U.S. Auto Parts Network, Inc.
Form 10-Q
May 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2014

OR

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

For the transition period from______ to______

Commission file number: 001-33264

U.S. AUTO PARTS NETWORK, INC.

(Exact name of registrant as specified in its charter)

Delaware	**68-0623433**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

16941 Keegan Avenue, Carson, CA 90746

(Address of Principal Executive Office) (Zip Code)

(310) 735-0085

(Registrant s telephone number, including area code)

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

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

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

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

As of May 1, 2014, the registrant had 33,431,728 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 WEEKS ENDED MARCH 29, 2014

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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 refer to U.S. Auto Parts Network, Inc. and its subsidiaries.

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

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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, product offerings, customers, acquisitions, competition and the status of our facilities. Forward-looking statements, no matter where they occur in this document or in other statements attributable to the Company involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in greater detail under the heading Risk Factors in Part II, Item 1A of this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report and the documents that we reference in this report and have filed as exhibits to the report completely and with the understanding that our actual future results may be materially different from what we expect. Also, forward-looking statements represent our management s beliefs and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

CONSOLIDATED BALANCE SHEETS

(Unaudited In Thousands, Except Par and Liquidation Value)

	March 29, 2014	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,392	$ 818
Short-term investments	39	47
Accounts receivable, net of allowances of $152 and $213 at March 29, 2014 and December 28, 2013, respectively	4,882	5,029
Inventory	36,613	36,986
Other current assets	2,959	3,234
Total current assets	45,885	46,114
Property and equipment, net	18,810	19,663
Intangible assets, net	1,517	1,601
Other non-current assets	1,720	1,804
Total assets	$ 67,932	$ 69,182
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 21,469	$ 19,669
Accrued expenses	6,867	5,959
Revolving loan payable	750	6,774
Current portion of capital leases payable	277	269
Other current liabilities	5,383	3,682
Total current liabilities	34,746	36,353
Capital leases payable, net of current portion	9,431	9,502
Deferred income taxes	65	335
Other non-current liabilities	2,125	2,126
Total liabilities	46,367	48,316
Commitments and contingencies		
Stockholders equity:		

Series A convertible preferred stock, $0.001 par value; $1.45 per share liquidation value or aggregate of $6,017; 4,150 shares authorized; 4,150 shares issued and outstanding at March 29, 2014 and December 28, 2013, respectively	4	4
Common stock, $0.001 par value; 100,000 shares authorized; 33,413 and 33,352 shares issued and outstanding at March 29, 2014 and December 28, 2013, respectively	33	33
Additional paid-in-capital	169,243	168,693
Common stock dividend distributable	59	60
Accumulated other comprehensive income	454	446
Accumulated deficit	(148,228)	(148,370)
Total stockholders equity	21,565	20,866
Total liabilities and stockholders equity	$ 67,932	$ 69,182

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS

(Unaudited, In Thousands, Except Per Share Data)

	Thirteen Weeks Ended	
	March 29, 2014	**March 30, 2013**
Net sales	$ 68,028	$ 65,405
Cost of sales (1)	47,327	45,667
Gross profit	20,701	19,738
Operating expenses:		
Marketing	10,115	11,191
General and administrative	4,147	4,687
Fulfillment	4,712	5,381
Technology	1,148	1,515
Amortization of intangible assets	84	106
Total operating expenses	20,206	22,880
Income (loss) from operations	495	(3,142)
Other income (expense):		
Other income (expense), net	(3)	7
Interest expense	(259)	(187)
Total other expense, net	(262)	(180)
Income (loss) before income taxes	233	(3,322)
Income tax provision	32	21
Net income (loss)	201	(3,343)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	8	(6)
Total other comprehensive income (loss)	8	(6)
Comprehensive income (loss)	$ 209	$ (3,349)
Earnings (loss) per share		
Basic	$ 0.00	$ (0.11)

Diluted	$ 0.00	$ (0.11)
Weighted average common shares outstanding:		
Basic	33,384	31,141
Diluted	34,158	31,141

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

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, In Thousands)

