have implemented enhanced security features and monitoring procedures.

Executive Summary

For the second quarter of 2020, the Company’s operations generated net sales of \$118,930, compared with \$73,687 for the second quarter of 2019, representing an increase of 61.4%. Our operations incurred net income of \$1,568 for the second quarter of 2020 compared to a net loss of \$1,457 for the second quarter of 2019. Our operations generated a net income (loss) before interest expense, net, income tax provision (benefit), depreciation and amortization expense, amortization of intangible assets, plus share-based compensation expense, and in 2019, costs related to our customs issues and employee transition costs (“Adjusted EBITDA”) of \$5,557 in the second quarter of 2020 compared to \$1,425 in the second quarter of 2019. Adjusted EBITDA, which is not a Generally Accepted Accounting Principle (“GAAP”) measure. See the section below titled “*Non-GAAP measures*” for information regarding our use of Adjusted EBITDA and a reconciliation from net income (loss).

Net sales increased in second quarter of 2020 compared to the second quarter of 2019 primarily due to an increase in our online sales offset slightly by a decrease in our offline sales. Our online sales, which include our e-commerce and online marketplace sales channels, contributed 94.7% of total net sales and our offline sales, which consist of our Kool-Vue® and wholesale operations, contributed 5.3% of total net sales. Our online sales increased by \$45,912, or 68.8%, to \$112,623 compared to the same period last year due to an increase in e-commerce sales, primarily driven by our sales growth from our flagship website, CarParts.com. Our offline sales decreased by \$669, or 9.6%, to \$6,307 compared to the same period last year primarily due to a decrease in sales from our wholesale operations. Gross profit increased by 87.6% to \$40,829. The increase in gross profit was primarily due to improved product mix, as well as supply chain optimizations.

Total expenses, which primarily consisted of cost of sales and operating expense, increased in the second quarter of 2020 compared to the same period in 2019. The changes in both cost of sales and operating expense are described in further detail under — “*Results of Operations*” below.

We continue to pursue the following strategies in order to improve our operating performance:

- We have returned to positive e-commerce growth by continuing to focus on making the auto parts purchasing process as easy and seamless as possible. We plan to continue to provide unique catalog content and provide better content on our websites with the goal of improving our ranking on the search results.
- 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; (3) increasing order size across our sites through improved recommendation engines; (4) improving our site speed; and (5) creating a frictionless checkout experience for our customers. In addition, we intend to continue to improve our mobile enabled websites to take advantage of shifting consumer behaviors. These efforts are intended to increase the number of repeat purchases, as well as contribute to our sales 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 will grow our sales and improve our margins.
- We continue to increase product selection by being the first to market with many new SKUs. We currently have over 60,000 private label SKUs and over 770,000 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 sales 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 continue to implement cost saving measures.

Non-GAAP measures

Regulation G, “*Conditions for Use of Non-GAAP Financial Measures*,” and other provisions of the Securities Exchange Act of 1934, as amended, define and prescribe the conditions for use of certain non-GAAP financial information. We provide EBITDA and Adjusted EBITDA, which are non-GAAP financial measures. EBITDA consists of net income (loss) before (a) interest expense, net; (b) income tax provision (benefit); (c) depreciation and amortization expense; and (d) amortization of intangible assets; while Adjusted EBITDA consists of EBITDA before share-based compensation expense, and in 2019, costs related to our customs issues and employee transition costs.

The Company believes that these non-GAAP financial measures provide important supplemental information to management and investors. These non-GAAP financial measures reflect an additional way of viewing aspects of the Company’s operations that, when viewed with the GAAP results and the accompanying reconciliation to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting the Company’s business and results of operations.

Management uses Adjusted EBITDA as one measure of the Company’s operating performance because it assists in comparing the Company’s operating performance on a consistent basis by removing the impact of stock compensation expense and in 2019, the costs associated with the customs issue, as well as other items that we do not believe are representative of our ongoing operating performance. 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.

This non-GAAP financial measure is used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review the Company’s consolidated financial statements in their entirety and to not rely on any single financial measure. Because non-GAAP financial measures are not standardized, it may not be possible to compare

these financial measures with other companies' non-GAAP financial measures having the same or similar names. In addition, the Company expects to continue to incur expenses similar to the non-GAAP adjustments described above, and exclusion of these items from the Company's non-GAAP measures should not be construed as an inference that these costs are unusual, infrequent or non-recurring.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net income (loss)	\$ 1,568	\$ (1,457)	\$ 590	\$ (5,038)
Depreciation & amortization	1,634	1,511	3,532	3,040
Amortization of intangible assets	25	25	50	50
Interest expense, net	490	487	1,149	894
Taxes	118	(186)	154	(465)
EBITDA	\$ 3,835	\$ 380	\$ 5,475	\$ (1,519)
Stock compensation expense	\$ 1,722	\$ 613	\$ 4,385	\$ 1,163
Employee transition costs ⁽¹⁾	—	283	—	1,269
Customs costs ⁽²⁾	—	149	—	415
Adjusted EBITDA	\$ 5,557	\$ 1,425	\$ 9,860	\$ 1,328

- (1) We incurred employee transition costs related to the transition of our executive management team including severance, recruiting, hiring bonus and relocation costs.
- (2) We incurred port and carrier fees and legal costs associated with our customs related issues. Refer to " Note 6 – Commitments and Contingencies" of our Notes to Consolidated Financial Statements for additional details.

