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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended **June 30, 2018**  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: **001-33264**



**U.S. AUTO PARTS NETWORK, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**16941 Keegan Avenue, Carson, CA 90746**  
(Address of Principal Executive Office) (Zip Code)  
**(424) 702-1455**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 checked="" type="checkbox"/> |
| Non-Accelerated Filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input 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 4, 2018, the registrant had 34,984,454 shares of common stock outstanding, \$0.001 par value.

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**U.S. AUTO PARTS NETWORK, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED JUNE 30, 2018**

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Unless the context requires otherwise, as used in this report, the terms “U.S. Auto Parts,” the “Company,” “we,” “us” and “our” refer to U.S. Auto Parts Network, Inc. and its wholly-owned and majority-owned subsidiaries. Unless otherwise stated, all amounts are presented in thousands. In addition, unless the context requires otherwise, references to AutoMD refer to AutoMD, Inc., our former majority-owned subsidiary which was dissolved in March 2017.

U.S. Auto Parts®, U.S. Auto Parts Network™, AutoMD®, Kool-Vue®, JC Whitney®, Carparts.com®, 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.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

*The statements included in this report, other than statements or characterizations of historical or current fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend that such forward-looking statements be subject to the safe harbors created thereby. Any forward-looking statements included herein are based on management's beliefs and assumptions and on information currently available to management. We have attempted to identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would", "will likely 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 including our litigation with U.S. customs, the anticipated impact of the issues we are experiencing with U.S. customs including the related trademark issues, product offerings, customers and suppliers, 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**

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

|   | June 30,<br>2018  | December 30,<br>2017 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Current assets:   |                   |                      |
| Cash and cash equivalents   | \$ 6,824          | \$ 2,850             |
| Short-term investments  | 5                 | 9                    |
| Accounts receivable, net  | 2,633             | 2,470                |
| Inventory   | 54,187            | 54,231               |
| Other current assets  | 3,639             | 2,972                |
| Total current assets  | 67,288            | 62,532               |
| Deferred income taxes   | 20,467            | 21,476               |
| Property and equipment, net   | 14,887            | 15,085               |
| Intangible assets, net  | 557               | 651                  |
| Other non-current assets  | 1,545             | 954                  |
| Total assets  | <u>\$ 104,744</u> | <u>\$ 100,698</u>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                   |                      |
| Current liabilities:  |                   |                      |
| Accounts payable  | \$ 34,156         | \$ 35,999            |
| Accrued expenses  | 13,604            | 7,363                |
| Current portion of capital leases payable   | 588               | 579                  |
| Customer deposits   | 596               | 2,500                |
| Other current liabilities   | 3,049             | 2,457                |
| Total current liabilities   | 51,993            | 48,898               |
| Capital leases payable, net of current portion  | 8,869             | 9,173                |
| Other non-current liabilities   | 2,314             | 2,266                |
| Total liabilities   | 63,176            | 60,337               |
| 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; 2,771 shares issued and outstanding at both June 30, 2018 and December 30, 2017 | 3                 | 3                    |
| Common stock, \$0.001 par value; 100,000 shares authorized; 34,973 and 34,666 shares issued and outstanding at June 30, 2018 and December 30, 2017 (of which 2,525 are treasury stock)  | 37                | 37                   |
| Treasury stock  | (7,146)           | (7,146)              |
| Additional paid-in capital  | 180,641           | 179,906              |
| Accumulated other comprehensive income  | 604               | 557                  |
| Accumulated deficit   | (132,571)         | (132,996)            |
| Total stockholders' equity  | 41,568            | 40,361               |
| Total liabilities and stockholders' equity  | <u>\$ 104,744</u> | <u>\$ 100,698</u>    |

*See accompanying notes to consolidated financial statements (unaudited).*

**U.S. AUTO PARTS NETWORK, 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 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
| Net sales  | \$ 76,973            | \$ 80,208    | \$ 155,358             | \$ 161,041   |
| Cost of sales <sup>(1)</sup>   | 55,488               | 56,964       | 110,414                | 114,010      |
| Gross profit   | 21,485               | 23,244       | 44,944                 | 47,031       |
| Operating expenses:  |                      |              |                        |              |
| Marketing  | 9,818                | 10,248       | 19,800                 | 20,562       |
| General and administrative   | 4,741                | 4,310        | 9,626                  | 9,111        |
| Fulfillment  | 5,394                | 5,929        | 11,242                 | 12,011       |
| Technology   | 998                  | 1,136        | 2,086                  | 2,409        |
| Amortization of intangible assets  | 47                   | 112          | 94                     | 224          |
| Total operating expenses   | 20,998               | 21,735       | 42,848                 | 44,317       |
| Income from operations   | 487                  | 1,509        | 2,096                  | 2,714        |
| Other income (expense):  |                      |              |                        |              |
| Other, net   | (7)                  | 19           | (6)                    | 35           |
| Interest expense   | (421)                | (469)        | (854)                  | (847)        |
| Total other expense, net   | (428)                | (450)        | (860)                  | (812)        |
| Income from continuing operations before income taxes                                    | 59                   | 1,059        | 1,236                  | 1,902        |
| Income tax provision   | 544                  | (25,859)     | 986                    | (25,832)     |
| (Loss) income from continuing operations   | (485)                | 26,918       | 250                    | 27,734       |
| Discontinued operations <sup>(2)</sup>   |                      |              |                        |              |
| Loss from operations and disposal of discontinued AutoMD operations                      | —                    | —            | —                      | (558)        |
| Income tax provision   | —                    | —            | —                      | 1            |
| Loss on discontinued operations  | —                    | —            | —                      | (559)        |
| Net (loss) income  | (485)                | 26,918       | 250                    | 27,175       |
| Other comprehensive income (loss):   |                      |              |                        |              |
| Foreign currency translation adjustments   | 23                   | (1)          | 42                     | (3)          |
| Total other comprehensive income (loss)  | 23                   | (1)          | 42                     | (3)          |
| Comprehensive (loss) income  | \$ (462)             | \$ 26,917    | \$ 292                 | \$ 27,172    |
| (Loss) income from continuing operations per share:                                      |                      |              |                        |              |
| Basic (loss) income from continuing operations per share                                 | \$ (0.02)            | \$ 0.76      | \$ 0.00                | \$ 0.79      |
| Diluted (loss) income from continuing operations per share                               | \$ (0.02)            | \$ 0.67      | \$ 0.00                | \$ 0.69      |
| Weighted average common shares outstanding:  |                      |              |                        |              |
| Shares used in computation of basic (loss) income from continuing operations per share   | 34,972               | 35,332       | 34,896                 | 34,921       |
| Shares used in computation of diluted (loss) income from continuing operations per share | 34,972               | 39,933       | 35,258                 | 40,079       |

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

(2) During March 2017, AutoMD filed for dissolution and the AutoMD operating segment has been classified as discontinued operations.

*See accompanying notes to consolidated financial statements (unaudited).*

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Unaudited, In Thousands)*

|   | Twenty-Six Weeks Ended |                 |
|---|------------------------|-----------------|
|   | June 30,<br>2018       | July 1,<br>2017 |
| <b>Operating activities</b>   |                        |                 |
| Net income  | \$ 250                 | \$ 27,175       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |                 |
| Depreciation and amortization expense   | 2,993                  | 3,270           |
| Amortization of intangible assets   | 94                     | 224             |
| Deferred income taxes   | 920                    | (25,881)        |
| Share-based compensation expense  | 1,137                  | 1,633           |
| Stock awards issued for non-employee director service                             | 7                      | 5               |
| Amortization of deferred financing costs  | 2                      | 30              |
| Gain from disposition of assets   | —                      | (8)             |
| Changes in operating assets and liabilities:                                      |                        |                 |
| Accounts receivable   | (163)                  | 568             |
| Inventory   | 44                     | (1,291)         |
| Other current assets  | (1,270)                | (86)            |
| Other non-current assets  | 1                      | 166             |
| Accounts payable and accrued expenses   | 4,560                  | 7,261           |
| Other current liabilities   | (929)                  | (764)           |
| Other non-current liabilities   | 195                    | 168             |
| Net cash provided by operating activities   | <u>7,841</u>           | <u>12,470</u>   |
| <b>Investing activities</b>   |                        |                 |
| Additions to property and equipment   | (2,940)                | (2,494)         |
| Proceeds from sale of property and equipment                                      | —                      | 39              |
| Net cash used in investing activities   | <u>(2,940)</u>         | <u>(2,455)</u>  |
| <b>Financing activities</b>   |                        |                 |
| Borrowings from revolving loan payable  | 3,189                  | 3,645           |
| Payments made on revolving loan payable   | (3,189)                | (3,645)         |
| Proceeds from stock options   | —                      | 238             |
| Minority shareholder redemption   | —                      | (2,485)         |
| Payments on capital leases  | (293)                  | (278)           |
| Treasury stock repurchase   | —                      | (2,272)         |
| Statutory tax withholding payment for share-based compensation                    | (430)                  | (1,644)         |
| Payment of liabilities related to financing activities                            | (100)                  | (100)           |
| Preferred stock dividends paid  | (80)                   | (169)           |
| Net cash used in financing activities   | <u>(903)</u>           | <u>(6,710)</u>  |
| Effect of exchange rate changes on cash   | (24)                   | (20)            |
| Net change in cash and cash equivalents   | 3,974                  | 3,285           |
| Cash and cash equivalents, beginning of period                                    | 2,850                  | 6,643           |
| Cash and cash equivalents, end of period  | <u>\$ 6,824</u>        | <u>\$ 9,928</u> |
| Supplemental disclosure of non-cash investing and financing activities:           |                        |                 |
| Accrued asset purchases   | \$ 680                 | \$ 712          |
| Supplemental disclosure of cash flow information:                                 |                        |                 |
| Cash paid during the period for income taxes                                      | \$ 44                  | \$ 42           |
| Cash paid during the period for interest  | 869                    | 711             |

*See accompanying notes to consolidated financial statements (unaudited).*

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

**Note 1 – Basis of Presentation and Description of Company**

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

The Company’s products consist of collision parts 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-View®, 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 Carson, 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 30, 2018 and the consolidated results of operations and cash flows for the thirteen and twenty-six weeks ended June 30, 2018 and July 1, 2017. 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 30, 2017, which was filed with the SEC on March 14, 2018 and all our other periodic filings, including Current Reports on Form 8-K, filed with the SEC after the end of our 2017 fiscal year, and throughout the date of this report.

During the thirteen and twenty-six weeks ended June 30, 2018, the Company had a net loss of \$485 and net income of \$250, respectively, compared to net income of \$26,918 and \$27,175 during the thirteen and twenty-six weeks ended July 1, 2017, 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.

***Recently Adopted Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606), which was further updated in March, April, May and December 2016. The guidance in this update supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition". Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. We adopted this ASU on December 31, 2017 through the modified retrospective method, with

a cumulative adjustment that decreased accumulated deficit by approximately \$342. The cumulative adjustment related to no longer recording a synthetic shipping lag adjustment, as we began to recognize revenue upon shipment.

## Note 2 – Intangible Assets, Net

Intangible assets consisted of the following at June 30, 2018 and December 30, 2017 (in thousands):

|  | Useful Life | June 30, 2018         |                                   |                     | December 30, 2017     |                                   |                     |
|--|-------------|-----------------------|-----------------------------------|---------------------|-----------------------|-----------------------------------|---------------------|
|  |             | Gross Carrying Amount | Accumulated Amort. and Impairment | Net Carrying Amount | Gross Carrying Amount | Accumulated Amort. and Impairment | Net Carrying Amount |
| Intangible assets subject to amortization: |             |                       |                                   |                     |                       |                                   |                     |
| Product design intellectual property       | 4 years     | \$ 2,750              | \$ (2,750)                        | \$ —                | \$ 2,750              | \$ (2,750)                        | \$ —                |
| Patent license agreements                  | 3 - 5 years | 462                   | (404)                             | \$ 58               | 462                   | (360)                             | \$ 102              |
| Domain and trade names                     | 10 years    | 1,407                 | (908)                             | \$ 499              | 1,407                 | (858)                             | \$ 549              |
| Total                                      |             | <u>\$ 4,619</u>       | <u>\$ (4,062)</u>                 | <u>\$ 557</u>       | <u>\$ 4,619</u>       | <u>\$ (3,968)</u>                 | <u>\$ 651</u>       |

Intangible assets subject to amortization are amortized on a straight-line basis. Amortization expense relating to intangible assets held for continuing operations was \$47 and \$94 for the thirteen and twenty-six weeks ended June 30, 2018, respectively, compared to \$112 and \$224 for the same periods in 2017.