	Thirteen Weeks Ended	
	March 29, 2014	**March 30, 2013**
Operating activities		
Net income (loss)	$ 201	$ (3,343)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	2,368	3,638
Amortization of intangible assets	84	106
Deferred income taxes	13	31
Share-based compensation expense	376	409
Stock awards issued for non-employee director service		11
Amortization of deferred financing costs	20	20
Changes in operating assets and liabilities:		
Accounts receivable	147	391
Inventory	374	5,094
Other current assets	282	867
Other non-current assets	63	23
Accounts payable and accrued expenses	2,792	(6,243)
Other current liabilities	1,702	(35)
Other non-current liabilities	(280)	370
Net cash provided by operating activities	8,142	1,339
Investing activities		
Additions to property and equipment	(1,558)	(2,623)
Purchases of company-owned life insurance		(106)
Net cash used in investing activities	(1,558)	(2,729)
Financing activities		
Proceeds from revolving loan payable	1,826	5,903
Payments made on revolving loan payable	(7,850)	(10,000)
Proceeds from issuance of Series A convertible preferred stock		5,800
Payment of issuance costs from Series A convertible preferred stock		(30)
Payments on capital leases	(63)	(36)
Proceeds from exercise of stock options	74	23
Net cash (used in) provided by financing activities	(6,013)	1,660

Effect of exchange rate changes on cash	3	(3)
Net change in cash and cash equivalents	574	267
Cash and cash equivalents, beginning of period	818	1,030
Cash and cash equivalents, end of period	$ 1,392	$ 1,297
Supplemental disclosure of non-cash investing and financing activities:		
Accrued asset purchases	$ 659	$ 1,294
Unpaid issuance costs related to Series A convertible preferred stock		765
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 5	$
Cash paid during the period for interest	255	112

See accompanying notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(In Thousands, Except Per Share Data)

Note 1 Summary of Significant Accounting Policies and Nature of Operations

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

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

The Company is a Delaware C corporation and is headquartered in Carson, California. The Company has employees located in the United States of America (or the United States), as well as in 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 United States 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 March 29, 2014 and the consolidated results of operations for the thirteen weeks ended March 29, 2014 and March 30, 2013, and cash flows for the thirteen weeks ended March 29, 2014 and March 30, 2013. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. The Company s results of operations for the thirteen weeks ended March 29, 2014 are not necessarily indicative of those to be expected for the entire fiscal year. The accompanying consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 28, 2013, which was filed with the SEC on March 12, 2014. We refer to our fiscal year ending January 3, 2015 as fiscal year 2014 and our fiscal year ended December 28, 2013 as fiscal year 2013.

During the first quarter of 2014, the Company had net income of $201 compared to a net loss of $3,343 during the first quarter of 2013. Additionally, revenues increased to $68,028 in the first quarter of 2014 from $65,405 in the first quarter of 2013. The profitable first quarter was preceded by losses in both fiscal year 2013 and 2012 as the Company incurred net losses of $15,634 and $35,978, respectively. Based on our current operating plan, we expect to finish fiscal year 2014 with a substantially reduced net loss compared to the net loss for fiscal year 2013. As a result, 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. Should our results not meet our current operating plan and should revenues decline in 2014, it could negatively impact our liquidity as we may not be able to provide positive cash flows from operations in order to meet our working capital requirements. We may need to borrow additional funds from our credit facility, which under certain circumstances may not be available, sell additional assets or seek additional equity or debt financing in the future. 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 revenues were to decline during fiscal 2014 and the net loss continues for longer than we expect because our strategies to return to sustained positive sales growth and profitability are not successful, and if we are not able to raise adequate additional financing or proceeds from additional 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.

Fiscal Periods

The Company s fiscal year is based on a 52/53 week fiscal year ending on the Saturday closest to December 31. Quarterly periods are based on the thirteen weeks ending on the Saturday closest to the calendar quarter end date. Our fiscal year 2014 will be 53 weeks ending January 3, 2015.

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Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, but are not limited to, those related to revenue recognition, uncollectible receivables, valuation of inventory, valuation of deferred tax assets and liabilities, valuation of intangible assets and other long-lived assets, recoverability of software development costs, contingencies and share-based compensation expense that results from estimated grant date fair values and vesting of issued equity awards based upon certain performance targets. Actual results could differ from these estimates.

Statement of Cash Flows

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

Financial instruments that are not measured at fair value include accounts receivable, accounts payable and debt. Refer to *Note 3 Fair Value Measurements* for additional fair value information. The Company s revolving loan payable (see *Note 6 Borrowings*) is categorized in Level 2 of the fair value hierarchy, as the estimated value would be based on the quoted market prices for the same or similar issues or on the current rates available to the Company for debt of the same or similar terms. The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value at March 29, 2014 and December 28, 2013 due to their short-term maturities. Marketable securities and investments are carried at fair value, as discussed below. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of our revolving loan payable, classified as current liability in our consolidated balance sheet, approximates its carrying amount because the interest rate is variable.