Results of Operations

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	65.7	70.5	65.8	71.8
Gross profit	34.3	29.5	34.2	28.2
Operating expense	32.5	31.2	33.3	31.4
Income (loss) from operations	1.8	(1.6)	0.9	(3.1)
Other income (expense):				
Other income, net	0.0	0.1	0.0	0.0
Interest expense	(0.4)	(0.7)	(0.6)	(0.6)
Total other expense, net	(0.4)	(0.6)	(0.6)	(0.6)
Income (loss) before income taxes	1.4	(2.2)	0.4	(3.7)
Income tax provision (benefit)	0.1	(0.3)	0.1	(0.3)
Net income (loss)	1.3 %	(2.0)%	0.3 %	(3.4)%

Thirteen and Twenty-Six Weeks Ended June 27, 2020 Compared to the Thirteen and Twenty-Six Weeks Ended June 29, 2019
Net Sales and Gross Margin

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020 (in thousands)	June 29, 2019	June 27, 2020 (in thousands)	June 29, 2019
Net sales	\$ 118,930	\$ 73,687	\$ 206,748	\$ 148,425
Cost of sales	78,101	51,924	136,140	106,533
Gross profit	\$ 40,829	\$ 21,763	\$ 70,608	\$ 41,892
Gross margin	34.3 %	29.5 %	34.2 %	28.2 %

Net sales increased \$45,243, or 61.4%, for the second quarter of 2020 compared to the second quarter of 2019. Our net sales consisted of online sales, representing 94.7% of the total for the second quarter of 2020 (compared to 90.5% in the second quarter of 2019), and offline sales, representing 5.3% of the total for the second quarter of 2020 (compared to 9.5% in the second quarter of 2019). The net sales increase was due to an increase in online sales of \$45,912, or 68.8%, offset slightly by a decrease in offline sales of \$669, or 9.6%. Our online sales channels increase was driven by an increase in e-commerce sales primarily driven by our sales growth from our flagship website, CarParts.com. The offline sales channel decreased primarily due to decreased sales to our wholesale customers.

Net sales increased \$58,323, or 39.3%, for the twenty-six weeks ended June 27, 2020 (“YTD Q2 2020”) compared to the same period in 2019. Our net sales consisted of online and offline sales, representing 93.9% and 6.1%, respectively, of the total net sales for YTD Q2 2020 (compared to 90.6% and 9.4%, respectively, for the same period in 2019). The net sales increase was driven by an increase of \$59,770, or 44.5%, in online sales. Our online sales channel increased was driven by an increase in ecommerce sales primarily driven by our sales growth from our flagship website, CarParts.com. The offline sales channel decreased primarily due to decreased sales to our wholesale customers.

Gross profit increased \$19,066 or 87.6%, for the second quarter of 2020 compared to the same period of 2019 and increased \$28,716, or 68.5%, in YTD Q2 2020 compared to YTD Q2 2019. Gross margin increased 480 basis points to 34.3% in the second quarter of 2020 compared to 29.5% in the second quarter of 2019. Gross margin increased 600 basis points to 34.2% for YTD Q2 2020 compared to 28.2% in the same period of 2019. The increase in gross profit and gross margin was primarily due to improved product mix, as well as supply chain optimizations.

Operating Expense

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020 (in thousands)	June 29, 2019	June 27, 2020 (in thousands)	June 29, 2019
Operating expense	\$ 38,653	\$ 22,968	\$ 68,785	\$ 46,543
Percent of net sales	32.5 %	31.2 %	33.3 %	31.4 %

Operating expense increased \$15,685, or 68.3%, and increased \$22,242, or 47.8%, for the second quarter of 2020 and YTD Q2 2020, respectively, compared to the same periods in 2019 primarily due to an increase in fulfillment expense as well as an increase in marketing expense. The increase in fulfillment expense was primarily due to a higher number of fulfilled orders as well as additional expenses incurred from our Las Vegas, Nevada distribution center that opened in the third quarter of 2019. The increase in marketing expense was primarily due to an increase in marketing spend.

Total Other Expense, Net

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020 (in thousands)	June 29, 2019	June 27, 2020 (in thousands)	June 29, 2019
Other expense, net	\$ (490)	\$ (438)	\$ (1,079)	\$ (852)
Percent of net sales	(0.4)%	(0.6)%	(0.5)%	(0.6)%

Total other expense, net, increased \$52, or 11.9%, and increased \$227, or 26.6%, for the second quarter and YTD Q2 2020, respectively, compared to the same periods in 2019 primarily due to an increase in interest expense attributable to an increase in capital assets for the distribution centers.

Income Tax Provision (Benefit)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
	(in thousands)		(in thousands)	
Income tax provision (benefit)	\$ 118	\$ (186)	\$ 154	\$ (465)
Percent of net sales	0.1 %	(0.3)%	0.1 %	(0.3)%

For the thirteen and twenty-six weeks ended June 27, 2020, the effective tax rate for the Company's operations was 7.0% and 20.7%, respectively. The effective tax rate differed from the U.S. federal statutory rate primarily due to state income taxes, income of our Philippines subsidiary that is subject to different effective tax rates, share-based compensation that is either not deductible for tax purposes or for which the tax deductible amount is different than the financial reporting amount, and a change in the valuation allowance that offset the tax on the current period pre-tax income.