The following table summarizes the future estimated annual amortization expense for these assets:

|            |               |
|------------|---------------|
| 2018       | \$ 142        |
| 2019       | 100           |
| 2020       | 100           |
| 2021       | 100           |
| 2022       | 62            |
| Thereafter | 53            |
| Total      | <u>\$ 557</u> |

## Note 3 – 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. At June 30, 2018, our outstanding revolving loan balance was \$0. The guaranteed total letters of credit balance at June 30, 2018 was \$14,045, of which \$10,350 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%, 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. At June 30, 2018, the Company's LIBOR based interest rate was 3.38% (on \$0 principal) and the Company's prime based rate was 4.75% (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 JP Morgan 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 business days (on a cumulative basis) and will continue until, during the



preceding 60 consecutive days, no event of default existed and excess availability has been greater than \$3,600 at all times (with 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 \$2,400, the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 (with the trigger subject to adjustment based on the Company's revolving commitment). The Company's excess availability was \$11,229 at June 30, 2018. 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 April 26, 2020.

#### Note 4 – 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 30, 2018:

- Granted options to purchase 554 common shares.
- Exercise of 0 options to purchase common shares.
- Forfeiture of 127 option to purchase common shares.
- Expiration of 489 options to purchase common shares.

The following table summarizes the Company's restricted stock unit ("RSU") activity for the twenty-six weeks ended June 30, 2018, and details regarding the awards outstanding and exercisable at June 30, 2018 (in thousands):

|  | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|--|--------|---------------------------------|--|---------------------------|
| Awards outstanding, December 30, 2017        | 1,113  | \$ —                            |  |                           |
| Awarded                                      | 1,033  | \$ —                            |  |                           |
| Vested                                       | (488)  | \$ —                            |  |                           |
| Forfeited                                    | (348)  | \$ —                            |  |                           |
| Awards outstanding, June 30, 2018            | 1,310  | \$ —                            | 1.10   | \$ 1,965                  |
| Vested and expected to vest at June 30, 2018 | 1,310  | \$ —                            | 1.10   | \$ 1,965                  |

During the twenty-six weeks ended June 30, 2018, 357 RSU's that vested were time-based and 131 were performance-based. 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 30, 2018, we withheld 184 shares to satisfy \$430 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 30, 2018, we recorded compensation expense related to stock options and RSU's of \$156 and \$1,158, respectively. For the thirteen and twenty-six weeks ended July 1, 2017 we recorded compensation expense related to stock options and RSU's of \$555 and \$1,668, respectively. As of June 30, 2018, there was unrecognized compensation expense related to stock options and RSU's of \$4,471.

##### *Non-Controlling Interest*

Non-controlling interests represent equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to the Company (i.e., minority interests). The Company's non-controlling interests consisted of the minority equity holders' proportionate share of the equity of AutoMD. However, during March 2017, AutoMD filed for dissolution, therefore the Company no longer has any non-controlling interests.

## Note 5 – Net (Loss) Income Per Share

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

|  | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|--|----------------------|--------------|------------------------|--------------|
|  | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
| <b>Net (loss) income per share:</b>  |                      |              |                        |              |
| Numerator:   |                      |              |                        |              |
| (Loss) income from continuing operations   | \$ (485)             | \$ 26,918    | 250                    | 27,734       |
| Dividends on Series A Convertible Preferred Stock  | 40                   | 49           | 80                     | 108          |
| (Loss) income from continuing operations available to common shares                                | \$ (525)             | \$ 26,869    | \$ 170                 | \$ 27,626    |
| Denominator:   |                      |              |                        |              |
| Weighted-average common shares outstanding (basic)   | 34,972               | 35,332       | 34,896                 | 34,921       |
| Common equivalent shares from common stock options, restricted stock, preferred stock and warrants | —                    | 4,601        | 362                    | 5,158        |
| Weighted-average common shares outstanding (diluted)   | 34,972               | 39,933       | 35,258                 | 40,079       |
| Basic net (loss) income from continuing operations per share                                       | \$ (0.02)            | \$ 0.76      | \$ 0.00                | \$ 0.79      |
| Diluted net (loss) income from continuing operations per share                                     | \$ (0.02)            | \$ 0.67      | \$ 0.00                | \$ 0.69      |

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 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
| Common stock warrants                | —                    | 5            | —                      | 13           |
| Performance stock units              | 343                  | 225          | 384                    | 375          |
| Restricted stock units               | 504                  | —            | 515                    | —            |
| Series A Convertible Preferred Stock | 2,771                | —            | 2,771                  | —            |
| Options to purchase common stock     | 5,477                | 3,042        | 5,611                  | 2,754        |
| Total                                | 9,095                | 3,272        | 9,281                  | 3,142        |

## Note 6 – 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 2013-2017 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 2014-2017 remain open.

For the thirteen and twenty-six weeks ended June 30, 2018 the effective tax rate for the Company's continuing operations was 922.0% and 79.8%, respectively. The effective tax rate for the thirteen and twenty-six weeks ended June 30, 2018 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 not deductible for tax purposes or for which the tax deductible amount is different than the financial reporting amount.

For the thirteen and twenty-six weeks ended July 1, 2017, the effective tax rate for the Company's continuing operations was (2,441.8)% and (1,358.1)%, respectively. The effective tax rate for the thirteen and twenty-six weeks ended July 1, 2017 differed from the U.S. federal statutory rate primarily as a result of the partial release of the valuation allowance maintained against the Company's deferred tax assets.

## Note 7 – Commitments and Contingencies

### Facilities Leases

Facility rent expense for the thirteen and twenty-six weeks ended June 30, 2018 was \$446 and \$886, respectively, compared to \$433 and \$860 for the same periods in 2017.

Minimum lease commitments under non-cancellable operating leases as of June 30, 2018 were as follows (in thousands):

|       |                 |
|-------|-----------------|
| 2018  | \$ 783          |
| 2019  | 1,223           |
| 2020  | 541             |
| Total | <u>\$ 2,547</u> |

Capital lease commitments as of June 30, 2018 were as follows (in thousands):

|   |                 |
|---|-----------------|
| 2018  | \$ 1,279        |
| 2019  | 1,296           |
| 2020  | 966             |
| 2021  | 963             |
| 2022  | 978             |
| Thereafter                                      | 10,488          |
| Total minimum payments required                 | <u>15,970</u>   |
| Less amount representing interest               | 6,512           |
| Present value of minimum capital lease payments | <u>\$ 9,458</u> |

### 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"), Secretary Kirstjen Nielsen, and Chief Frederick Eisler (collectively, the "Defendants") 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"), an agency of DHS, 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 by CBP and all of the Company's future imports, and (iv) recovery of our attorneys' fees incurred in connection with the action. 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 that (i) the Defendants are restrained from enforcing the 3X Bonding Requirement, the Three Percent Bonding Requirement, and any other enhanced bonding requirement on the Company in order to obtain entry of its shipments into the United States, and (ii) CBP shall use its best efforts to process all of the Company's shipping containers and release all of the Company's imports not implicated by

CBP's underlying trademark infringement allegations in a timely manner. The Court's decision may be appealed by DHS, and no assurance may be given as to the outcome of any such appeal. The Court's May 25, 2018 decision is described herein in summary fashion only. The full text of the decision should be read in its entirety. Copies of the decision are available on the Court's electronic filing system (located on the Court's docket at No. 18-00068).

Despite the favorable court order, the Company continued to experience issues with product flow arising from CBP's inability to process the Company's shipping containers in an expeditious fashion. As a result, the Company incurred significant port and carrier fees resulting from the increased period of time the Company's containers remained at the port. The fees associated with this unreleased product, as well as the increased legal costs associated with the product seizures and the bonding litigation, aggregated to \$609 during the second quarter.

**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 8 – 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 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
| <b>Private Label</b> |                      |              |                        |              |
| Collision            | 57%                  | 55%          | 58%                    | 55%          |
| Engine               | 18%                  | 17%          | 17%                    | 17%          |
| Performance          | 1%                   | 1%           | 1%                     | 1%           |
| <b>Branded</b>       |                      |              |                        |              |
| Collision            | 1%                   | 1%           | 1%                     | 1%           |
| Engine               | 11%                  | 10%          | 11%                    | 10%          |
| Performance          | 12%                  | 16%          | 12%                    | 16%          |
| <b>Total</b>         | <b>100%</b>          | <b>100%</b>  | <b>100%</b>            | <b>100%</b>  |

**Note 9 – Discontinued Operations**

On March 6, 2017, AutoMD filed for dissolution. The AutoMD operating segment has been classified as discontinued operations and its results of operations are reflected under loss from discontinued operations in our consolidated financial statements. The Company continues to operate AutoMD.com as a media business and includes its results under continuing operations.

The following table summarizes the results of discontinued operations:

|   | <b>Thirteen Weeks Ended</b> | <b>Twenty-Six Weeks Ended</b> |
|---|-----------------------------|-------------------------------|
|   | <b>July 1, 2017</b>         | <b>July 1, 2017</b>           |
| Net Sales   | —                           | 37                            |
| Loss from operations and disposal of discontinued AutoMD operations | —                           | (558)                         |
| Income tax provision (benefit)                                      | —                           | 1                             |
| Loss from discontinued operations                                   | —                           | (559)                         |

Loss from operations and disposal of discontinued AutoMD operations for the twenty-six weeks ended July 1, 2017 consisted of severance costs of \$221, contract termination costs of \$164 as well as loss from operations of \$173, and included net loss attributable to noncontrolling interests of \$59.

On August 3, 2018, the Company sold the domain name associated with AutoMD operations for \$1,400.

## 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. Our user-friendly websites provide customers with a broad selection of stock keeping units ("SKUs"), with detailed product descriptions and photographs. Our proprietary product database maps our SKUs to product applications based on vehicle makes, models and years. We principally sell our products to individual consumers through our network of websites and online marketplaces. Our flagship consumer websites are located at [www.autopartswarehouse.com](http://www.autopartswarehouse.com), [www.carparts.com](http://www.carparts.com), and [www.jcwhitney.com](http://www.jcwhitney.com), and our corporate website is located at [www.usautoparts.net](http://www.usautoparts.net).

We believe our strategy of disintermediating the traditional auto parts supply chain and selling products directly to customers over the Internet allows us to efficiently deliver products to our customers. Industry-wide trends that support our strategy include:

1. *Number of SKUs required to serve the market.* The number of automotive SKUs has grown dramatically over the last several years. In today's market, unless the consumer is driving a high volume produced vehicle and needs a simple maintenance item, the part they need is not typically on the shelf at a brick-and-mortar store. We believe our user-friendly websites provide customers with a favorable alternative to the brick-and-mortar shopping experience by offering a comprehensive selection of over 1.0 million SKUs with detailed product descriptions, attributes and photographs combined with the flexibility of fulfilling orders using both drop-ship and stock-and-ship methods.
2. *U.S. vehicle fleet expanding and aging.* The average age of U.S. vehicles, an indicator of auto parts demand, rose to a record-high 11.5 years as of January 2015, according to IHS Automotive, a market analytics firm that expects the average age to rise to 11.8 years by 2019. IHS expects the number of vehicles that are 12 years or older to increase by 15% through 2019. IHS 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 2019. 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 estimates that overall revenue from online sales of auto parts and accessories is projected to increase to approximately \$13.2 billion in 2018 and more than double by 2023. Improved product availability, lower prices and consumers' growing comfort with digital platforms are driving the shift to online sales. We believe that we are well positioned for the shift to online sales due to our history of being a leading source for aftermarket automotive parts through online marketplaces and our network of websites.