Accounts Receivable and Concentration of Credit Risk

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

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

Marketable Securities and Investments

Marketable securities and investments were comprised of closed-end funds primarily invested in mutual funds. Mutual funds are classified as short-term investments available-for-sale and recorded at fair market value, based on quoted prices of identical assets that are trading in active markets as of the end of the period for which the values are determined.

Other-Than-Temporary Impairment

All of the Company s marketable securities and investments are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Company s cost basis, the financial condition and near-term prospects of the investee, and the Company s intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value. No other-than-temporary impairment charges were recorded on any investments during the thirteen week periods ended March 29, 2014 and March 30, 2013.

Inventory

Inventories consist of finished goods available-for-sale and are stated at the lower of cost or market value, determined using the first-in first-out (FIFO) method. The Company purchases inventory from suppliers both domestically and internationally, and routinely enters into supply agreements with U.S. based suppliers and its primary drop-ship vendors. The Company believes that its products are generally available from more than one supplier and seeks to maintain multiple sources for its products, both internationally and domestically. The Company primarily purchases products in bulk quantities to take advantage of quantity discounts and to ensure inventory availability. Inventory is reported at the lower of cost or market, adjusted for slow moving, obsolete or scrap product. Inventory at March 29, 2014 and December 28, 2013 was $36,613 and $36,986, respectively, which included items in-transit to our warehouses, in the amount of $7,216 and $6,750, respectively.

Website and Software Development Costs

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

Long-Lived Assets and Intangibles Subject to Amortization

The Company accounts for the impairment and disposition of long-lived assets, including intangibles subject to amortization, in accordance with ASC 360 *Property, Plant and Equipment* (ASC 360) . Management assesses potential impairments whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. An impairment loss will result when the carrying value exceeds the undiscounted cash flows estimated to result from the use and eventual disposition of the asset or asset group. Impairment losses will be recognized in operating results to the extent that the carrying value exceeds the discounted future cash flows estimated to result from the use and eventual disposition of the asset or asset group. The Company continually uses judgment when applying these impairment rules to determine the timing of the impairment tests, undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset or asset group. The reasonableness of our judgments could significantly affect the carrying value of our long-lived assets. The Company has not recognized any impairment losses on property and equipment or intangible assets subject to amortization since the second quarter of 2013. No such charges were recorded during the first quarter of fiscal year 2013.

Revenue Recognition

The Company recognizes revenue from product sales and shipping revenues, net of promotional discounts and return allowances, when the following five revenue recognition criteria are met: persuasive evidence of an arrangement exists, both title and risk of loss or damage have transferred, delivery has occurred, the selling price is fixed or determinable, and collectability is reasonably assured. The Company retains the risk of loss or damage during transit, therefore, revenue from product sales is recognized at the delivery date to customer, not upon shipment. Return allowances, which reduce product revenue by the Company s best estimate of expected product returns, are estimated using historical experience.

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

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

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

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

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

Cost of Sales

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

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Warranty Costs

The Company or the vendors supplying its products provide the Company s customers limited warranties on certain products that range from 30 days to lifetime. In most cases, the Company s vendors are the party primarily responsible for warranty claims. Standard product warranties sold separately by the Company are recorded as deferred revenue and recognized ratably over the life of the warranty, ranging from one to five years. The Company also offers extended warranties that are imbedded in the price of selected private label products we sell. The product brands that include the extended warranty coverage are offered at three different service levels: (a) a five year unlimited product replacement, (b) a five year one-time product replacement, and (c) a three year one-time product replacement. Warranty costs relating to merchandise sold under warranty not covered by vendors are estimated and recorded as warranty obligations at the time of sale based on each product s historical return rate and historical warranty cost. The standard and extended warranty obligations are recorded as warranty liabilities and included in other current liabilities in the Consolidated Balance Sheets. For the thirteen weeks ended March 29, 2014 and March 30, 2013, the activity in our aggregate warranty liabilities was as follows (in thousands):

	March 29, 2014	March 30, 2013
Warranty liabilities, beginning of period	$ 297	$ 282
Adjustments to preexisting warranty liabilities		
Additions to warranty liabilities	38	50
Reductions to warranty liabilities	(23)	(14)
Warranty liabilities, end of period	$ 312	$ 318

Marketing Expense

Marketing costs, including advertising, are expensed as incurred. The majority of advertising expense is paid to internet search engine service providers and internet commerce facilitators. For the thirteen weeks ended March 29, 2014 and March 30, 2013, the Company recognized advertising costs of $4,390 and $4,337, respectively. Marketing costs also include depreciation and amortization expense and share-based compensation expense.