For the thirteen and twenty-six weeks ended June 29, 2019, the effective tax rate for the Company's operations was 11.3% and 8.4%, respectively. The effective tax rate differed from the U.S. federal statutory rate primarily due to state income taxes, income of our Philippines subsidiary that is subject to different effective tax rates, and share-based compensation that is either non-deductible for tax purposes or for which the tax deductible amount is different than the financial reporting amount.

The Company accounts for income taxes in accordance with ASC Topic 740 - Income Taxes ("ASC 740"). Under the provisions of ASC 740, management is required to evaluate whether a valuation allowance should be established against its deferred tax assets. We currently have a full valuation allowance against our deferred tax assets. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. For the twenty-six weeks ended June 27, 2020, there was no material change from fiscal year ended 2019 in the amount of the Company's deferred tax assets that are not more likely than not to be realized in future years.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act contains numerous income tax provisions, such as relaxing limitations on the deductibility of interest and the use of net operating losses arising in taxable years beginning after December 31, 2017. Due to the existence of previously incurred losses, the NOL carryback provisions of the CARES Act did not result in a cash benefit to the Company, however, we do anticipate increased interest expense deductions for tax purposes in 2020 and 2021 as a result of the relaxation of the limitations on the deductibility of interest.

Foreign Currency

The impact of foreign currency is related to our offshore operations in the Philippines and sales of our products in Canada and was not material to our operations.

Liquidity and Capital Resources

Sources of Liquidity

During the twenty-six weeks ended June 27, 2020 and June 29, 2019, we primarily funded our operations with cash and cash equivalents generated from operations as well as through borrowing under our credit facility. We had cash and cash equivalents of \$24,860 as of June 27, 2020, representing a \$22,587 increase from \$2,273 of cash as of December 28, 2019. The cash increase was primarily the result of the increase in net cash provided by operating activities. Based on our current operating plan, and despite the current uncertainty resulting from the COVID-19 pandemic, 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 our operations through at least the next twelve months (see "Debt and Available Borrowing Resources" and "Funding Requirements" below).

As of June 27, 2020, our credit facility provided for a revolving commitment of up to \$30,000 subject to a borrowing base derived from certain of our receivables, inventory and property and equipment (see “*Debt and Available Borrowing Resources*” below).

Working Capital

As of June 27, 2020 and December 28, 2019, our working capital was \$8,616 and \$2,427, respectively. 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 the twenty-six weeks ended June 27, 2020 and June 29, 2019 (in thousands):

	Twenty-Six Weeks Ended	
	June 27, 2020	June 29, 2019
Net cash provided by operating activities	\$ 25,168	\$ 2,950
Net cash used in investing activities	(3,840)	(3,431)
Net cash provided by (used in) financing activities	1,267	(668)
Effect of exchange rate changes on cash	(8)	1
Net change in cash and cash equivalents	<u>\$ 22,587</u>	<u>\$ (1,148)</u>

Operating Activities

Net cash provided by operating activities for the twenty-six weeks ended June 27, 2020 and June 29, 2019 was \$25,168 and \$2,950, respectively. The increase was primarily due to the higher balance of accounts payable because of timing of payments and temporary, favorable payment terms granted by our top vendors and improvements in other working capital.

Investing Activities

For the twenty-six weeks ended June 27, 2020 and June 29, 2019, net cash used in investing activities was the result of additions to property and equipment (\$3,840 and \$3,431, respectively), which are mainly related to capitalized website and software development costs.

Financing Activities

Net cash provided by (used in) financing activities was \$1,267 and (\$668), respectively, for the twenty-six weeks ended June 27, 2020 and June 29, 2019. The main reason attributable for the shift to net cash provided was primarily due to proceeds from stock option exercises that occurred during the second quarter of 2020.

Debt and Available Borrowing Resources

Total debt was \$9,337 as of June 27, 2020 compared to \$11,056 as of December 28, 2019 and primarily consists of right-of-use obligations - finance. During the twenty-six weeks ended June 27, 2020, the Company paid off the notes payable associated with the development of the Las Vegas, Nevada distribution center. Therefore, the notes payable balance was \$0 as of June 27, 2020.

The Company maintains an asset-based revolving credit facility (“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. Our Credit Facility also provides for an option to increase the aggregate principal amount from \$30,000 to \$40,000 subject to lender approval. As of June 27, 2020, our outstanding revolving loan balance was \$0. The outstanding letters of credit balance as of June 27, 2020 was \$13,609, of which \$11,900 was utilized and included in accounts payable in our consolidated balance sheet. We use letters of credit in the ordinary course of business to satisfy certain vendor obligations.

Loans drawn under the Credit Facility bear interest at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.25% to 1.75% per annum based on the Company's fixed charge coverage ratio, or (b) an "alternate prime base rate" subject to an increase or reduction by up to 0.25% per annum based on the Company's fixed charge coverage ratio. As of June 27, 2020, the Company's LIBOR based interest rate was 1.94% (on \$0 principal) and the Company's prime based rate was 3.50% (on \$0 principal). A commitment fee, based upon undrawn availability under the Credit Facility bearing interest at a rate of 0.25% per annum, is payable monthly. Under the terms of the Credit 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 three consecutive business days, and will continue until, during the preceding 45 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). In addition, in the event that "excess availability," as defined under the Credit Agreement, is less than \$3,000 the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0. The Company's excess availability was \$11,452 as of June 27, 2020. The Credit Facility matures on December 16, 2022.

