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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 28, 2019

OR

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

For the transition period from to

Commission file number 001-33264

U.S. AUTO PARTS NETWORK, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	68-0623433 (I.R.S. Employer Identification No.)

16941 Keegan Avenue, Carson, CA 90746
(Address of Principal Executive Offices) (Zip Code)
Registrant's Telephone Number, Including Area Code: (424) 702-1455

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

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

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-Accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

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 Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2019 was approximately $28.3 million (based on the closing sales price of the registrant's common stock on that date). For the purposes of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 5, 2020, there were 36,621,447 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for the 2020 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as a part hereof.

U.S. AUTO PARTS NETWORK, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED December 28, 2019

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Unless the context requires otherwise, as used in this report, the terms “U.S. Auto Parts,” the “Company,” “we,” “us” and “our” refer to U.S. Auto Parts Network, Inc. and its subsidiaries. Unless otherwise stated, all amounts are presented in thousands.

U.S. Auto Parts®, U.S. Auto Parts Network™, 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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

Overview

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

We principally sell our products, identified as stock keeping units ("SKUs"), to individual consumers through our network of websites and online marketplaces. Our user-friendly websites provide customers with a comprehensive selection of over 1.2 million SKUs with detailed product descriptions, attributes and photographs. We have developed a proprietary product database that maps our SKUs to product applications based on vehicle makes, models and years.

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

We were incorporated in California in 1995 as a distributor of aftermarket auto parts and launched our first website in 2000. We reincorporated in Delaware in 2006 and expanded our online operations, increasing the number of SKUs sold through our e-commerce network, adding additional websites, improving our internet marketing proficiency, and commencing sales on online marketplaces. Like most e-commerce retailers, our success depends on our ability to attract online consumers to our websites and convert them into customers in a cost-effective manner. Our efforts to improve the website purchase experience for our online customers have included our efforts to: (1) help our customers find the parts they want to buy through a customized and guided shopping experience specific to key part names; (2) increase order size across our sites through improved recommendation engines; and (3) provide leading customer service and product support.

We intend to continue to implement strategies designed to build and increase our customer lifetime value by focusing on increasing gross profit after freight per transaction, transaction attachment rate, repeat purchases and conversion. We are in the process of adding resources to our marketing, user experience and technology teams to drive new investment in organic and paid search, retention marketing and improvements to our technology infrastructure. We also plan to continue to restructure the organization to focus on our most prominent e-commerce websites and provide users of our sites with the same or better experience than they would receive on the marketplace sites such as Amazon and eBay. We will therefore continue to place a significant effort on restructuring our data and catalog methodologies to enhance the discovery of products and make our catalog a stronger competitive advantage on our e-commerce sites. We expect to start to receive the benefits from some of these investments towards the end of the year. We are also taking steps to offset some of the freight and competitive pressure which have impacted our gross margin, including developing exclusive private label parts not readily available to our competitors, delivering improved customer experience and making changes to our supply chain by getting closer to the customer to realize freight savings.

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

We report on a 52/53-week fiscal year, ending on the Saturday nearest the end of December. References to 2019 and 2018 relate to the 52-week fiscal years ended December 28, 2019 and December 29, 2018.

Our Products

We offer a broad selection of aftermarket auto parts. We continually refine our product offering by introducing new brands and parts categories, while discontinuing low-selling brands and SKUs. We broadly classify our products into

three subcategories by function: collision parts serving the body repair segment, engine parts to serve the replacement/wear parts market and performance parts and accessories.

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

Engine Parts. The engine parts category is comprised of engine and chassis components as well as other mechanical and electrical parts, including our own private label brand of aftermarket 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.

Performance Parts and Accessories. We offer performance versions of many parts sold in each of the above categories. Performance parts and accessories generally consist of parts that enhance the performance of the automobile, upgrade existing functionality of a specific part or improve the physical appearance or comfort of the automobile.