General and Administrative Expense

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

Fulfillment Expense

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

Technology Expense

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

Share-Based Compensation

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

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

The Company accounts for equity instruments issued in exchange for the receipt of services from non-employee directors in accordance with the provisions of ASC 718. The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with ASC 505-50 *Equity-Based Payments to Non-Employees.* Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services. Equity instruments awarded to non-employees are periodically re-measured as the underlying awards vest unless the instruments are fully vested, immediately exercisable and non-forfeitable on the date of grant.

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

Other Income, net

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

Interest Expense

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

Income Taxes

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

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. As of March 29, 2014, the Company had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters. The Company s policy is to record interest and penalties as income tax expense.

Taxes Collected from Customers and Remitted to Governmental Authorities

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

Leases

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

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Foreign Currency Translation

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

Comprehensive Income

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

Segment Data

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

Note 2 Investments

As of March 29, 2014 the Company held the following securities and investments, recorded at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds (1)	$ 39	$	$	$ 39

As of December 28, 2013, the Company held the following securities and investments, recorded at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds (1)	$ 40	$ 7	$	$ 47

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

Proceeds from the sale of available-for-sale securities are disclosed in the accompanying consolidated statements of cash flow. For the thirteen weeks ended March 29, 2014, the Company sold $8 of available-for-sale securities. For the thirteen weeks ended March 30, 2013, there were no sales of available-for-sale securities.

Note 3 Fair Value Measurements

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

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

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

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

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

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

(a) Market Approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(b) Income Approach uses valuation techniques to convert future estimated cash flows to a single present amount based on current market expectations about those future amounts, using present value techniques.

Financial Assets Valued on a Recurring Basis

As of March 29, 2014 and December 28, 2013, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included the Company s financial instruments, including cash and cash equivalents and investments. The following table represents our fair value hierarchy and the valuation techniques used for financial assets measured at fair value on a recurring basis (in thousands):

	As of March 29, 2014				
	Total	**Level 1**	**Level 2**	**Level 3**	**Valuation Techniques**
Assets:					
Cash and cash equivalents (1)	$ 1,392	$ 1,392	$	$	(a)
Investments mutual funds (2)	39	39			(a)
	$ 1,431	$ 1,431	$	$	

	As of December 28, 2013				
	Total	**Level 1**	**Level 2**	**Level 3**	**Valuation Techniques**
Assets:					
Cash and cash equivalents (1)	$ 818	$ 818	$	$	(a)
Investments mutual funds (2)	47	47			(a)
	$ 865	$ 865	$	$	

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

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

During the thirteen weeks ended March 29, 2014 and March 30, 2013, there were no transfers into or out of Level 1 and Level 2 assets.

Non-Financial Assets Valued on a Non-Recurring Basis

The Company s long-lived assets, including intangible assets subject to amortization, are measured at fair value on a non-recurring basis. These assets are measured at cost but are written-down to fair value, if necessary, as a result of impairment. As of March 29, 2014, the Company s long-lived assets did not indicate a potential impairment under the provisions of ASC 360, as such, they were not measured at fair value. If such non-financial assets had been measured at fair value, they would be categorized in Level 3 of the fair value hierarchy, as the Company would be required to develop its own assumptions and analysis to determine if such non-financial assets were impaired.

Note 4 Property and Equipment, Net

The Company s fixed assets are stated at cost less accumulated depreciation, amortization and impairment. Depreciation and amortization expense are provided for in amounts sufficient to relate the cost of depreciable and amortizable assets to operations over their estimated service lives. Depreciation and amortization expense for the thirteen weeks ended March 29, 2014 and March 30, 2013 was $2,368 and $3,638, respectively. For the thirteen weeks ended March 29, 2014, the balance included amortization expense of $436 for capital leased assets related to the LaSalle, Illinois facility (see sale-leaseback discussion below for details). No similar balance was recorded for the thirteen weeks ended March 30, 2013. The cost and related accumulated depreciation of assets retired or otherwise disposed of are removed from the accounts and the resultant gain or loss is reflected in earnings.

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The Company accounts for the impairment of property and equipment in accordance with ASC 360 *Property, Plant and Equipment* (ASC 360). During the second quarter of 2013, the Company identified adverse events related to the Company s overall financial performance, including accelerating downward trend in the Company s revenues and gross margin, which indicated that the carrying amount of certain property and equipment may not be recoverable. Given the indicators of impairment, the Company utilized the royalty savings method rather than cost method in determining the fair values, using a discount rate of 14.5% and royalty rate of 1.0%. Based on its analysis, the Company recognized an impairment loss on internally developed software of $4,832. Subsequent to the second quarter of 2013, there have not been events or circumstances that have resulted in an assessment by management of any indicators of further impairment. However, any future decline in the fair value of an asset group could result in future impairments.