Our Credit Agreement 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 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.

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 assets or seek additional debt or equity financings in the future, including the issuance of additional common stock under a registration statement. As such, there can be no assurance that we would be able to raise such additional financing or engage in asset sales on acceptable terms, or at all. If we are not able to raise adequate additional financing or proceeds from 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 off-balance sheet arrangements.

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.

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.

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.

There were no significant changes to our critical accounting policies during the thirteen weeks ended June 27, 2020. We believe our critical accounting policies 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 (*for further detail refer to our Annual Report on Form 10-K that we filed with the SEC on March 10, 2020*):

- Revenue Recognition;
- Inventory;
- Website and Software Development Costs;
- Income Taxes; and
- Share-Based Compensation.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act, we are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms,

and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

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

Inherent Limitations on Internal Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under the caption “*Legal Matters*” in “*Note 6 – Commitments and Contingencies*” of the Notes to Consolidated Financial Statements (Unaudited), included in Part I, Item 1 of this report, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see the section below entitled “*Risk Factors*” included in *Part II, Item 1A* of this report.

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 marketplace channels, 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 customers in a cost-effective manner. Our investments in marketing may not effectively reach potential consumers or those consumers may not decide to buy from us or the volume of consumers that purchase from us may not yield the intended return on investment. With respect to our marketing channels, we rely on relationships with providers of online services, search engines, shopping comparison sites and e-commerce businesses to provide content, advertising banners and other links that direct customers to our websites. We rely on these relationships as significant sources of traffic to our websites. In particular, we rely on Google as an

important marketing channel, and if Google changes its algorithms or if competition increases for advertisements on Google or on our marketplace channels, we may be unable to cost-effectively attract customers to our products.

Our agreements with our marketing providers generally have terms of one year or less. If we are unable to develop or maintain these relationships on acceptable terms, our ability to attract new customers would be harmed. In addition, many of the parties with whom we have online-advertising arrangements could provide advertising services to other companies, including retailers with whom we compete. As competition for online advertising has increased, the cost for these services has also increased. A significant increase in the cost of the marketing vehicles upon which we rely could adversely impact our ability to attract customers in a cost-effective manner and harm our business and results of operations. Further, we use promotions as a way to drive sales, these promotional activities may not drive sales and may adversely affect our gross margins.

Similarly, if any free search engine, shopping comparison site, or marketplace site on which we rely begins charging fees for listing or placement, or if one or more of the search engines, shopping comparison sites, marketplace sites and other online sources on which we rely for purchased listings, increases their fees, or 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 of purchasers of aftermarket auto parts could adversely impact our financial results and the growth of our business.

Shifting consumer behavior indicates that our customers are becoming 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.

In addition, recent trends indicate that customers may be more inclined to shop for aftermarket auto parts through marketplace websites such as Amazon and eBay as opposed to purchasing parts through e-commerce channels. Any mix shift in sales to marketplace channels or increase in associated commissions and costs, could result in lower gross margins, and as a result, our business and financial results may suffer.

We derive a substantial portion of our revenues from third-party marketplaces.

Third-party marketplaces account for a significant portion of our revenues. Our sales on eBay and Amazon represented a combined 34.9% of total sales in the first half of 2020. We anticipate that sales of our products on third-party marketplace will continue to account for a significant portion of our revenues. In the future, the loss of access to these third-party marketplaces could significantly reduce our revenues, and the success of our business depends partly on continued access to these third-party marketplaces. Our relationships with our third-party marketplace providers could deteriorate as a result of a variety of factors, such as if they become concerned about our ability to deliver quality products on a timely basis or to protect a third-party's intellectual property. In addition, third-party marketplace providers could prohibit our access to these marketplaces if we are not able to meet the applicable required terms of use. Loss of access to a marketplace channel could result in lower sales, and as a result, our business and financial results may suffer.

During the first quarter of fiscal 2020, we recorded a net loss, and our net losses may continue in fiscal year 2020.

If our net losses continue in fiscal year 2020, 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 our net losses were to continue, 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, N.A. (the "Credit Agreement") that provides for, among other things, a revolving commitment in an aggregate principal amount of up to \$30,000 subject to a borrowing base derived from certain of our receivables, inventory and property and equipment. Our Credit Agreement also provides for an option to increase the aggregate principal amount from \$30,000 to \$40,000, subject to lender approval. 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.

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. Under the terms of the Credit 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 three consecutive business days, and will continue until, during the preceding 45 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). In addition, in the event that "excess availability," as defined under the Credit Agreement, is less than \$3,000 the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0. 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.

While we did not have any outstanding revolver debt under our Credit Agreement as of June 27, 2020, we may have outstanding revolver debt in the future. Any outstanding indebtedness would have important consequences, including the following:

- we would 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 depends, 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. The Company's outstanding letters of credit balance as of June 27, 2020 was \$13,609.

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.

We are highly dependent upon key suppliers.