Our Sales Channels

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

Online Sales Channel. Our online sales channel consists of our e-commerce websites, online marketplaces and online advertising. Our e-commerce channel includes a network of e-commerce websites, supported by our call-center sales agents. We also sell our products through online marketplaces, including third-party auction sites and shopping portals, which provide us with access to additional consumer segments. The majority of our online sales are to individual consumers. We sell online advertising and sponsorship positions on our e-commerce websites to highlight vendor brands and offer complementary products and services that benefit our customers. Advertising is targeted to specific sections of the websites and can also be targeted to specific users based on the vehicles they drive. Advertising partners primarily include part vendors, national automotive aftermarket brands, and automobile manufacturers.

Offline Sales Channel. We market our Kool-Vue® products nationwide to auto parts wholesale distributors.

Our Fulfillment Operations

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

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

Drop-Ship Fulfillment. We have developed relationships with several U.S.-based automobile parts distributors that operate their own distribution centers and can deliver products directly to our customers. We internally developed a proprietary distributor selection system, Auto-Vend™, which allows us to electronically select multiple vendors for a

given order. Auto-Vend™ will attempt to first direct an order to one of our warehouses. If the product is not in stock, Auto-Vend™ will process the order to the next appropriate vendor based on customer location, cost, contractual agreements, and service level history.

Suppliers

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

Private Label Product. Our private label suppliers offer products which are generally less expensive and we believe provide better value for our consumers. As a result, our mix shift towards private label product has continued to increase on a year-over-year basis. We stock-and-ship our private label products in our distribution centers. We currently have over 58,000 private label SKUs in our product selection.

Branded Product. We have developed and implemented application programming interfaces with the majority of our branded, drop ship suppliers that allow us to electronically transmit orders, check inventory availability, and receive the shipment tracking information which is easily passed on to our customers. We are a significant customer for many of our drop-ship vendors and have long standing relationships and contracts with many of these suppliers. For the fiscal year ended December 28, 2019, two of our drop-ship vendors accounted for approximately 8% of our total product purchases. We currently have over 700,000 branded SKUs in our product selection.

Marketing

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

International Operations

In April 2007, we established offshore operations in the Philippines. Our offshore operations allow us to access a workforce with the necessary technical skills at a significantly lower cost than comparably experienced U.S.-based professionals. Our offshore operations are responsible for a majority of our website development, catalog management, and back office support. Our offshore operations also house our main call center. We had 508 employees in the Philippines as of December 28, 2019. We also primarily source our private label product from suppliers in the Asia-Pacific region.

Competition

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

- national auto parts retailers such as Advance Auto Parts, AutoZone, Napa Auto Parts, CarQuest, O’Reilly Automotive and Pep Boys;
- large online marketplaces such as Amazon.com and sellers on eBay;

- other online retailers of automotive products and auto repair information websites;
- local independent retailers or niche auto parts retailers;
- wholesale aftermarket auto parts distributors such as LKQ Corporation; and
- manufacturers, brand suppliers and other distributors selling online directly to consumers.

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

Intellectual Property

Our intellectual property consists of trademarks, service marks, patents, copyrights and trade secrets, and is, in the aggregate, important to our business. To protect our proprietary rights, we rely on a combination of intellectual property rights in the United States and other jurisdictions, including trademarks, copyrights, and trade secret laws, together with contractual provisions and technical measures that we have implemented. To protect our trade secrets, we maintain strict control access to our proprietary systems and technology, including our platforms and infrastructure environments. We also enter into confidentiality and invention assignment agreements with our employees and consultants, as well as confidentiality and non-disclosure agreements with third parties that provide products and services to us.

We have trademarks registered in the United States and pending in various countries for some of our core properties, including “carparts.com”, “JC Whitney”, “Kool Vue”, “Evan Fischer” and “Garage-Pro”, and we have additional trademark applications pending in the United States and other jurisdictions.