Property and equipment consisted of the following at March 29, 2014 and December 28, 2013 (in thousands):

	March 29, 2014	December 28, 2013
Land	$ 630	$ 630
Building	8,877	8,877
Machinery and equipment	12,356	12,163
Computer software (purchased and developed) and equipment	57,045	55,383
Vehicles	263	264
Leasehold improvements	1,759	1,767
Furniture and fixtures	1,053	1,057
Construction in process	1,709	2,066
	83,692	82,207
Less accumulated depreciation, amortization and impairment	(64,882)	(62,544)
Property and equipment, net	$ 18,810	$ 19,663

On April 17, 2013, the Company s wholly-owned subsidiary, Whitney Automotive Group, Inc. (WAG) closed the sale of its facility in LaSalle, Illinois for $9,750 pursuant to a purchase and sale agreement dated April 17, 2013 between WAG and STORE Capital Acquisitions, LLC. The Company used the net proceeds of $9,507 (net of $77 in legal fees) from this sale to reduce its revolving loan payable. Under the terms of the purchase and sale agreement, simultaneously with the execution of the purchase and sale agreement and the closing of the sale of the property, the Company entered into a lease agreement with STORE Master Funding III, LLC (STORE) whereby we leased back the property for our continued use as an office, retail and warehouse facility for storage, sale and distribution of automotive parts, accessories and related items for 20 years commencing upon the execution of the lease and terminating on April 30, 2033. The related assets represent the amounts included in land and building in the summary above. The Company s initial base annual rent is $853 for the first year (Base Rent Amount), after which the rental amount will increase annually on May 1 by the lesser of 1.5% or 1.25 times the change in the Consumer Price Index as published by the U.S. Department of Labor s Bureau of Labor Statistics, except that in no event will the adjusted annual rental amount fall below the Base Rent Amount. We were not required to pay any security deposit. Under the terms of the lease, we are required to pay all taxes associated with the lease, pay for any required maintenance on the property, maintain certain levels of insurance and indemnify STORE for losses incurred that are related to our use or occupancy of the property. The lease was accounted for as a capital lease and the $376 excess of the net proceeds over the net carrying amount of the property is amortized in interest expense on a straight-line basis over the lease term of 20 years. As of March 29, 2014, the gross carrying value, the accumulated depreciation and the net carrying value of all capital leased assets included in property and equipment were $9,771, $646 and $9,125, respectively.

Construction in process primarily relates to the Company s internally developed software (refer to caption *Website and Software Development Costs* in *Note 1 Summary of Significant Accounting Policies and Nature of Operations*). Certain of the Company s net property and equipment were located in the Philippines as of March 29, 2014 and December 28, 2013, in the amount of $408 and $508, respectively.

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

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

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

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Note 5 Definite-Lived Intangibles

Intangible assets consisted of the following at March 29, 2014 and December 28, 2013 (in thousands):

		March 29, 2014			December 28, 2013		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accum. Amort. and Impairment	Net Carrying Amount
Intangible assets subject to amortization:							
Product design intellectual property (1)	4 years	2,750	(1,907)	843	2,750	(1,842)	908
Domain and trade names	10 years	1,199	(525)	674	1,199	(506)	693
Total		$ 3,949	$ (2,432)	$ 1,517	$ 3,949	$ (2,348)	$ 1,601

(1) During the second quarter of 2013, based on its impairment analysis, the Company changed the estimated useful life for product design and intellectual property from 9 years to 4 years

Intangibles subject to amortization are expensed on a straight-line basis. Amortization expense relating to intangible assets for the thirteen weeks ended March 29, 2014 and March 30, 2013 was $84, and $106, respectively.

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

2014	$ 252
2015	336
2016	336
2017	207
2018	77
Thereafter	309
Total	$ 1,517

Note 6 Borrowings

In April 2012, the Company, certain of its wholly-owned domestic subsidiaries and JPMorgan Chase Bank, N.A. (JPMorgan), as sole lender and administrative agent entered into a Credit Agreement (the Credit Agreement). The Credit Agreement provides for a revolving commitment in an aggregate principal amount of up to $40,000 (the Credit Facility), which is subject to a borrowing base derived from certain receivables, inventory and property and equipment. In August 2013, the Company, certain of its wholly-owned domestic subsidiaries and JPMorgan entered into a third amendment to the Credit Agreement (Third Amended Credit Agreement) amending the Credit Agreement to, among other things, reduce the revolving commitment to $20,000 and, upon satisfaction of certain conditions, provide that the Company has the right to increase the revolving commitment up to $40,000. The Credit Facility matures on April 26, 2017. The Company used the proceeds of the loans borrowed on the closing date to repay in full its previous credit facility with Silicon Valley Bank. At March 29, 2014, our outstanding revolving loan balance was $750. The customary events of default under the Credit Facility (discussed below) include certain subjective acceleration clauses, which management has determined the likelihood of such acceleration is more than remote, considering the recurring losses experienced by the Company, therefore a current classification of our revolving loan payable was required.