*Our History.* We were formed in California in 1995 as a distributor of aftermarket auto parts and launched our first website in 2000. We reincorporated in Delaware in 2006 and expanded our online operations, increasing the number of SKUs

sold through our e-commerce network, adding additional websites, improving our Internet marketing proficiency and commencing sales in online marketplaces. Additionally, in August 2010, through our acquisition of Whitney Automotive Group, Inc. (referred to herein as "WAG"), we expanded our product-lines and increased our customer reach in the DIY automobile and off-road accessories market.

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

*AutoMD.* In March of 2017, AutoMD, a majority owned subsidiary focused on auto repairs, filed for dissolution. The AutoMD operating segment has been classified as discontinued operations and its results of operations are reflected under loss from discontinued operations in our consolidated financial statements. The dissolution of AutoMD was deemed to be a strategic shift that will have a major effect on our operations and financial results due to its material impact on the Company's net income, as well as the fact that it was one of our only two reportable operating segments. In August 2018, the Company sold the assets related to its AutoMD operations.

*Key Metrics:* To understand revenue generation through our network of e-commerce websites and online marketplaces, we monitor several key business metrics, including the following:

|   | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|---|----------------------|--------------|------------------------|--------------|
|   | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
| Unique Visitors (millions) <sup>(1)</sup> | 16.3                 | 24.7         | 36.4                   | 53.6         |
| E-commerce Orders (thousands)             | 443                  | 494          | 903                    | 1,012        |
| Online Marketplace Orders (thousands)     | 414                  | 460          | 855                    | 891          |
| Total Online Orders (thousands)           | 857                  | 954          | 1,758                  | 1,903        |
| E-commerce Average Order Value            | \$ 102               | \$ 103       | \$ 100                 | \$ 103       |
| Online Marketplace Average Order Value    | \$ 74                | \$ 67        | \$ 73                  | \$ 67        |
| Total Online Average Order Value          | \$ 88                | \$ 85        | \$ 87                  | \$ 86        |
| Revenue Capture <sup>(1)</sup>            | 87.7%                | 85.3%        | 87.9%                  | 85.2%        |
| Conversion <sup>(1)</sup>                 | 2.7%                 | 2.0%         | 2.5%                   | 1.9%         |

<sup>(1)</sup> Excludes online marketplaces and media properties (e.g. AutoMD).

*Unique Visitors:* A unique visitor to a particular website represents a user with a distinct IP address that visits that particular website. We define the total number of unique visitors in a given month as the sum of unique visitors to each of our websites during that month. We measure unique visitors to understand the volume of traffic to our websites and to track the effectiveness of our online marketing efforts. The number of unique visitors has historically varied based on a number of factors, including our marketing activities and seasonality. Included in the unique visitors are mobile device based customers, who are becoming an increasing part of our business. Shifting consumer behavior and technology enhancements indicates that customers are becoming more inclined to purchase auto parts through their mobile devices. User sophistication and technological advances have increased consumer expectations around the user experience on mobile devices, including speed of response, functionality, product availability, security, and ease of use. We believe enhancements to online solutions specifically catering to mobile based shopping can result in an increase in the number of orders and revenues. We believe an increase in unique visitors to our websites will result in an increase in the number of orders. We seek to increase the number of unique visitors to our websites by attracting repeat customers and improving search engine marketing and other internet marketing activities. During the thirteen and twenty-six weeks ended June 30, 2018 our unique visitors decreased by 34.0% and 32.1%, respectively, compared to the same periods in 2017 due primarily to a shift in traffic from e-commerce sites to online marketplaces, as well as due to lower organic traffic and a decline in paid traffic due to customer acquisition economics.

*Total Number of Orders:* We monitor the total number of orders as an indicator of future revenue trends. Total orders decreased 10.2% in the second quarter of 2018 compared to the second quarter of 2017, with e-commerce and online marketplace orders decreasing by 10.3% and 10.0%, respectively. Total orders decreased 7.6% for the twenty-six weeks ended

June 30, 2018 ("YTD Q2 2018"), compared to the twenty-six weeks ended July 1, 2017 ("YTD Q2 2017"), with ecommerce and online marketplace orders decreasing by 10.8% and 4.0%, respectively.

We believe total number of orders declined primarily due to lower traffic, partially offset by higher conversion on our e-commerce sites.

*Average Order Value:* Average order value represents our net sales on a placed orders basis for a given period of time divided by the total number of orders recorded during the same period of time. Average order value increased 3.5% and 1.2% for the second quarter and YTD Q2 2018, respectively, compared to the same periods in 2017 primarily driven by increases in online marketplaces order value. We seek to increase the average order value as a means of increasing net sales. Average order values vary depending upon a number of factors, including the components of our product offering, the order volume in certain online sales channels, macro-economic conditions, and online competition.

*Revenue Capture:* Revenue capture is the amount of actual dollars retained after taking into consideration returns, credit card declines and product fulfillment. During the second quarter and YTD Q2 2018 our revenue capture increased by 2.8% and 3.2%, respectively, compared to the same periods in 2017, primarily due to various initiatives aimed at reducing returns and fulfillment expense.

*Conversion:* Conversion is the number of orders as a rate of the total number of unique visitors. This rate indicates how well we convert a visitor to a customer sales order. During the second quarter and YTD Q2 2018 our conversion increased 35.5% and 30.5%, respectively, compared to the same periods in 2017 as a result of initiatives to improve the overall customer experience.

## Executive Summary

For the second quarter of 2018, the Company's continuing operations generated net sales of \$76,973, compared with \$80,208 for the second quarter of 2017, representing a decrease of 4.0%. Our continued operations generated a net loss of \$485 for the second quarter of 2018 compared to net income of \$26,918 for the second quarter of 2017. Our continuing operations generated income before interest expense, net, income tax provision, depreciation and amortization expense, amortization of intangible assets, plus share-based compensation expense, and costs related to our customs issues ("Adjusted EBITDA") of \$2,786 in the second quarter of 2018 compared to \$3,818 in the second quarter of 2017. Adjusted EBITDA, which is not a Generally Accepted Accounting Principle measure, is presented because such measure is used by rating agencies, securities analysts, investors and other parties in evaluating the Company. It should not be considered, however, as an alternative to operating income, as an indicator of the Company's operating performance, or as an alternative to cash flows, as a measure of the Company's overall liquidity, as presented in the Company's consolidated financial statements. Further, the Adjusted EBITDA measure shown may not be comparable to similarly titled measures used by other companies. Refer to the table presented below under "Non-GAAP measures" for additional information and a reconciliation of net income (loss) to Adjusted EBITDA.

Our second quarter 2018 net sales consisted of online sales, representing 89.0% of the total (compared to 90.6% in the second quarter of 2017), and offline sales, representing 11.0% of the total (compared to 9.4% in the second quarter of 2017). The net sales decrease was due to a decrease in online sales of \$4,132, or 5.7%, partially offset by an increase in offline sales of \$959 or 12.7%. The offline sales channel increased primarily due to increased Kool-Vue® sales. Our online sales channels decrease is primarily the result of a \$3,792, or 8.8%, decrease in our e-commerce sales channel, attributable largely to the decline in traffic and the out of stock positions resulting from customs wrongful seizure of our grilles and the prior backlog of our shipping containers at the port of Norfolk arising from the seizures.

Like most e-commerce retailers, our success depends on our ability to attract online consumers to our websites and convert them into customers in a cost-effective manner. Historically, marketing through search engines provided the most efficient opportunity to reach millions of on-line auto part buyers. We are included in search results through paid search listings, where we purchase specific search terms that will result in the inclusion of our listing, and algorithmic searches that depend upon the searchable content on our websites. Algorithmic listings cannot be purchased and instead are determined and displayed solely by a set of formulas utilized by the search engine. We have had a history of success with our search engine marketing techniques, which gave our different websites preferred positions in search results. Search engines, like Google, revise their algorithms from time to time in an attempt to optimize their search results. During the last few years, Google has changed its search results ranking algorithm. In some cases our unique visitor count, and therefore our financial results, were negatively impacted by these changes. We continue to address the ongoing changes to the Google methodology and continue to invest in paid advertising channels, but during the second quarter of 2018, our unique visitor count decreased by 8.4 million, or 34.0%, to 16.3 million unique visitors compared to 24.7 million unique visitors in the second quarter of 2017 primarily due to a



shift in traffic from our e-commerce sites to our online marketplaces, as well as due to lower organic traffic and a decline in paid traffic due to customer acquisition economics. As in the past we expect Google will continue to make changes in their search engine algorithms to improve their user experience. As we are significantly dependent upon search engines for our website traffic, if we are unable to attract unique visitors, our business and results of operations will be harmed.

Total orders decreased and average order value increased for the second quarter of 2018 compared to the second quarter of 2017. Total expenses, which primarily consisted of cost of sales and operating costs, also decreased during the second quarter of 2018 compared to the same period in 2017. Components of our cost of sales and operating costs are described in further detail under — “Results of Operations” below.

We continue to pursue strategies to support our positive sales growth and improve gross profit while reducing operating costs as percent of sales:

- We believe we can return 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 conversion rate of our visitors to customers, the total number of orders and average order value, and the number of repeat purchases, as well as contribute to our revenue growth.
- We continue to work towards becoming one of the preferred low price options in the market for aftermarket auto parts and accessories. We also continue to offer lower prices by increasing foreign sourced private label products as they are generally less expensive and we believe provide better value for the consumer. We believe our product offering will improve the conversion rate of visitors to our website, grow our revenues and improve our margins.
- We continue to increase product selection by being the first to market with many new SKUs. We currently have over 55,000 private label SKUs and over 1.0 million branded SKUs in our product selection. We will seek to add new categories and expand our existing specialty categories. We believe continued product expansion will increase the total number of orders and contribute to our revenue growth. Additionally, we plan to continue to maintain certain in-stock inventory throughout the year to ensure consistent service levels and improve customer experience.
- We continue to implement cost saving measures.

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

Overall, we believe we can return to positive e-commerce growth due to the initiatives we are implementing and will implement through the remainder of our fiscal year.

## 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; (c) depreciation and amortization expense; and (d) amortization of intangible assets; while Adjusted EBITDA consists of EBITDA before share-based compensation expense and costs related to our customs issues.

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 costs associated with our customs issues, as well as other items that allow for a more meaningful comparison of our core business results and those of other companies. 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 Company has historically operated in two reportable segments identified as the core auto parts business (“Base USAP”), and AutoMD, an online automotive repair source of which the Company was a majority stockholder. Segment information was prepared on the same basis that our chief executive officer, who is our chief operating decision maker, manages the segments, evaluates financial results, and makes key operating decisions. Management evaluated the performance of its two operating segments based on net sales, gross profit and loss from operations. The AutoMD operating segment has been classified as discontinued operations and the assets related to the AutoMD operations were sold in August 2018. The accounting policies of the operating segments are the same as those described in “Note 1 - Summary of Significant Accounting Policies and Nature of Operations” of our Notes to Consolidated Financial Statements. Operating income represents earnings before other income, interest expense and income taxes. The identifiable assets by segment disclosed are those assets specifically identifiable within each segment.

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

|  | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|--|----------------------|--------------|------------------------|--------------|
|  | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
| (Loss) income from continuing operations | \$ (485)             | \$ 26,918    | \$ 250                 | \$ 27,734    |
| Depreciation & amortization              | 1,489                | 1,637        | 2,993                  | 3,270        |
| Amortization of intangible assets        | 47                   | 112          | 94                     | 224          |
| Interest expense, net                    | 421                  | 466          | 852                    | 842          |
| Taxes                                    | 544                  | (25,859)     | 986                    | (25,832)     |
| EBITDA                                   | \$ 2,016             | \$ 3,274     | \$ 5,175               | \$ 6,238     |
| Stock comp expense                       | \$ 161               | \$ 544       | \$ 1,137               | \$ 1,608     |
| Customs Costs <sup>(1)</sup>             | 609                  | —            | 740                    | —            |
| Adjusted EBITDA                          | \$ 2,786             | \$ 3,818     | \$ 7,052               | \$ 7,846     |

(1) We incurred port and carrier fees and legal costs associated with our customs related issues. Refer to “*Note 7 – Commitments and Contingencies*” of our Notes to Consolidated Financial Statements for additional details.