Our top ten suppliers represented approximately 61% of our total product purchases during the twenty-six weeks ended June 27, 2020. 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 the twenty-six weeks ended June 27, 2020, our product purchases from three drop-ship suppliers represented approximately 7% 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 that would allow us to rely on customary indemnification protection with respect to any 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;
- imposition of duties, taxes, tariffs or other charges on imports;
- difficulties in complying with import and export laws, regulatory requirements and restrictions;
- natural disasters and public health emergencies, such as the recent outbreak of a novel strain of coronavirus identified first in Wuhan, Hubei Province, China and having turned into a global pandemic that has impacted a number of countries from which we purchase product;
- 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;
- imposition of new legislation relating to import quotas or other restrictions that may limit the quantity of our product that may be imported into the U.S. from countries or regions where we do business;

- financial or political instability in any of the countries in which our product is manufactured;
- potential recalls or cancellations of orders for any product that does not meet our quality standards;
- disruption of imports by labor disputes or strikes and local business practices;
- political or military conflict involving the U.S. or any country in which our suppliers are located, which could cause a delay in the transportation of our products, an increase in transportation costs and additional risk to product being damaged and delivered on time;
- heightened terrorism security concerns, which could subject imported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods;
- inability of our non-U.S. suppliers to obtain adequate credit or access liquidity to finance their operations; and
- our ability to enforce any agreements with our foreign suppliers.

For example, during the first quarter of 2018, the United States Customs and Border Protection (“CBP”) imposed an enhanced bonding requirement on the company at a level equivalent to three times the commercial invoice value of each shipment. While the Company has been granted relief removing the bonding requirement, CBP may impose other requirements on the Company which would make it more difficult or more expensive for the Company to import products. If we were unable to import products from China and Taiwan or were unable to import products from China and Taiwan in a cost-effective manner, we could suffer irreparable harm to our business and be required to significantly curtail our operations, file for bankruptcy or cease operations.

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.

Our financial condition and results of operations for fiscal 2020 may be adversely affected by the recent coronavirus outbreak.

COVID-19 was declared a pandemic by the World Health Organization in March 2020. To date, this pandemic has affected nearly all regions around the world. In the United States, businesses as well as federal, state and local governments implemented significant actions to mitigate this public health crisis. Our operations could be disrupted as a result of these actions. While we cannot predict the duration or scope of the COVID-19 pandemic, it may negatively impact our business and such impact could be material to our financial results, condition and outlook. The COVID-19 pandemic may also have the effect of worsening other areas such as, but not limited to, those related to:

- reduction or volatility in demand for our products, which may be caused by, among other things: reduced online traffic and changes in consumer spending behaviors (e.g. consumer confidence in general macroeconomic conditions and a decrease in consumer spending);
- disruption to our operations or the operations of our suppliers, through the effects of business and facilities closures, worker sickness and COVID-19 related inability to work, social, economic, political or labor instability in affected areas, transportation delays, travel restrictions and changes in operating procedures, including for additional cleaning and safety protocols;
- impacts to our business partners' ability to operate or manage increases in their operating costs and other supply chain effects that may have an adverse effect on our ability to meet consumer demand and achieve cost targets;
- increased volatility or significant disruption of global financial markets due in part to the COVID-19 pandemic, which could have a negative impact on our ability to access capital markets and other funding sources, on acceptable terms or at all and impede our ability to comply with debt covenants; and

- The further spread of COVID-19, and the requirements to take action to mitigate the spread of the pandemic, will impact our ability to carry out our business as usual and may materially adversely impact global economic conditions, our business, results of operations, cash flows and financial condition.

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. Any 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 addition, 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. These outbound freight costs have increased on a year-over-year basis and may continue to increase in the future. We also ship a number of oversized auto parts which may trigger additional shipping costs by third-party delivery services. 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 be negatively impacted.

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 collision 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 or other 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, such as ransomware attacks, 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. Information security risks have significantly increased in recent years in part due to the proliferation of new technologies and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign private parties and state actors. As a leading online source for automotive aftermarket parts, 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.

We maintain a comprehensive system of preventive and detective controls through our security programs; however given the rapidly evolving nature and proliferation of cyber threats, our controls may not prevent or identify all such attacks in a timely manner or otherwise prevent unauthorized access to, damage to, or interruption of our systems and operations, and we cannot eliminate the risk of human error or employee or vendor malfeasance.

On June 28, 2020, we detected a ransomware attack on our network that disrupted access to some of our systems. We immediately took steps to isolate the affected systems and contain the disruption to our information technology infrastructure, including taking some systems offline as a precautionary measure. Our internal IT team subsequently restored and recovered the affected IT systems to full functionality. Since we are currently investigating the incident with forensic experts and working with law enforcement authorities, we cannot be certain that personally identifiable information was not accessed during the ransomware attack. Therefore, there can be no assurance at this time that we have mitigated this security threat.

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. 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. For example, we were recently required to transition from PCI Data Security Standard 2.0 to PCI Data Security Standard 3.2. We are in the process of conforming to the new standards which we expect to be completed in 2020. There is no guarantee that we will be able to conform to these new standards, and if we fail to meet these standards, we could become subject to fines and other penalties and experience a significant increase in payment card transaction costs. In addition, such failure could damage our reputation, inhibit sales, and adversely affect our business.

Failure to comply with privacy laws and regulations and failure to adequately protect customer data could harm our business, damage our reputation and result in a loss of customers.

Federal and state and regulations may govern the collection, use, sharing and security of data that we receive from our customers. In addition, we have and post on our websites our own privacy policies and practices concerning the collection, use and disclosure of customer data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, U.S. Federal Trade Commission requirements or other federal,

state or international privacy-related laws and regulations could result in proceedings or actions against us by governmental entities or others, which could potentially harm our business. Further, failure or perceived failure to comply with our policies or applicable requirements related to the collection, use or security of personal information or other privacy-related matters could damage our reputation and result in a loss of customers.