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 1.50%, or (b) an alternate base rate minus an applicable margin of 0.50%. Each applicable margin as set forth in the prior sentence is subject to increase or decrease by 0.25% per annum based upon the Company s fixed charge coverage ratio. At March 29,

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2014, the Company s LIBOR based interest rate was 1.94% (on $0 principal) and the Company s prime based rate was 3.0% (on $750 principal). A commitment fee, based upon undrawn availability under the Credit Facility bearing interest at a rate of 0.20% 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 $6,000, as defined. The dominion period will continue until, during the preceding 60 consecutive days, no event of default existed and, excess availability has to be greater than $7,000 at all times. The Company s excess availability was $15,533 at March 29, 2014. As of the date hereof, the cash dominion period has not been in effect; accordingly no principal payments are currently due.

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

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, fundamental changes, investments, dispositions, prepayment of other indebtedness, mergers, and dividends and other distributions. Concurrent with the Company s issuance of Series A Convertible Preferred Stock (Series A Preferred), the Company, certain of its wholly-owned domestic subsidiaries and JPMorgan entered into a second amendment to the Credit Agreement (Second Amended Credit Agreement) amending the Credit Agreement to, among other things, allow the Company to pay cash dividends on the Series A Preferred in an aggregate amount of up to $400 per year and pay cash in lieu of issuing fractional shares upon conversion of or in payment of dividends on the Series A Preferred, each subject to certain restrictions set forth in the Second Amended Credit Agreement but without having to satisfy certain other conditions that would have otherwise applied to the payment of such dividends.

Under the Credit Agreement, the Company is not required to maintain a minimum fixed charge coverage ratio, unless excess availability is less than $6,000, as defined, whereby a ratio of 1.0 to 1.0 will be required. Events of default under the Credit Agreement include: failure to timely make payments due under the Credit Agreement; material misrepresentations or misstatements under the Credit Agreement and other related agreements; failure to comply with covenants under the Credit Agreement and other related agreements; certain defaults in respect of other material indebtedness; insolvency or other related events; certain defaulted judgments; certain ERISA-related events; certain security interests or liens under the loan documents cease to be, or are challenged by the Company or any of its subsidiaries as not being, in full force and effect; any loan document or any material provision of the same ceases to be in full force and effect; and certain criminal indictments or convictions of any Loan Party. As of March 29, 2014, the Company was in compliance with all covenants under the Credit Agreement. However, if our excess availability is reduced to less than $6,000, we will not comply with the minimum fixed charge coverage ratio.

As of March 29, 2014, the Company had total capital leases payable of $9,708. The present value of the net minimum payments on capital leases as of March 29, 2014 was as follows:

Total minimum lease payments	$ 19,238
Less amount representing interest	(9,530)
Present value of net minimum lease payments	9,708
Current portion of capital leases payable	(277)
Capital leases payable, net of current portion	$ 9,431

Note 7 Stockholders Equity and Share-Based Compensation

Common Stock

The Company has 100,000,000 shares of common stock authorized. We have never paid cash dividends on our common stock. The following issuances of common stock were made during the thirteen weeks ended March 29, 2014:

The Company issued 37 shares of common stock from option exercises under its various share-based compensation plans, as discussed below.

The Company issued 24 shares of common stock in payment of the quarterly dividend on the Series A Preferred on the dividend payment date of December 31, 2013 in the aggregate amount of $60.

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Series A Convertible Preferred Stock

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

Each share of Series A Preferred is convertible into shares of our common stock at the initial conversion price of $1.45 per share or one share of common stock for each share of Series A Preferred. The conversion price will be adjusted for certain non-price based events, such as dividends and distributions on the common stock, stock splits, combinations, recapitalizations, reclassifications, mergers, or consolidations. If not previously converted by the holder, the Series A Preferred will automatically convert to common stock if the volume weighted average price for the Common Stock for any 30 consecutive trading days is equal to or exceeds $4.35 per share. The shares that would be issued if the contingently convertible Series A Preferred were converted are included in the calculation of diluted earnings per share due to the Company s net income position for the thirteen weeks ended March 29, 2014 (refer to *Note 8 Net Loss Per Share* for anti-dilutive securities).