## Results of Continuing 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 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
| Net sales   | 100.0 %              | 100.0 %      | 100.0 %                | 100.0 %      |
| Cost of sales   | 72.1                 | 71.0         | 71.1                   | 70.8         |
| Gross profit  | 27.9                 | 29.0         | 28.9                   | 29.2         |
| Operating expenses:                                   |                      |              |                        |              |
| Marketing   | 12.8                 | 12.8         | 12.7                   | 12.8         |
| General and administrative                            | 6.1                  | 5.4          | 6.2                    | 5.7          |
| Fulfillment   | 7.0                  | 7.4          | 7.2                    | 7.5          |
| Technology  | 1.3                  | 1.4          | 1.3                    | 1.5          |
| Amortization of intangible assets                     | 0.1                  | 0.1          | 0.1                    | 0.1          |
| Total operating expenses                              | 27.3                 | 27.1         | 27.5                   | 27.6         |
| Income from operations                                | 0.6                  | 1.9          | 1.4                    | 1.6          |
| Other income (expense):                               |                      |              |                        |              |
| Other income, net                                     | —                    | —            | —                      | —            |
| Interest expense                                      | (0.5)                | (0.6)        | (0.5)                  | (0.5)        |
| Total other expense, net                              | (0.5)                | (0.6)        | (0.5)                  | (0.5)        |
| Income from continuing operations before income taxes | 0.1                  | 1.3          | 0.9                    | 1.1          |
| Income tax provision                                  | 0.7                  | (32.2)       | 0.6                    | (16.0)       |
| Income from continuing operations                     | (0.6)%               | 33.5 %       | 0.3 %                  | 17.1 %       |

### Thirteen Weeks Ended June 30, 2018 Compared to the Thirteen Weeks Ended July 1, 2017

#### Net Sales and Gross Margin

|               | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|---------------|----------------------|--------------|------------------------|--------------|
|               | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
|               | (in thousands)       |              |                        |              |
| Net sales     | \$ 76,973            | \$ 80,208    | \$ 155,358             | \$ 161,041   |
| Cost of sales | 55,488               | 56,964       | 110,414                | 114,010      |
| Gross profit  | \$ 21,485            | \$ 23,244    | \$ 44,944              | \$ 47,031    |
| Gross margin  | 27.9 %               | 29.0 %       | 28.9 %                 | 29.2 %       |

Net sales decreased \$3,235, or 4.0%, for the second quarter of 2018 compared to the second quarter of 2017. Our net sales consisted of online sales, representing 89.0% of the total for the second quarter of 2018 (compared to 90.6% in the second quarter of 2017), and offline sales, representing 11.0% of the total for the second quarter of 2018 (compared to 9.4% in the second quarter of 2017). The net sales decrease was driven by a decrease of \$4,132, or 5.7%, in online sales, partially offset by an increase of \$959 or 12.7% in offline sales. Online sales decreased compared to the second quarter of 2017 primarily due to declines in the number of total orders, partially offset by increased average order value. Offline sales increased primarily due to increases in sales of our Kool-Vue® product and sales to our wholesale customers.

Net sales decreased \$5,683, or 3.5%, for the YTD Q2 2018 compared to the YTD Q2 2017. Our net sales consisted of online sales, representing 89.0% of the total net sales for YTD Q2 2018 (compared to 90.6% for YTD Q2 2017), and offline sales, representing 11.0% of the total for YTD Q2 2018 (compared to 9.4% for YTD Q2 2017). The net sales decrease was driven by a decrease of \$7,694, or 5.3%, in online sales. Online sales decreased primarily due to a decrease in total online orders partially offset by increased average order value. During YTD Q2 2018 our offline sales, which consist of our Kool-Vue® and wholesale operations, increased by \$2,070, or 13.7%, compared to YTD Q2 2017, primarily due to increased Kool-Vue® sales.

Gross profit decreased \$1,759 or 7.6%, compared to the second quarter of 2017 and decreased \$2,087, or 4.4%, compared to the YTD Q2 2017. Gross margin rate decreased 1.1% to 27.9% in the second quarter of 2018 compared to 29.0% in the second quarter of 2017 and decreased 0.3% to 28.9% in YTD Q2 2018 compared to 29.2% in YTD Q2 2017. Gross margin rate decreased for the second quarter and YTD Q2 2018 primarily due to a sales channel mix shift towards online marketplaces, as well as additional costs related to our customs issues, partially offset by a favorable mix shift of private label sales compared to last year.

#### Marketing Expense

|                      | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|----------------------|----------------------|--------------|------------------------|--------------|
|                      | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
|                      | (in thousands)       |              |                        |              |
| Marketing expense    | \$ 9,818             | \$ 10,248    | \$ 19,800              | \$ 20,562    |
| Percent of net sales | 12.8%                | 12.8%        | 12.7%                  | 12.8%        |

Total marketing expense decreased \$430, or 4.2%, for the second quarter of 2018 compared to the second quarter of 2017. Online advertising expense was \$5,445, or 7.1%, of online sales compared to \$5,436, or 7.5%, of online sales for the prior year period. Marketing expense, excluding online advertising, was \$4,414, or 5.7%, of net sales compared to \$4,808, or 6.0%, of net sales for the same period last year. The decrease was primarily due to a decrease in labor costs. As a percent of net sales, total marketing expense during the second quarter of 2018 remained flat compared to the second quarter of 2017.

Total marketing expense decreased \$762, or 3.7%, for YTD Q2 2018 compared to YTD Q2 2017. Online advertising expense, which includes catalog costs, was \$11,070, or 8.0%, of online sales compared to \$11,113, or 7.6%, of online sales for the prior year period. Online advertising expense decreased in YTD Q2 2018 primarily due to the elimination of our catalog advertising program. Marketing expense, excluding online advertising, was \$8,771, or 5.6%, of net sales compared to \$9,421, or 5.9%, of net sales for the same period last year. The decrease was primarily due to a decrease in labor costs. As a percent of net sales, total marketing expense during YTD Q2 2018 remained flat compared to YTD Q2 2017.

#### General and Administrative Expense

|                                    | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|------------------------------------|----------------------|--------------|------------------------|--------------|
|                                    | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
|                                    | (in thousands)       |              |                        |              |
| General and administrative expense | \$ 4,741             | \$ 4,310     | \$ 9,626               | \$ 9,111     |
| Percent of net sales               | 6.1%                 | 5.4%         | 6.2%                   | 5.7%         |

General and administrative expense increased \$431, or 10.0%, and increased \$515, or 5.7% for the second quarter and YTD Q2 2018, respectively, compared to the same periods in 2017 primarily due to increased overhead costs. General and administrative expense increased as a percentage of net sales compared to 2017.

#### Fulfillment Expense

|                      | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|----------------------|----------------------|--------------|------------------------|--------------|
|                      | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
|                      | (in thousands)       |              |                        |              |
| Fulfillment expense  | \$ 5,394             | \$ 5,929     | \$ 11,242              | \$ 12,011    |
| Percent of net sales | 7.0%                 | 7.4%         | 7.2%                   | 7.5%         |

Fulfillment expense decreased \$535, or 9.0%, and decreased \$769, or 6.4%, for the second quarter and YTD Q2 2018, respectively, compared to the same periods in 2017, primarily due to a decrease in depreciation and amortization. Fulfillment expense decreased as a percentage of net sales.

### Technology Expense

|                      | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|----------------------|----------------------|--------------|------------------------|--------------|
|                      | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
|                      | (in thousands)       |              |                        |              |
| Technology expense   | \$ 998               | \$ 1,136     | \$ 2,086               | \$ 2,409     |
| Percent of net sales | 1.3 %                | 1.4 %        | 1.3 %                  | 1.5 %        |

Technology expense decreased \$138, or 12.1%, and decreased \$323, or 13.4%, for the second quarter and YTD Q2 2018, respectively, compared to the same periods in 2017, primarily due to decreased labor expenses. Technology expense decreased slightly as a percentage of net sales.

### Total Other Expense, Net

|                      | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|----------------------|----------------------|--------------|------------------------|--------------|
|                      | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
|                      | (in thousands)       |              |                        |              |
| Other expense, net   | \$ (428)             | \$ (450)     | \$ (860)               | \$ (812)     |
| Percent of net sales | (0.5)%               | (0.6)%       | (0.5)%                 | (0.5)%       |

Total other expense, net decreased \$22, or 4.9%, for the second quarter of 2018 compared to the second quarter of 2017. Total other expense, net increased \$48, or 5.9% for the YTD Q2 2018 compared to YTD Q2 2017. Total other expense, net remained constant as a percentage of net sales.

### Income Tax Provision

|                      | Thirteen Weeks Ended |              | Twenty-Six Weeks Ended |              |
|----------------------|----------------------|--------------|------------------------|--------------|
|                      | June 30, 2018        | July 1, 2017 | June 30, 2018          | July 1, 2017 |
|                      | (in thousands)       |              |                        |              |
| Income tax provision | \$ 544               | \$ (25,859)  | \$ 986                 | \$ (25,832)  |
| Percent of net sales | 0.7 %                | (32.2)%      | 0.6 %                  | (16.0)%      |

For the thirteen and twenty-six weeks ended June 30, 2018 the effective tax rate for the Company's continuing operations was 922.0% and 79.8%, respectively. The effective tax rate for the thirteen and twenty-six weeks ended June 30, 2018 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 not 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. 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 thirteen weeks ended June 30, 2018, there was no material change from fiscal year ended 2017 in the amount of the Company's deferred tax assets that are more likely than not to be realized in future years.

For the thirteen and twenty-six weeks ended July 1, 2017, the effective tax rate for the Company's continuing operations was (2,441.8)% and (1,358.1)%, respectively. The effective tax rate for the thirteen and twenty-six weeks ended July 1, 2017 differed from the U.S. federal statutory rate primarily as a result of the partial release of the valuation allowance maintained against the Company's deferred tax assets.

### 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. See additional information in "Foreign Currency Risk" below in Item 3.

## Liquidity and Capital Resources

### Sources of Liquidity

During the twenty-six weeks ended June 30, 2018 and July 1, 2017, we primarily funded our continuing 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 \$6,824 as of June 30, 2018, representing a \$3,974 increase from \$2,850 of cash as of December 30, 2017. The cash increase was primarily due to timing of payments with one of our shipping vendors. Based on our current operating plan, we believe that our existing cash and cash equivalents, investments, cash flows from operations and available funds under our credit facility will be sufficient to finance our operations through at least the next twelve months (see “Debt and Available Borrowing Resources” and “Funding Requirements” below).

As of June 30, 2018, 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 30, 2018 and December 30, 2017, our working capital was \$15,295 and \$13,634, respectively. Our revolving loan does not require principal payments, however it is classified as current due to certain U.S. GAAP requirements (see “Debt and Available Borrowing Resources” below for further details). The historical seasonality in our business during the year can cause cash and cash equivalents, inventory and accounts payable to fluctuate, resulting in changes in our working capital.