The regulatory framework is constantly evolving, and privacy concerns could adversely affect our operating results.

The regulatory framework for privacy issues is currently evolving and is likely to remain uncertain for the foreseeable future. The occurrence of unanticipated events often rapidly drives the adoption of legislation or regulation affecting the use of data and the way we conduct our business; in fact, there are active discussions among U.S. legislators around adoption of a new U.S. federal privacy law. Restrictions could be placed upon the collection, management, aggregation and use of information, which could result in a material increase in the cost of collecting and maintaining certain kinds of data. In June of 2018, California enacted the California Consumer Privacy Act (the “CCPA”), which took effect on January 1, 2020. The CCPA gives consumers the right to request disclosure of information collected about them, and whether that information has been sold or shared with others, the right to request deletion of personal information (subject to certain exceptions), the right to opt out of the sale of the consumer’s personal information, and the right not to be discriminated against for exercising these rights. We are required to comply with the CCPA. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the U.S., which could increase our potential liability and adversely affect our business.

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

The auto parts industry is competitive and highly fragmented, with products distributed through multi-tiered and overlapping channels. We compete with both online and offline retailers who offer 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 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 have implemented and will continue to implement 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 in-stock 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 patent infringement.

The United States Patent and Trademark Office records indicate that OEMs are seeking and obtaining more design patents and trademarks than they have in the past. In some cases, we have entered into license agreements that allow us to sell aftermarket parts that replicate OEM patented parts in exchange for a royalty. In the event that our license agreements, or other similar license arrangements are terminated or we are unable to agree upon renewal terms, we may be subject to restrictions on our ability to sell aftermarket parts that replicate parts covered by design patents or trademarks, which could have an adverse effect on our business.

In 2018, for example, the CBP alleged that certain repair grilles imported by the Company were counterfeit and infringed on trademarks registered by OEMs. The Company subsequently settled with CBP, however, to the extent that the OEMs are successful in obtaining and enforcing other intellectual property rights, 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 new importing requirements, increased port and carrier fees and legal expenses, adverse judgments or settlements or changes to our business practices required to settle such claims or satisfy any judgments. For example, during the first quarter of 2019, we incurred approximately \$266 of port and carrier fees and legal expenses attributable to CBP's wrongful seizures and the Company's litigation with CBP. Litigation or regulatory enforcement could also 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, or any, 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. However, any 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.carparts.com, www.jcwhitney.com, www.autopartswarehouse.com and www.usautoparts.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 and 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.

Because we are involved in litigation from time to time and are subject to numerous laws and governmental regulations, we could incur substantial judgments, fines, legal fees and other costs as well as reputational harm.

We are sometimes the subject of complaints or litigation from customers, employees or other third parties for various reasons. The damages sought against us in some of these litigation proceedings could be substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim, this could have a material adverse effect on our business, financial condition, results of operations and cash flows. For more information on our ongoing litigation, see the information set forth under the caption “*Legal Matters*” in “*Note 6 Commitments and Contingencies*” of the Notes to Consolidated Financial Statements, included in Part I, Item 1 of this report.

We are in the process of implementing a new enterprise resource planning system, and we may occasionally update or integrate our other IT systems, problems with the design, integration or implementation of these systems could interfere with our business and operations.

We are engaged in a multi-year implementation of a new global enterprise resource planning system (ERP). The ERP is designed to accurately maintain the company's books and records and provide information to the company's management team important to the operation of the business. The company's ERP has required, and will continue to require, the investment of significant human and financial resources. We may not be able to successfully implement the ERP without experiencing delays, increased costs and other difficulties. If we are unable to successfully design and implement the new ERP system as planned, or successfully update or integrate our systems when necessary, our financial positions, results of operations and cash flows could be negatively impacted.

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, activities of activist investors, the impact of any stock repurchase program or conditions or trends in the Internet or auto parts industries.

Since the completion of our initial public offering in February 2007 through June 27, 2020, 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 \$0.88. 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 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 impact 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 June 27, 2020, 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 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 collision 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. We also have experienced increased demand following the issuance of tax rebates by the government. 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 engine parts. If consumers were to drive less in the future and/or accident rates were to decline, as a result of higher gas prices, increased use of ride-shares, the advancement of driver assistance technologies, or otherwise, our sales may decline and our business and financial results may suffer.

We will be required to collect and pay more sales taxes, and could become liable for other fees and penalties, which could have an adverse effect on our business.

We have historically collected sales or other similar taxes only on the shipment of goods to customers in the states of California, Virginia, Illinois, and Ohio. However, following the Supreme Court decision in *South Dakota v. Wayfair*, the Company is now required to collect sales tax in any state which passes legislation requiring out of state retailers to collect sales tax even where they have no physical nexus. We have historically enjoyed a competitive advantage to the extent our competitors are already subject to those tax obligations. By collecting sales tax in additional states, we will lose this competitive advantage as total costs to our customers will increase, which could adversely affect our sales.

Moreover, if we fail to collect and remit or pay required sales or other taxes in a jurisdiction, or qualify or register to do business in a jurisdiction that requires us to do so or if we have failed to do so in the past, we could face material liabilities for taxes, fees, interest and penalties. If various jurisdictions impose new tax obligations on our business activities, our sales and net income in those jurisdictions could decrease significantly, which could harm our business.