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

Dividends on the Series A Preferred are payable quarterly at a rate of $0.058 per share per annum in cash, in shares of common stock or in any combination of cash and common stock as determined by the Company s Board of Directors. Certain conditions are required to be satisfied in order for the Company to pay dividends on the Series A Preferred in shares of common stock, including (i) the common stock being registered pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934, as amended, (ii) the common stock being issued having been approved for listing on a trading market and (iii) the common stock being issued either being covered by an effective registration statement or being freely tradable without restriction under Rule 144 (subject to certain exceptions). The Series A Preferred shall each be entitled to one vote per share for each share of common stock issuable upon conversion thereof (excluding from any such calculation any dividends accrued on such shares) and shall vote together with the holders of common stock as a single class on any matter on which the holders of common stock are entitled to vote. In addition, the Company must obtain the consent of holders of at least a majority of the then outstanding Series A Preferred in connection with (a) any amendment, alteration or repeal of any provision of the certificate of incorporation or bylaws of the Company as to adversely affect the preferences, rights or voting power of the Series A Preferred, or (b) the creation, authorization or issuance of any additional Series A Preferred or any other class or series of capital stock of the Company ranking senior to or on parity with the Series A Preferred or any security convertible into, or exchangeable or exercisable for Series A Preferred or any other class or series of capital stock of the Company ranking senior to or on parity with the Series A Preferred. Concurrent with the Company s issuance of Series A

Preferred, the Company, certain of its wholly-owned domestic subsidiaries and JPMorgan entered into a Second Amended Credit Agreement to allow the Company to pay cash dividends on the Series A Preferred in an aggregate amount of up to $400 per year and pay cash in lieu of issuing fractional shares upon conversion of or in payment of dividends on the Series A Preferred (refer to *Note 6 Borrowings* of our Notes to Consolidated Financial Statements for additional details). As of March 29, 2014, we had recorded a common stock dividend distributable on the Series A Preferred of $59. The Company issued 19 shares of common stock in payment of the quarterly dividend on the Series A Preferred on the dividend payment date of March 31, 2014. As of December 28, 2013, we had recorded a common stock dividend distributable on the Series A Preferred of $60. The Company issued 24 shares of common stock in payment of the quarterly dividend on the Series A Preferred on the dividend payment date of December 31, 2013. Refer to *Note 6 Borrowings* of our Notes to Consolidated Financial Statements for additional details.

Share-Based Compensation Plan Information

The Company adopted the 2007 Omnibus Incentive Plan (the 2007 Omnibus Plan) in January 2007, which became effective on February 8, 2007, the effective date of the registration statement filed in connection with the Company s initial public offering. Under the 2007 Omnibus Plan, the Company was previously authorized to issue 2,400 shares of common stock, under various instruments to eligible employees and non-employees of the Company, plus an automatic annual increase on the first day of each of the Company s fiscal years beginning on January 1, 2008 and ending on January 1, 2017 equal to (i) the lesser of (A) 1,500 shares of common stock or (B) five percent (5%) of the number of shares of common stock outstanding on the last day of the immediately preceding fiscal year or (ii) such lesser number of shares of common stock as determined by the Company s Board of Directors. Options granted under the 2007 Omnibus Plan generally expire no later than ten years from the date of grant and generally vest over a period of four years. The exercise price of all option grants must be equal to 100% of the fair market value on the date of grant. The 2007 Omnibus Plan also provides for automatic grant of options to purchase

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common stock and common stock awards to non-employee directors. As of March 29, 2014, 1,357 shares were available for future grants under the 2007 Omnibus Plan. Since the RSUs were granted under the 2007 Omnibus Plan, such RSUs granted have been deducted from the overall pool of equity instruments available under the 2007 Omnibus Plan. For further detail, see *Restricted Stock Unit* discussion below.

The Company adopted the 2007 New Employee Incentive Plan (the 2007 New Employee Plan) in October 2007. Under the 2007 New Employee Plan, the Company is authorized to issue 2,000 shares of common stock under various instruments solely to new employees. Options granted under the 2007 New Employee Plan generally expire no later than ten years from the date of grant and generally vest over a period of four years. The exercise price of all option grants must not be less than 100% of the fair market value on the date of grant. As of March 29, 2014, 1,552 shares were available for future grants under the 2007 New Employee Plan.