### Cash Flows

The following table summarizes the key cash flow metrics from our consolidated statements of cash flows for the twenty-six weeks ended June 30, 2018 and July 1, 2017 (in thousands):

|   | Twenty-Six Weeks Ended |              |
|---|------------------------|--------------|
|   | June 30, 2018          | July 1, 2017 |
| Net cash provided by operating activities | \$ 7,841               | \$ 12,470    |
| Net cash used in investing activities     | (2,940)                | (2,455)      |
| Net cash used in financing activities     | (903)                  | (6,710)      |
| Effect of exchange rate changes on cash   | (24)                   | (20)         |
| Net change in cash and cash equivalents   | \$ 3,974               | \$ 3,285     |

### Operating Activities

Cash provided by operating activities is primarily comprised of net income (loss), adjusted for non-cash activities such as depreciation and amortization expense, amortization of intangible assets and share-based compensation expense. These non-cash adjustments represent charges reflected in net income and, therefore, to the extent that non-cash items increase or decrease our operating results, there will be no corresponding impact on our cash flows. Net income adjusted for non-cash adjustments to operating activities was \$5,403 for the twenty-six weeks ended June 30, 2018 (adjusted for non-cash charges primarily related to depreciation and amortization expense of \$2,993 and share based compensation of \$1,137), compared to net income adjusted for non-cash adjustments to operating activities of \$6,448 for the twenty-six weeks ended July 1, 2017 (adjusted for non-cash charges primarily consisting of deferred income taxes of \$25,881 and depreciation and amortization expense of \$3,270). After excluding the effects of the non-cash charges, the primary changes in cash flows relating to operating activities resulted from changes in operating assets and liabilities.

- Accounts receivable increased to \$2,633 at June 30, 2018 from \$2,470 at December 30, 2017, resulting in a increase in operating assets and reflecting a cash outflow of \$163 for the twenty-six weeks ended June 30, 2018. Accounts receivable increased primarily due to timing of payments at the end of the quarter. For the twenty-six weeks ended July 1, 2017, cash inflow related to the change in accounts receivable was \$568.
- Inventory decreased to \$54,187 at June 30, 2018 from \$54,231 at December 30, 2017, resulting in a decrease in operating assets and reflecting a cash inflow of \$44 for the twenty-six weeks ended June 30, 2018. For the twenty-six weeks ended July 1, 2017, cash outflow related to the change in inventory was \$1,291.

- Accounts payable and accrued expenses increased to \$47,760 at June 30, 2018 compared to \$43,362 at December 30, 2017, resulting in an increase in operating liabilities and reflecting a cash inflow of \$4,560 for the twenty-six weeks ended June 30, 2018. Accounts payable and accrued expenses increased primarily due to the increase in accrued expenses of \$6,241. Accounts payable and accrued expenses fluctuates from period-to-period due to the amount of our revenues and the related purchases and the timing of our payments. For the twenty-six weeks ended July 1, 2017, cash inflow related to the change in accounts payable and accrued expenses was \$7,261.

#### *Investing Activities*

For the twenty-six weeks ended June 30, 2018 and July 1, 2017, net cash used in investing activities was primarily the result of increases in property and equipment (\$2,940 and \$2,494, respectively), which are mainly related to capitalized website and software development costs.

#### *Financing Activities*

For the twenty-six weeks ended June 30, 2018, net cash used in financing activities was primarily due to payments made on our revolving loan payable. For the twenty-six weeks ended July 1, 2017, net cash used in financing activities was primarily due to payments made on our revolving loan payable and the minority shareholder redemption.

#### *Debt and Available Borrowing Resources*

Total debt was \$9,457 as of June 30, 2018, compared to \$9,752 as of December 30, 2017. The decrease was primarily due to a reduction in capital leases payable.

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. At June 30, 2018, we did not have an outstanding revolving loan balance. The guaranteed total letters of credit balance at June 30, 2018 was \$14,045, of which \$10,350 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. The customary events of default under the Credit Facility (discussed below) include certain subjective acceleration clauses. Management has determined the likelihood of an acceleration is more than remote, considering the recurring losses experienced by the Company. As a result, any outstanding borrowings under the Credit Facility would be classified as a current liability.

Loans drawn under the Credit Agreement bear interest, at the Company's option, at a per annum rate equal to either (a) one month LIBOR plus an applicable margin of 1.25%, or (b) an "alternate prime base rate" subject to an increase or reduction by up to 0.25% based on the Company's fixed charge coverage ratio. At June 30, 2018, the Company's LIBOR based interest rate was 3.38% (on \$0 principal) and the Company's prime based rate was 4.75% (on \$0 principal). A commitment fee, based upon undrawn availability under the Credit Agreement 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 business days (on a cumulative basis), and will continue until, during the preceding 60 consecutive days, no event of default existed and excess availability has been greater than \$3,600 at all times (with the trigger subject to adjustment based on the Company's revolving commitment). In addition, in the event that "excess availability," as defined under the Credit Agreement, is less than \$2,400 the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0. The Company's excess availability was \$11,229 at June 30, 2018. The credit facility matures on April 26, 2020.

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. 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.

### Contractual Obligations

The following table sets forth our contractual cash obligations and commercial commitments as of June 30, 2018:

| Contractual Obligations:        | Payment Due By Period (in thousands) |                     |           |           |                      |
|---------------------------------|--------------------------------------|---------------------|-----------|-----------|----------------------|
|                                 | Total                                | Less than<br>1 year | 1-3 years | 3-5 years | More than<br>5 years |
| Operating lease obligations (1) | \$ 2,547                             | \$ 1,573            | \$ 974    | \$ —      | \$ —                 |
| Capital lease obligations (2)   | 15,970                               | 1,279               | 2,262     | 1,941     | 10,488               |

(1) Commitments under operating leases relate primarily to our leases on our corporate offices in Carson, California, our distribution centers in Chesapeake, Virginia and our call center in the Philippines.

(2) Commitments under capital leases primarily relate to sale-leaseback of our LaSalle, Illinois facility.

### Seasonality

We believe our business is subject to seasonal fluctuations. 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 expect the historical seasonality trends to continue to have a material impact on our financial condition and results of operations during the reporting periods in any given year.

### Inflation

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

### 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 twenty-six weeks ended June 30, 2018. 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 14, 2018*):

- 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 – Recent Accounting Pronouncements*” 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

*Market Risk.* Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial commodity market prices and rates. We are exposed to market risk primarily in the area of changes in U.S. interest rates and conditions in the credit markets. We also have some exposure related to foreign currency fluctuations. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We do not have any derivative financial instruments as of June 30, 2018. We attempt to increase the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities and mutual funds that hold debt securities.

*Interest Rate Risk.* Our investment securities generally consist of mutual funds. As of June 30, 2018, our investments were comprised of \$5 of investments in mutual funds that primarily hold debt securities.

As of June 30, 2018, we had a balance of \$0 outstanding under a revolving loan under our credit facility. The interest rate on this loan is computed based on a LIBOR and Prime loan rate, adjusted by features specified in our loan agreement. At our debt level as of June 30, 2018, a 100 basis point increase in interest rates would not materially affect our earnings and cash flows. If, however, we are unable to meet the covenants in our loan agreement, we would be required to renegotiate the terms of credit under the loan agreement, including the interest rate. There can be no assurance that any renegotiated terms of credit would not materially impact our earnings. At June 30, 2018, our LIBOR based interest rate was 3.38% per annum (on \$0 principal) and our Prime based rate was 4.75% per annum (on \$0 principal). Refer to additional discussion in Item 2, under the caption “*Liquidity and Capital Resources – Debt and Available Borrowing Resources*” and in “*Note 3 – Borrowings*” of the Notes to Consolidated Financial Statements (Unaudited), included in Part I, Item 1 of this report.

*Foreign Currency Risk.* Our purchases of auto parts from our Asian suppliers are denominated in U.S. dollars; however, a change in the foreign currency exchange rates could impact our product costs over time. Our financial reporting currency is the U.S. dollar and changes in exchange rates significantly affect our reported results and consolidated trends. For example, if the U.S. dollar weakens year-over-year relative to currencies in our international locations, our consolidated gross profit and operating expenses will be higher than if currencies had remained constant. Likewise, if the U.S. dollar strengthens year-over-year relative to currencies in our international locations, our consolidated gross profit and operating expenses will be lower than if currencies had remained constant. Our operating expenses in the Philippines are generally paid in Philippine Pesos, and as the exchange rate fluctuates, it adversely or favorably impacts our operating results. In light of the above, a fluctuation of 10% in the Peso/U.S. dollar exchange rate would have approximately a \$453 impact on our Philippine operating expenses for the twenty-six weeks ended June 30, 2018. During fiscal year 2014, we hedged a portion of our forecasted foreign currency exposure associated with operating expenses incurred in the Philippines. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. As of December 30, 2017 and June 30, 2018, we had no hedges in place. We are evaluating our options on how to manage this risk and considering various methods to mitigate such risk. Our Canadian website sales are denominated in Canadian dollars; however, fluctuations in exchange rates from these operations are only expected to have a nominal impact on our operating results due to the relatively small number of sales generated in Canada. We believe it is important to evaluate our operating results and growth rates before and after the effect of currency changes.

### ITEM 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 7 – 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 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. We have marked with an asterisk (\*) those risk factors that reflect substantive changes from the risk factors included in the Annual Report on Form 10-K that we filed with the SEC on March 14, 2018. 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, shifting consumer behavior indicates 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. For example, during the second quarter of fiscal 2018, the online marketplaces sales grew from 35.4% of total sales to 36.8% of total sales over the prior year. Any mix shift in sales to marketplace channels could result in lower gross margins, and as a result, our business and financial results may suffer.

***\* During the first half of fiscal 2018 we recorded net income, but we have a history of net losses and there can be no assurance that net income will continue for the remainder of fiscal year 2018.***

During the first half of fiscal 2018 we recorded net income of \$250, compared to a net income of \$27,175 for the first half of fiscal 2017. While we achieved net income, if our historical net losses were to return, 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 historical net losses were to return, 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 million subject to a borrowing base derived from certain of our receivables, inventory and property and equipment. Our Credit Agreement includes a number of restrictive covenants. These covenants could impair our financing and operational flexibility and make it difficult for us to react to market conditions and satisfy our ongoing capital needs and unanticipated cash requirements. Specifically, such covenants restrict our ability and, if applicable, the ability of our subsidiaries to, among other things:

- incur additional debt;
- make certain investments and acquisitions;
- enter into certain types of transactions with affiliates;
- use assets as security in other transactions;
- pay dividends on our capital stock or repurchase our equity interests, excluding payments of preferred stock dividends which are specifically permitted under our credit facility;
- sell certain assets or merge with or into other companies;
- guarantee the debts of others;

- enter into new lines of business;
- pay or amend our subordinated debt; and
- form any joint ventures or subsidiary investments.

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

Under certain circumstances, our credit facility may also require us to satisfy a financial covenant, which could limit our ability to react to market conditions or satisfy extraordinary capital needs and could otherwise impact our liquidity and capital resources, restrict our financing and have a material adverse effect on our results of operations.

Our ability to comply with the covenants and other terms of our debt obligations will depend on our future operating performance. If we fail to comply with such covenants and terms, we would be required to obtain waivers from our lenders to maintain compliance with our debt obligations. In the future, if we are unable to obtain any necessary waivers and our debt is accelerated, a material adverse effect on our financial condition and future operating performance would result.

While we did not have any outstanding revolver debt under our Credit Agreement as of the end of the second quarter of 2018, 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.

***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. For example, during fiscal 2016, we recorded a non-cash impairment charge of \$1,130 relating to the impairment of certain AutoMD software. 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 49% of our total product purchases during the twenty-six weeks ended June 30, 2018. 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 30, 2018, our product purchases from three drop-ship suppliers represented approximately 10% 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;
- tariffs and protectionist laws and business practices that favor local businesses;
- difficulties in complying with import and export laws, regulatory requirements and restrictions;
- natural disasters and public health emergencies;
- import shipping delays resulting from foreign or domestic labor shortages, slow downs, or stoppage; and
- the failure of local laws to provide a sufficient degree of protection against infringement of our intellectual property.

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 a preliminary injunction removing the bonding requirement, the Company may not be successful in removing the bonding requirement on a permanent basis, or even if the Company were to receive a

permanent injunction, CBP may refuse to obey the court order or 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.