Changes in tax laws or regulations that are applied adversely to us or our customers may have a material adverse effect on our business, cash flow, financial condition or results of operations.

New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, which could adversely affect our business operations and financial performance. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us. For example, legislation enacted in 2017, informally titled the Tax Cuts and Jobs Act (the “Tax Act”) enacted many significant changes to the U.S. tax laws. Future guidance from the Internal Revenue Service and other tax authorities with respect to the Tax Act may affect us, and certain aspects of the Tax Act could be repealed or modified in future legislation. In addition, it is uncertain if and to what extent various states will conform to the Tax Act or any newly enacted federal tax legislation. Changes in corporate tax rates, the realization of net deferred tax assets relating to our operations, the taxation of foreign earnings, and the deductibility of expenses under the Tax Act or future reform legislation could have a material impact on the value of our deferred tax assets, could result in significant one-time charges, and could increase our future U.S. tax expense.

Our ability to use net operating loss carryforwards too offset future income may be limited.

Under the Tax Act, federal net operating losses (“NOL”)s incurred in taxable years ending after December 31, 2017, may be carried forward indefinitely, but the deductibility of federal NOLs generated in tax years beginning after December 31, 2017, is limited. It is uncertain if and to what extent various states will conform to the Tax Act. In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”), and corresponding provisions of state law, a corporation that undergoes an “ownership change” (generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period) is subject to limitations on its ability to utilize its pre-ownership change NOL carryforwards to offset post-ownership change income. We may in the future experience ownership changes, and thus, our ability to utilize pre-ownership change NOL carryforwards to offset post-ownership change income may be limited. Such limitations may cause a portion of our NOL carryforwards to expire before we are able to utilize them. In addition, at the state level, there may be periods during which the use of NOL carryforwards is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

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, or any, 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 such changes could adversely impact the demand for our products and our business, financial condition, results of operations or cash flows.

Possible new tariffs that might be imposed by the United States government could have a material adverse effect on our results of operations.

Changes in U.S. and foreign governments' trade policies have resulted in, and may continue to result in, tariffs on imports into and exports from the U.S., among other restrictions. Throughout 2018 and 2019, the U.S. imposed tariffs on imports from several countries, including China. If further tariffs are imposed on imports of our products, or retaliatory trade measures are taken by China or other countries in response to existing or future tariffs, we could be forced to raise prices on all of our imported products or make changes to our operations, any of which could materially harm our revenue or operating results. Any additional future tariffs or quotas imposed on our products or related materials may impact our sales, gross margin and profitability if we are unable to pass increased prices onto our customers.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

<u>Exhibit No.</u>	<u>Description</u>
3.1	Second Amended and Restated Certificate of Incorporation of U.S. Auto Parts Network, Inc. as filed with the Delaware Secretary of State on February 14, 2007 (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10 K filed with the Securities and Exchange Commission on April 2, 2007).
3.2	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of U.S. Auto Parts Network, Inc., dated as of July 27, 2020 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2020).
3.3	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).
3.4	Amendment to Amended and Restated Bylaws of U.S. Auto Parts Network, Inc. (incorporated by reference to Exhibit 3.4 to the Annual Report on Form 10 K file with the Securities and Exchange Commission on March 11, 2016).
3.5	Amendment No. 2 to the Amended and Restated Bylaws of U.S. Auto Parts Network, Inc., dated as of July 23, 2020 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2020).
10.2	Thirteenth Amendment to Credit Agreement and Fifth Amendment to Pledge and Security Agreement, dated July 31, 2020 by and among CarParts.com, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A.
31.1	Certification of the Principal Executive Officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of the Principal Financial Officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of the Chief Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 10, 2020

CARPARTS.COM, INC.

By: /s/ Lev Peker
Lev Peker
Chief Executive Officer
(Principal Executive Officer)

By: /s/ David Meniane
David Meniane
Chief Financial Officer and Chief Operating Officer
(Principal Financial Accounting Officer)

THIRTEENTH AMENDMENT TO CREDIT AGREEMENT AND CONSENT

THIS THIRTEENTH AMENDMENT TO CREDIT AGREEMENT AND CONSENT (this "Amendment"), dated as of July 31, 2020, is entered into by and among CARPARTS.COM, INC., a Delaware corporation (formerly known as U.S. AUTO PARTS NETWORK, INC.) ("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 (as amended by this Amendment).
- B. Borrowers and the other Loan Parties have further requested that Administrative Agent and the Lenders amend the Credit Agreement and consent to certain transactions, and Administrative Agent and the Lenders are willing to amend the Credit Agreement and consent to certain transactions pursuant and subject to the terms and conditions set forth herein.
- C. 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. In the definition of "Fixed Charges" in Section 1.01 of the Credit Agreement, the following text is hereby added immediately following the text "prepayments and scheduled principal payments on Indebtedness actually made,"

"but excluding the Specified Repayment,"
 - b. In the definition of "Prepayment Event" in Section 1.01 of the Credit Agreement, the following text is hereby added immediately following the text "the issuance by the
-

Company of any Equity Interests, or the receipt by the Company of any capital contribution”:

“, but excluding the issuance by the Company of Equity Interests, and the receipt by the Company of proceeds in an amount not to exceed \$1,300,000, in each case, in connection with the exercise of certain employee stock options on or before the Thirteenth Amendment Effective Date, and solely to the extent that such proceeds are used for the Specified Repayment in accordance with the Thirteenth Amendment”

- c. The following definitions are hereby added to Section 1.01 of the Credit Agreement in their proper alphabetical order to read as follows:

“Specified Repayment” means the repayment in full by the Company of its existing equipment loan from Mazuma Capital in an amount not exceed \$1,300,000.