Government Regulation

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

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

Seasonality

We believe our business is subject to seasonal fluctuations. We have historically experienced higher sales of body parts in winter months when inclement weather and hazardous road conditions typically result in more automobile collisions. Engine parts and performance parts and accessories have historically experienced higher sales in the summer months when consumers have more time to undertake elective projects to maintain and enhance the performance of their automobiles and the warmer weather during that time is conducive for such projects. We expect the historical seasonality trends to continue, and such trends may have a material impact on our financial condition and results of operations in subsequent periods.

Employees

As of December 28, 2019, we had 335 employees in the United States and 508 employees in the Philippines for a total of 843 employees. None of our employees are represented by a labor union, and we have never experienced a work stoppage.

Available Information

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

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks which are discussed below. Other risks are presented elsewhere in this report and in our other filings with the SEC. You should consider carefully the following risks in addition to the other information contained in this report and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K, and any amendments thereto, before deciding to buy, sell or hold our common stock. If any of the following known or unknown risks or uncertainties actually occurs with material adverse effects on us, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price for our common stock will likely decline and you may lose all or part of your investment.

Risks Related To Our Business

Purchasers of aftermarket auto parts may not choose to shop online, which would prevent us from acquiring new customers who are necessary to the growth of our business.

The online market for aftermarket auto parts is less developed than the online market for many other business and consumer products, and currently represents only a small part of the overall aftermarket auto parts market. Our success will depend in part on our ability to attract new customers and to convert customers who have historically purchased auto parts through traditional retail and wholesale operations. Specific factors that could discourage or prevent prospective customers from purchasing from us include:

- concerns about buying auto parts without face-to-face interaction with sales personnel;
- the inability to physically handle, examine and compare products;
- delivery time associated with Internet orders;
- concerns about the security of online transactions and the privacy of personal information;

- delayed shipments or shipments of incorrect or damaged products;
- increased shipping costs; and
- the inconvenience associated with returning or exchanging items purchased online.

If the online market for auto parts does not gain widespread acceptance, our sales may decline and our business and financial results may suffer.

We depend on search engines and other online sources to attract visitors to our websites and marketplace channels, and if we are unable to attract these visitors and convert them into customers in a cost-effective manner, our business and results of operations will be harmed.

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

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

Similarly, if any free search engine, shopping comparison site, or marketplace site on which we rely begins charging fees for listing or placement, or if one or more of the search engines, shopping comparison sites, marketplace sites and other online sources on which we rely for purchased listings, increases their fees, or modifies or terminates its relationship with us, our expenses could rise, we could lose customers and traffic to our websites could decrease.

Shifting online consumer behavior of purchasers of aftermarket auto parts could adversely impact our financial results and the growth of our business.

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

In addition, recent trends indicate that customers may be more inclined to shop for aftermarket auto parts through marketplace websites such as Amazon and eBay as opposed to purchasing parts through e-commerce channels. For example, our online marketplaces sales grew from 36.0% of total sales in fiscal 2018 to 42% of total sales during fiscal 2019. Any mix shift in sales to marketplace channels or increase in associated commissions and costs, could result in lower gross margins, and as a result, our business and financial results may suffer.

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

Third-party marketplaces account for a significant portion of our revenues. Our sales on eBay and Amazon represented a combined 42% of total revenues in fiscal 2019. We anticipate that sales of our products on third-party marketplace will continue to account for a significant portion of our revenues. In the future, the loss of access to these third-party marketplaces could significantly reduce our revenues, and the success of our business depends partly on continued access to these third-party marketplaces. Our relationships with our third-party marketplace providers could deteriorate as a result of a variety of factors, such as if they become concerned about our ability to deliver quality products on a timely basis or to protect a third-party's intellectual property. In addition, third-party marketplace providers could prohibit our access to these marketplaces if we are not able to meet the applicable required terms of use. Loss of access to a marketplace channel could result in lower sales, and as a result, our business and financial results may suffer.

During fiscal 2019, we recorded a net loss, and our net losses may continue in fiscal year 2020.