***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. For example, shipping costs have recently increased on larger items such as bumpers and hoods. 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. 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 reduce.***

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

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

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

- difficulties and costs of staffing and managing foreign operations, including any impairment to our relationship with employees caused by a reduction in force;
- restrictions imposed by local labor practices and laws on our business and operations;
- exposure to different business practices and legal standards;
- unexpected changes in regulatory requirements;
- the imposition of government controls and restrictions;
- political, social and economic instability and the risk of war, terrorist activities or other international incidents;
- the failure of telecommunications and connectivity infrastructure;

- natural disasters and public health emergencies;
- potentially adverse tax consequences; and
- fluctuations in foreign currency exchange rates and relative weakness in the U.S. dollar.

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

Our success depends on our ability to successfully receive and fulfill orders and to promptly deliver our products to our customers. The majority of orders for our auto 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 to our IT infrastructure could expose us to liability, and damage our reputation and business***

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

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

Moreover, we are subject to the Payment Card Industry Data Security Standard ("PCI DSS"), issued by the PCI Council. PCI DSS contains compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. 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 this year. 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.

***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. During the past year, for example, the CBP has alleged that certain repair grilles imported by the Company are counterfeit and infringe on trademarks registered by OEMs. While the Company does not believe the trademarks are enforceable against it, the Company has ceased importing automotive grilles to avoid disruption to its supply chain. If the Company cannot work out a settlement with CBP, or otherwise locate a cost effective alternative to acquire aftermarket grilles, we will be unable to sell this product category which may result in a decline in revenue. In addition, to the extent that the OEMs are successful in obtaining and enforcing other intellectual property rights, we could be restricted or prohibited from selling other 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 second quarter of 2018, we incurred approximately \$609 of port and carrier fees and legal expenses attributable to CBP's wrongful seizures and the Company's pending 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 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.usautoparts.net](http://www.usautoparts.net), [www.carparts.com](http://www.carparts.com), [www.autopartswarehouse.com](http://www.autopartswarehouse.com), and [www.jcwhitney.com](http://www.jcwhitney.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.

### **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 30, 2018, the trading price of our common stock has been volatile, ranging from a high of \$12.61 per share to a low per share of \$0.91. We have also experienced significant fluctuations in the trading volume of our common stock. General economic and political conditions unrelated to our performance may also adversely affect the price of our common stock. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been initiated. Due to the inherent uncertainties of litigation, we cannot predict the ultimate outcome of any such litigation if it were initiated. The initiation of any such litigation or an unfavorable result could have a material adverse effect on our financial condition and results of operations.

***In May 2017, Oak Investment Partners XI, L.P., our then largest stockholder, distributed approximately 28% of our outstanding shares of common stock on an as converted basis to its limited partners,, and any sale of such shares into the market in the future could cause the market price of our common stock to drop significantly, even if our business is doing well.***

In May 2017, Oak Investment Partners XI, L.P., our then largest stockholder, distributed approximately 28% of our outstanding shares of common stock on an as converted basis to its limited partners. Sales of a substantial number of shares of our common stock in the public market by Oak's limited partners, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales or perceived sales by these stockholders may have on the prevailing market price of our common stock.

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

NASDAQ imposes, among other requirements, continued listing standards including minimum bid and public float requirements. The price of our common stock must trade at or above \$1.00 to comply with NASDAQ's minimum bid requirement for continued listing on the NASDAQ. If our stock trades at bid prices of less than \$1.00 for a period in excess of 30 consecutive business days, the NASDAQ could send a deficiency notice to us for not remaining in compliance with the minimum bid listing standards. While our common stock has not recently traded below \$1.00, if the closing bid price of our common stock were to fail to meet NASDAQ's minimum closing bid price requirement, or if we otherwise fail to meet any other applicable requirements of the NASDAQ and we are unable to regain compliance, NASDAQ may make a determination to delist our common stock.

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

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

In March 2013, our Board of Directors, under the authority granted by our Certificate of Incorporation, established a series of preferred stock, our Series A Convertible Preferred, which has various rights, preferences and privileges senior to the shares of our common stock. Dividends on the Series A Convertible Preferred are payable quarterly, subject to the satisfaction of certain conditions, at a rate of \$0.058 per share per annum in cash, in shares of common stock or in any combination of cash and common stock as determined by our Board of Directors. While we may, at our election, subject to the satisfaction of certain conditions, pay any accrued but unpaid dividends on the Series A Convertible Preferred in either cash or in common stock, we may be unable to satisfy the requisite conditions for paying dividends in common stock and, under such circumstances, we will be required to pay such accrued but unpaid dividends in cash. In such circumstances, we will be required to use cash that would

otherwise be used to fund our ongoing operations to pay such accrued but unpaid dividends. To the extent we do pay dividends in common stock as we have done in certain prior periods, the ownership percentage of our common stockholders who are not holders of the Series A Convertible Preferred will be diluted. Our Series A Convertible Preferred is initially convertible for 2,770,687 shares of common stock, and to the extent that the Series A Convertible Preferred is converted, the common stock ownership percentage of our common stockholders who are not converting holders of the Series A Convertible Preferred will be diluted.

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

We expect that our revenue and operating results will continue to fluctuate from quarter to quarter due to various factors, many of which are beyond our control. If our quarterly revenue or operating results fall below the expectations of investors or securities analysts, the price of our common stock could significantly decline. The factors that could cause our operating results to continue to fluctuate include, but are not limited to:

- fluctuations in the demand for aftermarket auto parts;
- price competition on the Internet or among offline retailers for auto parts;
- our ability to attract visitors to our websites and convert those visitors into customers, including to the extent based on our ability to successfully work with different search engines to drive visitors to our websites;
- our ability to successfully sell our products through third-party online marketplaces or the effects of any price increases in those marketplaces;
- competition from companies that have longer operating histories, larger customer bases, greater brand recognition, access to merchandise at lower costs and significantly greater resources than we do, like third-party online market places and our suppliers;
- our ability to maintain and expand our supplier and distribution relationships without significant price increases or reduced service levels;
- our ability to borrow funds under our credit facility;
- the effects of seasonality on the demand for our products;
- our ability to accurately forecast demand for our products, price our products at market rates and maintain appropriate inventory levels;
- our ability to build and maintain customer loyalty;
- our ability to successfully integrate our acquisitions;
- infringement actions that could impact the viability of the auto parts aftermarket or portions thereof;
- the success of our brand-building and marketing campaigns;
- our ability to accurately project our future revenues, earnings, and results of operations;
- government regulations related to use of the Internet for commerce, including the application of existing tax regulations to Internet commerce and changes in tax regulations;
- technical difficulties, system downtime or Internet brownouts;
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure; and
- macroeconomic conditions that adversely 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 30, 2018, we have in the past, and could in the future, have a significant deficiency or material weakness in internal control over financial reporting or fail to comply with Section 404 of the Sarbanes-Oxley Act of 2002. If we fail to properly maintain an effective system of internal control over financial reporting, it could impact our ability to prevent fraud or to issue our financial statements in a timely manner that presents fairly our financial condition and results of operations. The existence of any such deficiencies or weaknesses, even if remediated, may also lead to the loss of investor confidence in the reliability of our

financial statements, could harm our business and negatively impact the trading price of our common stock. Such deficiencies or material weaknesses may also subject us to lawsuits, regulatory investigations and other penalties.

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

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

- our Board of Directors are authorized, without prior stockholder approval, to create and issue preferred stock which could be used to implement anti-takeover devices;
- advance notice is required for director nominations or for proposals that can be acted upon at stockholder meetings;
- our Board of Directors is classified such that not all members of our board are elected at one time, which may make it more difficult for a person who acquires control of a majority of our outstanding voting stock to replace all or a majority of our directors;
- stockholder action by written consent is prohibited except with regards to an action that has been approved by the Board;
- special meetings of the stockholders are permitted to be called only by the chairman of our Board of Directors, our chief executive officer or by a majority of our Board of Directors;
- stockholders are not permitted to cumulate their votes for the election of directors; and
- stockholders are permitted to amend certain provisions of our bylaws only upon receiving at least 66 2/3% of the votes entitled to be cast by holders of all outstanding shares then entitled to vote generally in the election of directors, voting together as a single class.

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

We currently do not expect to pay any cash dividends on our common stock for the foreseeable future.

**General Market and Industry Risk**

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

We sell aftermarket auto parts consisting of 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 currently collect 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 recent Supreme Court decision in *South Dakota v. Wayfair*, the Company will now be 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.

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

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

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

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

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

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

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

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

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

| <b>Period</b>         | <b>Total Number of Shares Purchased <sup>(1)</sup></b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs</b> |
|-----------------------|--|-------------------------------------|---|---|
| Apr 1 - Apr 28, 2018  | 17,290   | \$ 2.01                             | —   | —   |
| Apr 29 - May 26, 2018 | —  | \$ —                                | —   | —   |
| May 27 - Jun 30, 2018 | —  | \$ —                                | —   | —   |

<sup>(1)</sup>Includes shares surrendered by employees to us to satisfy tax withholding obligations that arose upon vesting of restricted stock units granted pursuant to approved plans.

## **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>   |
|--------------------|--|
| 10.1+              | <a href="#"><u>Amended Employment Agreement dated June 14, 2018 between U.S. Auto Parts Network, Inc. and David Eisler.</u></a>  |
| 10.2+              | <a href="#"><u>Form of Notice of Grant of Restricted Stock Units to Directors under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan.</u></a>                    |
| 10.3+              | <a href="#"><u>2018 Independent Director Compensation Plan.</u></a>  |
| 31.1               | <a href="#"><u>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</u></a>           |
| 31.2               | <a href="#"><u>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</u></a>           |
| 32.1               | <a href="#"><u>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</u></a> |
| 32.2               | <a href="#"><u>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</u></a> |
| 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   |
| +                  | Indicates a management contract or compensatory plan or arrangement.   |

**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 8, 2018

**U.S. AUTO PARTS NETWORK, INC.**

By: /s/ Aaron Coleman  
Aaron Coleman  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Neil T. Watanabe  
Neil T. Watanabe  
Chief Financial Officer  
(Principal Financial Accounting Officer)

## **EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** (the "**Agreement**") is revised effective June 14, 2018 (the "**Effective Date**") by and between U.S. Auto Parts Network, Inc., a Delaware corporation (the "**Company**"), and David Eisler, an individual (the "**Executive**"). This Agreement was initially effective on May 20, 2015 (the "**Initial Effective Date**").

**WHEREAS**, the parties hereto desire to amend the written agreement documenting the terms of Executive's employment with the Company.

### **1. Duties and Responsibilities.**

A. Executive shall serve as the Company's SVP, Chief Legal and Administrative Officer and Corporate Secretary, reporting directly to the Company's Chief Executive Officer. Executive shall have the duties and powers at the Company that are customary for an individual holding such positions.

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

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

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

### **3. Cash Compensation.**

A. **Annual Salary.** Executive's base salary shall be \$268,004 per year (the "**Annual Salary**"), which shall be payable in accordance with the Company's standard payroll schedule (but in no event less frequent than on a monthly basis), and may be increased from time to time at the discretion of the Compensation Committee of the Company's Board of Directors (the "**Compensation Committee**"). The Compensation Committee shall review Executive's Annual Salary at least annually and may increase the Annual Salary from time to time at its sole discretion. Any increased Annual Salary shall thereupon be the "Annual Salary" for the purposes hereof. Executive's Annual Salary shall not be decreased without his prior written consent at any time during the Employment Period.

B. **Annual Target Bonus.** Executive shall also be entitled to receive an annual target incentive bonus of up to 50% of the Executive's current salary. The annual bonus shall be based upon the Company achieving its revenue and/or EBITDA goals, and Executive meeting the annual goals determined by the Compensation Committee. The amount of the annual target bonus payable to Executive with respect to any given year shall be determined by the Compensation Committee. The annual bonus shall be paid no later than the end of March following the year for which such bonus is being paid.