“Thirteenth Amendment” means that certain Thirteenth Amendment to Credit Agreement and Consent dated as of the Thirteenth Amendment Effective Date by and among the Borrowers, the other Loan Parties party thereto, the Lenders party thereto, and the Administrative Agent.

“Thirteenth Amendment Effective Date” means July [], 2020.

- d. In Section 6.01(s) of the Credit Agreement, the text “\$5,000,000” is hereby deleted and replaced with the text “8,000,000”.
- e. In Section 6.02(h) of the Credit Agreement, the text “clause (i) or (r)” is hereby deleted and replaced with the text “clause (i) or (s)”.
- f. Exhibit C to the Credit Agreement is hereby deleted in its entirety and replaced with Exhibit C attached hereto and made a part hereof.

2. Consent. Administrative Agent and the Lenders hereby consent (a) solely for purposes of Section 6.08(b)(v) of the Credit Agreement, to the making of the Specified Repayment; *provided*, that (i) no Event of Default has occurred and is continuing at the time of such repayment, and (ii) both before and after giving effect to such repayment, the Borrowers shall have Excess Availability of at least \$8,000,000; and (b) solely for purposes of Section 6.01(s) of the Credit Agreement, to the incurrence by the Loan Parties and their Subsidiaries during the calendar year ending December 31, 2020 of the Indebtedness set forth in the Compliance Certificate attached as Exhibit C hereto as of the date hereof (the “Thirteenth Amendment Compliance Certificate”) and designated therein as being incurred pursuant to 6.01(s) of the Credit Agreement and in the amounts set forth therein; *provided*, that (i) if such Indebtedness is secured it is only secured by Equipment and real property (other than Eligible Equipment or Eligible Real Property), (ii) both before and after giving effect to the incurrence of any such Indebtedness, no Event of Default exists and is continuing, (iii) both before and after giving effect to the incurrence of any such Indebtedness, the Borrowers shall have Excess Availability of at least \$8,000,000, (iv) if such Indebtedness is secured by real property, and if requested by the Administrative Agent, such Indebtedness is subject to an access agreement, in form and substance satisfactory to Administrative Agent, and (v) for the avoidance of doubt, all of such Indebtedness shall count against and be subject to the \$8,000,000 threshold in Section 6.01(s) of the Credit Agreement.

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.
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 other 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 or other electronic transmission (including by .pdf attachment via electronic mail or electronic signature) shall be effective as delivery of a manually executed counterpart of this Amendment. Electronic signature means any electronic sound, symbol, or process attached to or logically associated with a record and executed and adopted by a party with the intent to sign such record, including facsimile or email electronic signatures pursuant to the New York Electronic Signatures and Records Act (N.Y. State Tech. §§ 301-

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. Except as specifically set forth in this Amendment, the Credit 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.
- c. 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, 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.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

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:

CARPARTS.COM, INC.,
a Delaware corporation

By _____
Name: _____
Title: _____

PARTSBIN, INC.,
a Delaware corporation

By _____
Name: _____
Title: _____

LOCAL BODY SHOPS, INC.,
a Delaware corporation

By _____
Name: _____
Title: _____

PRIVATE LABEL PARTS, INC.,
a Delaware corporation

By _____
Name: _____
Title: _____

WHITNEY AUTOMOTIVE GROUP, INC.,
a Delaware corporation

By _____
Name: _____
Title: _____

[Signature Page to Thirteenth Amendment to Credit Agreement and Consent]

OTHER LOAN PARTIES:

LOBO MARKETING, INC.,

a Texas corporation

By _____
Name: _____
Title: _____

PACIFIC 3PL, INC.,

a Delaware corporation

By _____
Name: _____
Title: _____

GO FIDO, INC.,

a Delaware corporation

By _____
Name: _____
Title: _____

**AUTOMOTIVE SPECIALTY ACCESSORIES AND
PARTS, INC.,**

a Delaware corporation

By _____
Name: _____
Title: _____

[Signature Page to Thirteenth Amendment to Credit Agreement and Consent]

ADMINISTRATIVE AGENT AND LENDER

JPMORGAN CHASE BANK, N.A.,

individually as a Lender and as Administrative Agent

By _____
Name: _____
Title: Authorized Officer

[Signature Page to Thirteenth Amendment to Credit Agreement and Consent]

**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, Lev Peker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CarParts.com, 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: August 10, 2020

/s/ Lev Peker

Lev Peker

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, David Meniane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CarParts.com, 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: August 10, 2020

/s/ David Meniane
David Meniane
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of CarParts.com, Inc. (the "Company") on Form 10-Q for the quarter ended June 27, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lev Peker, 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: August 10, 2020

/s/ Lev Peker
Lev Peker
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 Quarterly Report of CarParts.com, Inc. (the "Company") on Form 10-Q for the quarter ended June 27, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Meniane, 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: August 10, 2020

/s/ David Meniane
David Meniane
Chief Financial Officer