During fiscal 2019, we incurred a net loss of $31,548, compared to net loss of $4,889 for fiscal 2018, attributable largely to a $21,437 non-cash income tax charge resulting from a change in the valuation allowance. If our net losses continue in fiscal year 2020, they could severely impact our liquidity, as we may not be able to provide positive cash flows from operations in order to meet our working capital requirements. We may need to borrow additional funds from our credit facility, which under certain circumstances may not be available, sell additional assets or seek additional equity or additional debt financing in the future. In such case, there can be no assurance that we would be able to raise such additional financing or engage in such asset sales on acceptable terms, or at all. If our net losses were to continue, and if we are not able to raise adequate additional financing or proceeds from asset sales to continue to fund our ongoing operations, we will need to defer, reduce or eliminate significant planned expenditures, restructure or significantly curtail our operations, file for bankruptcy or cease operations.

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

We maintain an asset-based revolving credit facility with JPMorgan Chase Bank, N.A. (the "Credit Agreement") that provides for, among other things, a revolving commitment in an aggregate principal amount of up to $30,000 subject to a borrowing base derived from certain of our receivables, inventory and property and equipment. Our Credit Agreement also provides for an option to increase the aggregate principal amount from $30,000 to $40,000, subject to lender approval. Our Credit Agreement includes a number of restrictive covenants. These covenants could impair our financing and operational flexibility and make it difficult for us to react to market conditions and satisfy our ongoing capital needs and unanticipated cash requirements. Specifically, such covenants restrict our ability and, if applicable, the ability of our subsidiaries to, among other things:

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

- enter into new lines of business;

- pay or amend our subordinated debt; and

- form any joint ventures or subsidiary investments.

In addition, our credit facility is subject to a borrowing base derived from certain of our receivables, inventory, property and equipment. In the event that components of the borrowing base are adversely affected for any reason, including adverse market conditions or downturns in general economic conditions, we could be restricted in the amount of funds we can borrow under the credit facility. Furthermore, in the event that components of the borrowing base decrease to a level below the amount of loans then-outstanding under the credit facility, we could be required to immediately repay loans to the extent of such shortfall. 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 fiscal 2019, we may have outstanding revolver debt in the future. Any outstanding indebtedness would have important consequences, including the following:

- we would have to dedicate a portion of our cash flow to making payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions or other general corporate purposes;

- certain levels of indebtedness may make us less attractive to potential acquirers or acquisition targets;

- certain levels of indebtedness may limit our flexibility to adjust to changing business and market conditions, and make us more vulnerable to downturns in general economic conditions as compared to competitors that may be less leveraged; and

- as described in more detail above, the documents providing for our indebtedness contain restrictive covenants that may limit our financing and operational flexibility.

Furthermore, our ability to satisfy our debt service obligations depends, among other things, upon fluctuations in interest rates, our future operating performance and ability to refinance indebtedness when and if necessary. These factors depend partly on economic, financial, competitive and other factors beyond our control. We may not be able to generate sufficient cash from operations to meet our debt service obligations as well as fund necessary capital expenditures and general operating expenses. In addition, if we need to refinance our debt, or obtain additional debt financing or sell assets or equity to satisfy our debt service obligations, we may not be able to do so on commercially reasonable terms, if at all. If this were to occur, we may need to defer, reduce or eliminate significant planned expenditures, restructure or significantly curtail our operations, file for bankruptcy or cease operations. The Company’s outstanding letters of credit balance as of December 28, 2019 was $17,638.

We face exposure to product liability lawsuits.