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

The following table summarizes the Company s stock option activity for the thirteen weeks ended March 29, 2014, and details regarding the options outstanding and exercisable at March 29, 2014:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1)
Options outstanding, December 28, 2013	5,320	$ 2.97		
Options granted	650	$ 2.03		
Exercised	(35)	$ 2.12		
Expired	(17)	$ 3.89		
Forfeited	(94)	$ 1.74		
Options outstanding, March 29, 2014	5,823	$ 2.88	6.83	$ 4,792
Vested and expected to vest at March 29, 2014	4,890	$ 3.10	6.30	$ 3,648
Options exercisable, March 29, 2014	3,157	$ 3.77	4.59	$ 1,552

(1) These amounts represent the difference between the exercise price and the closing price of U.S. Auto Parts Network, Inc. stock on March 29, 2014 as reported on the NASDAQ National Market, for all options outstanding that have an exercise price currently below the closing price.

The weighted-average fair value of options granted during the quarter ended March 29, 2014 and March 30, 2013 was $1.19 and $0.90, respectively. The intrinsic value of stock options at the date of the exercise is the difference between the fair value of the stock at the date of exercise and the exercise price. During the thirteen weeks ended March 29, 2014 and March 30, 2013, the total intrinsic value of the exercised options was $14 and $4, respectively. The Company had $1,961 of unrecognized share-based compensation expense related to stock options outstanding as of March 29, 2014, which expense is expected to be recognized over a weighted-average period of 3.4 years.

Restricted Stock Units

On February 14, 2014, we granted 699 restricted stock units (RSUs) to certain of our employees. The RSUs were granted under the 2007 Omnibus Plan, and reduced the pool of equity instruments available under that plan.

Of the 699 RSU s, 422 are time-based, which vest upon the completion of a pre-defined period of employment, ranging from one- to- two years. The remaining 277 RSUs are performance-based RSUs, the number of which that vest, if any, will be determined upon the achievement of certain pre-defined financial goals in fiscal year 2014. All awards are subject to the employee s continued employment through applicable vesting dates. Some awards granted to certain executives may vest on an accelerated basis in part or in full upon the occurrence of certain events. The RSUs are accounted for as equity awards and are measured at fair value based upon the grant date price of our common stock. The closing price of our common stock on the date of this grant was $2.03 per share. Compensation expense is recognized on a straight-line basis over the requisite service period of one-to-two years. Compensation expense for performance-based awards is measured based on the amount of shares ultimately expected to vest, estimated at each reporting date based on management s expectations regarding the relevant performance criteria.

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For the thirteen weeks ended March 29, 2014, we recorded compensation expense of $157. As of March 29, 2014, there was unrecognized compensation expense of $1,193 related to unvested RSUs based on awards that are expected to vest. The unrecognized compensation expense is expected to be recognized over a weighted-average period of 1.1 years.

Stock Option Exchange Program

In July 2013, the Company s stockholders approved a proposed stock option exchange program for the exchange of certain outstanding stock options held by eligible employees for new options to purchase fewer shares. In August 2013, the Company commenced an offering to eligible employees to voluntarily exchange certain vested and unvested stock options with exercise prices above $4.00 per share at an exchange ratio of 3.5 to 1 to be granted following the expiration of the tender offer with exercise prices equal to the fair market value of one share of the Company s common stock on the day the new options were issued. Stock options to purchase an aggregate of 3,733 shares with exercise prices ranging from $4.01 to $11.68 were eligible for tender at the commencement of the program. The Company s non-employee directors were not eligible to participate in the program. The terms and conditions of the new options are subject to an entirely new four year vesting schedule where 25% will vest on the first anniversary, and the remaining 75% will vest monthly over the following 36 months. All new options have a ten year contractual term. The offer period for the stock option exchange ended in September 2013.

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

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

	Surrendered Stock Options	New Stock Options
Expected life	1.93 6.87 years	5.84 years
Risk-free interest rate	0.5% 2.4%	2.0%
Expected volatility	55% 73%	72%
Expected dividend yield	0%	0%

Warrants

As of March 29, 2014, warrants to purchase 50 shares of common stock were outstanding and exercisable, 30 of which have an exercise price of $2.14 per share and expire on May 5, 2016, and 20 of which have an exercise price of $8.32 per share and expire on April 27, 2017. The warrants were issued in connection with the financial advisory services provided by a consultant to the Company. All warrants fully vested in fiscal year 2012, and no warrants were exercised during the first quarter of 2014. The aggregate intrinsic value of outstanding and exercisable warrants was $25 as of March 29, 2014, which was calculated as the difference between the exercise price of underlying awards and the closing price of the Company s common stock for warrants that were in-the-money.

Share-Based Compensation Expense

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