C. **2018 Retention Bonus.** Subject to the terms and conditions herein, Executive shall also be entitled to receive a one-time retention bonus in the gross amount of \$75,000 ("**2018 Retention Bonus**"), to be paid by the Company on March 29, 2019. Executive must remain actively employed by the Company and in compliance with the Company's policies and directives concerning Executive's job performance and conduct in order to earn and receive the 2018 Retention Bonus, provided however, in the event that the Executive's employment is terminated by the Company without Cause (as defined below) or in the event Executive resigns for Good Reason (as defined

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below) prior to March 29, 2019, Executive shall be entitled to receive the 2018 Retention Bonus on the date of such termination.

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

#### 4. **Equity Compensation.**

A. **Prior Equity Awards.** Any equity awards previously granted to Executive shall continue in effect in accordance with their existing terms unless superseded by the terms of this Agreement.

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

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

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

#### 6. **Fringe Benefits.**

A. **Group Plans.** Executive shall, throughout the Employment Period, continue to be eligible to participate in all of the group term life insurance plans, group health plans, accidental death and dismemberment plans, short-term disability programs, retirement plans, profit sharing plans or other plans (for which Executive qualifies) that are available to the executive officers of the Company. During the Employment Period, the Company will pay for coverage for Executive and his spouse and dependents residing in Executive's household (collectively, the "**Dependents**") under the Company's health plan, and coverage for Executive under the Company's accidental

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death and dismemberment plan and for short-term disability. In the event Executive elects not to participate in the Company's health plan, the Company shall reimburse Executive for the cost of alternative health care coverage of his choosing for Executive and his Dependents in an amount up to \$1,500 per month. Payment for all other benefit plans will be paid in accordance with the Company's policy in effect for similar executive positions.

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

C. **Indemnification.** The Company and Executive have entered into the Company's standard indemnification agreement for its key executives.

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

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

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

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**C. Termination for Any Other Reason; Resignation for Good Reason.** Should the Company terminate Executive's employment (other than for Cause or as a result of Executive's Death or Disability), or in the event Executive resigns for Good Reason (as defined below) within two years following the initial occurrence of the event giving rise thereto, then the Company shall pay Executive the Required Payments; and Executive shall also be entitled to the following: (i) any unpaid annual target bonus under Section 3B for the year immediately prior to the year of such termination or resignation (in an amount equal to the bonus percentage accrued by the Company, pursuant to GAAP, through the last closed accounting month prior to the time of such termination or resignation) and a pro-rated share of Executive's annual target bonus under Section 3B for the year of such termination or resignation (in an amount equal to the bonus percentage accrued by the Company, pursuant to GAAP, through the last closed accounting month prior to the time of such termination or resignation), which bonus amounts shall be paid at the earlier of (A) such time as the Company regularly pays bonuses, or (B) no later than 2 1/2 months following the calendar year in which the termination or resignation occurs; (ii) continuation of Executive's Annual Salary, which shall be payable in accordance with the Company's standard pay schedules for a period of six months; and (iii) the Company shall also reimburse Executive's actual COBRA payments for Executive's health insurance benefits for a period of one year. This Section 7C is intended to qualify as an involuntary separation pay arrangement that is exempt from application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") because certain severance payments are treated as paid on account of an involuntary separation (including a separation for Good Reason) and paid in a lump sum within the "short-term deferral" period following the time the Executive obtains a vested right to such payments. For the purposes of this Agreement, "**Good Reason**" shall mean Executive's voluntary resignation for any of the following events that results in a material negative change to the Executive: (i) a reduction without Executive's prior written consent in either his level of Annual Salary or his target annual bonus as a percentage of Annual Salary; (ii) a reduction in the scope of Executive's authorities, duties and responsibilities or a reduction in the authority, duties or responsibilities of the supervisor to whom the Executive is required to report; (iii) a relocation of Executive more than thirty (30) miles from the Company's current corporate headquarters as of the date hereof; (iv) a material breach of any provision of this Agreement by the Company; or (v) the failure of the Company to have a successor entity specifically assume this Agreement. Following a Change in Control (as defined in the Plan), Good Reason shall include (x) a material negative change in authority, duties or responsibilities resulting from the Executive no longer being an executive officer of a publicly-traded company and (y) the Company's chief executive officer (immediately prior the Change in Control) no longer being the chief executive officer of the successor publicly-traded company. Notwithstanding anything to the contrary set forth in this Agreement, in addition to the benefits described in this Section 7C and in Section 4B above, upon a Change in Control Termination, the six month Executive Annual Salary severance benefit described above in Section 7C(ii) shall be extended to a period of twelve months Executive Annual Salary (such six month Executive Annual Salary severance extension, the "**Six Month Extension**"). Notwithstanding the foregoing, "Good Reason" shall only be found to exist if prior to Executive's resignation for Good Reason, the Executive has provided, not more than 90 days following the initial occurrence thereof, written notice to the Company of such Good Reason event indicating and describing the event resulting in such Good Reason, and the Company does not cure such event within 90 days following the receipt of such notice from Executive.

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

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company or other enterprise where Executive does not provide any management, consulting or other services to such company or enterprise.

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

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

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

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

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

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

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

13. **Governing Law.** The provisions of this letter agreement will be construed and interpreted under the laws of the State of California. If any provision of this Agreement as applied to any party or to any circumstance should be adjudged by a court of competent jurisdiction to be void or unenforceable for any reason, the invalidity of that provision shall in no way affect (to the maximum extent permissible by law) the application of such provision under circumstances different from those adjudicated by the court, the application of any other provision of this Agreement, or the enforceability or invalidity of this Agreement as a whole. Should any provision of this Agreement become or be deemed invalid, illegal or unenforceable in any jurisdiction by reason of the scope, extent or duration of its coverage, then such provision shall be deemed amended to the extent necessary to conform to

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applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision will be stricken and the remainder of this Agreement shall continue in full force and effect.

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

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

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

17. **Section 409A.**

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

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

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

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U.S. AUTO PARTS NETWORK, INC.

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

EXECUTIVE

/s/ David Eisler  
David Eisler

# U.S. Auto Parts Network, Inc.

## 2016 Equity Incentive Plan

### Form of Restricted Stock Unit Award Grant Notice

U.S. Auto Parts Network, Inc. (the “*Company*”) hereby grants to Participant a Restricted Stock Unit Award (the “*Award*”) under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (the “*Plan*”) for the number of restricted stock units (the “*RSUs*”) set forth below. This Award is subject to all of the terms and conditions set forth in this Restricted Stock Unit Award Grant Notice (the “*Grant Notice*”) and in the Restricted Stock Unit Award Agreement (the “*Agreement*”) and the Plan, both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not explicitly defined in this Grant Notice but defined in the Plan or the Agreement will have the same definitions as in the Plan or the Agreement.

Participant: \_\_\_\_\_  
Date of Grant: \_\_\_\_\_  
Vesting Commencement Date: \_\_\_\_\_  
Number of RSUs Subject to Award: \_\_\_\_\_

**Vesting Schedule:** Subject to Section 2 of the Agreement, this Award will vest as follows: the RSUs shall vest in full at the 2019 annual meeting of stockholders, subject to Participant’s Continuous Service with the Company through such vesting date. Each installment of RSUs that vests under this Award is a “separate payment” for purposes of Treasury Regulations Section 1.409A-2(b)(2).

100% of the RSUs shall vest (or all remaining unvested RSUs at such time, whichever is less) in the event of a Change in Control (as defined in the Plan).

**Issuance Schedule:** Subject to any change upon a Capitalization Adjustment, one share of Common Stock will be issued for each RSU that vests at the time set forth in Section 6 of the Agreement.

**Additional Terms/Acknowledgements:** Participant acknowledges receipt of, and understands and agrees to, this Grant Notice, the Agreement, the Plan and the stock plan prospectus for the Plan. Participant further acknowledges that as of the Date of Grant, this Grant Notice, the Agreement and the Plan set forth the entire understanding between Participant and the Company regarding this Award and supersede all prior oral and written agreements, promises and/or representations regarding this Award, with the exception, if applicable, of (i) any written employment, offer letter or severance agreement, or any written severance plan or policy specifying the terms that should govern this Award, (ii) the Company’s stock ownership guidelines, and (iii) any compensation recovery policy that is adopted by the Company or is otherwise required by applicable law. By accepting this Award, Participant consents to receive this Grant Notice, the Agreement, the Plan, the stock plan prospectus for the Plan and any other Plan-related documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**U.S. Auto Parts Network, Inc.**

By: \_\_\_\_\_  
Signature

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Participant:**

\_\_\_\_\_  
Signature

Date:

**Attachments:** Restricted Stock Unit Award Agreement, 2016 Equity Incentive Plan, Prospectus

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Attachment I

U.S. Auto Parts Network, Inc.  
2016 Equity Incentive Plan

Form of Restricted Stock Unit Award Agreement

Pursuant to the accompanying Restricted Stock Unit Award Grant Notice (the “*Grant Notice*”) and this Restricted Stock Unit Award Agreement (the “*Agreement*”), U.S. Auto Parts Network, Inc. (the “*Company*”) has granted you a Restricted Stock Unit Award (the “*Award*”) under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (the “*Plan*”) for the number of restricted stock units (the “*Restricted Stock Units*”) set forth in the Grant Notice. This Award is granted to you effective as of the date of grant set forth in the Grant Notice (the “*Date of Grant*”). Capitalized terms not explicitly defined in this Agreement but defined in the Plan or the Grant Notice will have the same definitions as in the Plan or the Grant Notice.

1. **Grant of the Award.** This Award represents your right to be issued on a future date (as set forth in Section 6) one share of Common Stock for each Restricted Stock Unit subject to this Award that vests in accordance with the Grant Notice and this Agreement. This Award was granted in consideration of your services to the Company or an Affiliate.

2. **Vesting.** This Award will vest, if at all, in accordance with the vesting schedule set forth in the Grant Notice. Subject to the terms of the Grant Notice, vesting will cease upon the termination of your Continuous Service. Subject to the terms of the Grant Notice, upon such termination of your Continuous Service, you will forfeit (at no cost to the Company) any Restricted Stock Units subject to this Award that have not vested as of the date of such termination and you will have no further right, title or interest in such Restricted Stock Units.

3. **Number of Restricted Stock Units and Shares of Common Stock.**

(a) The number of Restricted Stock Units subject to this Award, as set forth in the Grant Notice, will be adjusted for Capitalization Adjustments, if any, as provided in the Plan.

(b) Any additional Restricted Stock Units and any shares of Common Stock, cash or other property that become subject to this Award pursuant to this Section 3 will be subject, in a manner determined by the Board, to the same forfeiture restrictions, restrictions on transferability, and time and manner of issuance as applicable to the other Restricted Stock Units subject to this Award to which they relate.

(c) No fractional shares or rights for fractional shares of Common Stock will be created pursuant to this Section 3. Any fractional shares that may be created by the adjustments referred to in this Section 3 will be rounded down to the nearest whole share.

4. **Securities Law Compliance.** You will not be issued any shares of Common Stock in respect of this Award unless either (i) such shares are registered under the Securities Act or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. This Award also must comply with all other applicable laws and regulations governing this Award, and you will not receive any shares of Common Stock in respect of this Award if the Company determines that such receipt would not be in material compliance with such laws and regulations.

5. **Transferability.** Except as otherwise provided in this Section 5, this Award is not transferable, except by will or by the laws of descent and distribution and prior to the time that shares of Common Stock in respect of this Award have been issued to you, you may not transfer, pledge, sell or otherwise dispose of any portion of the Restricted Stock Units or the shares of Common Stock in respect of this Award. For example, you may not use any shares of Common Stock that may be issued in respect of this Award as security

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for a loan, nor may you transfer, pledge, sell or otherwise dispose of such shares. This restriction on transfer will lapse upon issuance to you of the shares of Common Stock in respect of this Award.

(a) **Beneficiary Designation.** Upon receiving written permission from the Board or its duly authorized designee, you may, by delivering written notice to the Company, in a form approved by the Company and any broker designated by the Company to effect transactions under the Plan, designate a third party who, in the event of your death, will thereafter be entitled to receive any distribution of Common Stock or other consideration to which you were entitled at the time of your death pursuant to this Agreement. In the absence of such a designation, in the event of your death, the executor or administrator of your estate will be entitled to receive, on behalf of your estate, such Common Stock or other consideration.

(b) **Domestic Relations Orders.** Upon receiving written permission from the Board or its duly authorized designee, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your right to receive any distribution of Common Stock or other consideration under this Award, pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by applicable law that contains the information required by the Company to effectuate the transfer. You are encouraged to discuss with the Company's General Counsel the proposed terms of any such transfer prior to finalizing such domestic relations order, marital settlement agreement or other divorce or separation instrument to help ensure the required information is contained within the domestic relations order, marital settlement agreement or other divorce or separation instrument.

6. **Date of Issuance.**

(a) The issuance of any shares of Common Stock in respect of this Award is (i) subject to satisfaction of the tax withholding obligations set forth in Section 10 and (ii) intended to comply with Treasury Regulations Section 1.409A-1(b)(4) and will be construed and administered in such a manner. The form of such issuance (*e.g.*, a stock certificate or electronic entry evidencing such shares) will be determined by the Company.

(b) In the event one or more Restricted Stock Units subject to this Award vests, the Company will issue to you, on the applicable vesting date, one share of Common Stock for each Restricted Stock Unit that vests on such date (and for purposes of this Agreement, such issuance date is referred to as the "**Original Issuance Date**"); *provided, however*, that if the Original Issuance Date falls on a date that is not a business day, such shares will instead be issued to you on the next following business day.

(c) Notwithstanding the foregoing, if (i) the Original Issuance Date does not occur (1) during an "open window period" applicable to you, as determined by the Company in accordance with the Company's then-effective policy on trading in Company securities, or (2) on a date when you are otherwise permitted to sell shares of Common Stock on an established stock exchange or stock market (including, but not limited to, under a previously established 10b5-1 trading plan entered into in compliance with the Company's policies), *and* (ii) the Board elects, prior to the Original Issuance Date, (1) not to satisfy the Withholding Taxes described in Section 10 by withholding shares of Common Stock from the shares of Common Stock otherwise due, on the Original Issuance Date, to you under this Award, (2) not to permit you to enter into a "same day sale" commitment with a broker-dealer pursuant to Section 10 (including, but not limited to, a commitment under a previously established 10b5-1 trading plan entered into in compliance with the Company's policies) and (3) not to permit you to pay the Withholding Taxes in cash, then the shares that would otherwise be issued to you on the Original Issuance Date will not be issued on such Original Issuance Date and will instead be issued on the first business day when you are not prohibited from selling shares of Common Stock in the open public market, but in no event later than December 31 of the calendar year in which the Original Issuance Date occurs (that is, the last day of your taxable year in which the Original Issuance Date occurs), or, if and only if permitted in a manner that complies with Treasury Regulations Section 1.409A-1(b)(4), no later than the date that is the 15th day of the third calendar month of the year following the year in which the shares of Common Stock in respect of this Award are no longer subject to a "substantial risk of forfeiture" within the meaning of Treasury Regulations Section 1.409A-1(d).

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7. **Dividends.** You will receive no benefit or adjustment to this Award with respect to any cash dividend, stock dividend or other distribution except as provided in the Plan with respect to a Capitalization Adjustment.

8. **Restrictive Legends.** The shares of Common Stock issued in respect of this Award will be endorsed with appropriate legends, if any, as determined by the Company.

9. **Award Not a Service Contract.** This Award is not an employment or service contract, and nothing in this Award (including, but not limited to, the vesting of the Restricted Stock Units subject to this Award or the issuance of shares of Common Stock in respect of this Award), this Agreement, the Plan or any covenant of good faith and fair dealing that may be found implicit in this Award or Agreement or the Plan will: (i) create or confer upon you any right or obligation to continue in the employ or service of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment, service or affiliation; or (iii) create or confer upon you any right or benefit under this Award unless such right or benefit has specifically accrued under the terms of this Agreement or the Plan, subject to the terms of the Grant Notice. In addition, nothing in this Award will obligate the Company or an Affiliate, their respective stockholders, boards of directors, Officers or Employees to continue any relationship that you might have as an Employee, Director or Consultant for the Company or an Affiliate.

10. **Tax Withholding Obligations.**

(a) On or before the time you receive a distribution of any shares of Common Stock in respect of this Award, and at any other time as reasonably requested by the Company in accordance with applicable tax laws, you agree to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or any Affiliate that arise in connection with this Award (the "**Withholding Taxes**"). Specifically, the Company or an Affiliate may, in its sole discretion, satisfy all or any portion of the Withholding Taxes relating to this Award by any of the following means or by a combination of such means: (i) withholding from any compensation otherwise payable to you by the Company or an Affiliate; (ii) causing you to tender a cash payment; (iii) permitting you to enter into a "same day sale" commitment with a broker-dealer that is a member of the Financial Industry Regulatory Authority (a "**FINRA Dealer**") whereby you irrevocably elect to sell a portion of the shares of Common Stock to be issued in connection with this Award to satisfy the Withholding Taxes and whereby the FINRA Dealer irrevocably commits to forward the proceeds necessary to satisfy the Withholding Taxes directly to the Company and/or its Affiliates; or (iv) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to you in connection with this Award with a Fair Market Value (measured as of the date the shares of Common Stock are issued to you) equal to the amount of such Withholding Taxes; *provided, however*, that the number of such shares of Common Stock so withheld will not exceed the amount necessary to satisfy the Company's required tax withholding obligations using the minimum statutory withholding rates for federal, state, local and, if applicable, foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income.

(b) Unless the Withholding Taxes of the Company and/or any Affiliate are satisfied, the Company will have no obligation to issue to you any Common Stock.

(c) In the event the Company's obligation to withhold arises prior to the issuance to you of Common Stock or it is determined after the issuance of Common Stock to you that the amount of the Company's withholding obligation was greater than the amount withheld by the Company, you agree to indemnify and hold the Company harmless from any failure by the Company to withhold the proper amount.

11. **Tax Consequences.** The Company has no duty or obligation to minimize the tax consequences to you of this Award and will not be liable to you for any adverse tax consequences to you arising in connection with this Award. You are hereby advised to consult with your own personal tax, financial and/or legal advisors regarding the tax consequences of this Award and by accepting this Award, you have agreed that you have done so or knowingly and voluntarily declined to do so.

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12. **Notices.** Any notices provided for in this Agreement or the Plan will be given in writing (including electronically) and will be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company. The Company may, in its sole discretion, decide to deliver any documents related to this Award or participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. By accepting this Award, you consent to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

13. **Governing Plan Document.** This Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of this Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. Except as otherwise expressly provided in the Grant Notice or this Agreement, in the event of any conflict between the terms in the Grant Notice or this Agreement and the terms of the Plan, the terms of the Plan will control.

14. **Other Documents.** You hereby acknowledge receipt of and the right to receive a document providing the information required by Rule 428(b)(1) promulgated under the Securities Act, which includes the Plan prospectus. In addition, you acknowledge receipt of the Company's policy permitting certain individuals to sell shares of Common Stock only during certain "window" periods in effect from time to time and the Company's insider trading policy.

15. **Effect on Other Employee Benefit Plans.** The value of this Award will not be included as compensation, earnings, salaries, or other similar terms used when calculating your benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

16. **Stockholder Rights.** You will not have voting or any other rights as a stockholder of the Company with respect to the shares of Common Stock to be issued pursuant to this Award until such shares are issued to you. Upon such issuance, you will obtain full voting and other rights as a stockholder of the Company. Nothing contained in this Agreement, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

17. **Severability.** If any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity will not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid will, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

18. **Amendment.** Any amendment to this Agreement must be in writing, signed by a duly authorized representative of the Company. Notwithstanding anything in the Plan to the contrary, the Board reserves the right to amend this Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, interpretation, ruling, or judicial decision.

19. **Clawback/Recovery.** This Award (and any compensation paid or shares of Common Stock issued under this Award) will be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company.

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20. **Unsecured Obligation.** This Award is unfunded, and as a holder of vested Restricted Stock Units, you will be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue shares of Common Stock or other property pursuant to this Agreement.

21. **Compliance with Section 409A of the Code.** This Award is intended to comply with the "short-term deferral" rule set forth in Treasury Regulations Section 1.409A-1(b)(4). However, if (i) this Award fails to satisfy the requirements of the short-term deferral rule and is otherwise not exempt from, and therefore deemed to be deferred compensation subject to, Section 409A of the Code, (ii) you are deemed by the Company at the time of your "separation from service" (as such term is defined in Treasury Regulations Section 1.409A-1(h) without regard to any alternative definition thereunder) to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, and (iii) any of the payments set forth herein are issuable upon such separation from service, then to the extent delayed commencement of any portion of such payments is required to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code and the related adverse taxation under Section 409A of the Code, such payments will not be provided to you prior to the earliest of (a) the date that is six months and one day after the date of such separation from service, (b) the date of your death, or (c) such earlier date as permitted under Section 409A of the Code without the imposition of adverse taxation. Upon the first business day following the expiration of such applicable Code Section 409A(a)(2)(B)(i) period, all payments deferred pursuant to this Section 21 will be paid in a lump sum to you, and any remaining payments due will be paid as otherwise provided herein. Each installment of Restricted Stock Units that vests under this Award is a "separate payment" for purposes of Treasury Regulations Section 1.409A-2(b)(2).

22. **Miscellaneous.**

(a) The rights and obligations of the Company under this Award will be transferable to any one or more persons or entities, and all covenants and agreements hereunder will inure to the benefit of, and be enforceable by, the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of this Award.

(c) You acknowledge and agree that you have reviewed this Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting this Award, and fully understand all provisions of this Award.

(d) This Agreement will be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Agreement will be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

\* \* \*

This Restricted Stock Unit Award Agreement will be deemed to be signed by you upon the signing by you of the Restricted Stock Unit Award Grant Notice to which it is attached.

## **2018 Independent Director Compensation Policy**

The compensation and benefits for service as a member of the Board of Directors is determined by our Board of Directors. Directors employed by us or one of our subsidiaries are not compensated for service on the Board or on any committee of the Board; however, we reimburse each of our directors for any out-of-pocket expenses in connection with attending meetings of our Board of Directors and committees of the Board of Directors. Each of our non-employee directors, other than Mr. Khazani and Mr. Nia, are entitled to a fee of \$30,000 per year for his or her service as a director. Members of the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee each receive an additional \$7,500, \$5,000 and \$2,500, respectively, per year for his or her service on such committee. The chairpersons of the Board, the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee each receive an additional \$25,000, \$14,500, \$5,000, and \$5,000, respectively, per year for his or her service as chairperson for such committee.

In addition, on the date of each annual stockholders meeting, each person who has served as an independent member of the Board of Directors for at least six months before the date of the stockholder meeting will be granted \$50,000 of restricted stock units based on the closing stock price on the grant date and our Chairman of the Board (provided such Chairman has served as an independent member of the Board of Directors and Chairman for at least six months before the date of the stockholder meeting) will be granted an additional \$25,000 of restricted stock units based on the closing price on the grant date. These restricted stock units will vest in full at the 2019 Annual Meeting of Stockholders, subject to the director's continuing service on our Board of Directors. These restricted stock units will also immediately vest in full upon a change in control of the Company. The restricted stock units are to be granted under our 2016 Equity Incentive Plan.

**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, Aaron Coleman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Auto Parts Network, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2018

/s/ Aaron Coleman

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Aaron Coleman  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO EXCHANGE ACT  
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Neil T. Watanabe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Auto Parts Network, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2018

/s/ Neil T. Watanabe  
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Neil T. Watanabe  
Chief Financial Officer  
(Principal Financial Officer)

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

In connection with the Quarterly Report of U.S. Auto Parts Network, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Aaron Coleman, 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 8, 2018

/s/ Aaron Coleman

Aaron Coleman  
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 U.S. Auto Parts Network, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Neil T. Watanabe, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2018

/s/ Neil T. Watanabe  
Neil T. Watanabe  
Chief Financial Officer