The automotive industry in general has been subject to a large number of product liability claims due to the nature of personal injuries that result from car accidents or malfunctions. As a distributor of auto parts, including parts obtained overseas, we could be held liable for the injury or damage caused if the products we sell are defective or malfunction regardless of whether the product manufacturer is the party at fault. While we carry insurance against product liability claims, if the damages in any given action were high or we were subject to multiple lawsuits, the damages and costs could exceed the limits of our insurance coverage or prevent us from obtaining coverage in the future. If we were required to pay substantial damages as a result of these lawsuits, it may seriously harm our business and financial condition. Even defending against unsuccessful claims could cause us to incur significant expenses and result in a diversion of management's attention. In addition, even if the money damages themselves did not cause substantial harm to our business, the damage to our reputation and the brands offered on our websites could adversely affect our future reputation and our brand, and could result in a decline in our net sales and profitability.

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

We review our long-lived assets for impairment annually, or when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered are changes in circumstances indicating that the carrying value of our assets may not be recoverable include a decrease in future cash flows. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our assets is determined, resulting in an impact on our results of operations.

We are highly dependent upon key suppliers.

Our top ten suppliers represented approximately 54% of our total product purchases during fiscal 2019. Our ability to acquire products from our suppliers in amounts and on terms acceptable to us is dependent upon a number of factors that could affect our suppliers and which are beyond our control. For example, financial or operational difficulties that some of our suppliers may face could result in an increase in the cost of the products we purchase from them. If we do not maintain our relationships with our existing suppliers or develop relationships with new suppliers on acceptable commercial terms, we may not be able to continue to offer a broad selection of merchandise at competitive prices and, as a result, we could lose customers and our sales could decline.

For a number of the products that we sell, we outsource the distribution and fulfillment operation and are dependent on certain drop-ship suppliers to manage inventory, process orders and distribute those products to our customers in a timely manner. For fiscal 2019, our product purchases from three drop-ship suppliers represented approximately 11% of our total product purchases. Because we outsource to suppliers a number of these traditional retail functions relating to those products, we have limited control over how and when orders are fulfilled. We also have limited control over the products that our suppliers purchase or keep in stock. Our suppliers may not accurately forecast the products that will be in high demand or they may allocate popular products to other resellers, resulting in the unavailability of certain products for delivery to our customers. Any inability to offer a broad array of products at competitive prices and any failure to deliver those products to our customers in a timely and accurate manner may damage our reputation and brand and could cause us to lose customers and our sales could decline.

In addition, the increasing consolidation among auto parts suppliers may disrupt or end our relationship with some suppliers, result in product shortages and/or lead to less competition and, consequently, higher prices. Furthermore, as part of our routine business, suppliers extend credit to us in connection with our purchase of their products. In the future, our suppliers may limit the amount of credit they are willing to extend to us in connection with our purchase of their products. If this were to occur, it could impair our ability to acquire the types and quantities of products that we desire from the applicable suppliers on acceptable terms, severely impact our liquidity and capital resources, limit our ability to operate our business and could have a material adverse effect on our financial condition and results of operations.

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

We acquire a majority of our products from manufacturers and distributors located in Taiwan and China. We do not have any long-term contracts or exclusive agreements with our foreign suppliers that would ensure our ability to acquire the types and quantities of products we desire at acceptable prices and in a timely manner or that would allow us to rely on customary indemnification protection with respect to any third-party claims similar to some of our U.S. suppliers.

In addition, because many of our suppliers are outside of the United States, additional factors could interrupt our relationships or affect our ability to acquire the necessary products on acceptable terms, including:

- political, social and economic instability and the risk of war or other international incidents in Asia or abroad;
- fluctuations in foreign currency exchange rates that may increase our cost of products;
- imposition of duties, taxes, tariffs or other charges on imports;
- difficulties in complying with import and export laws, regulatory requirements and restrictions;
- natural disasters and public health emergencies, such as the recent outbreak of a novel strain of coronavirus identified in Wuhan, Hubei Province, China;
- import shipping delays resulting from foreign or domestic labor shortages, slow-downs, or stoppage; and
- the failure of local laws to provide a sufficient degree of protection against infringement of our intellectual property;
- imposition of new legislation relating to import quotas or other restrictions that may limit the quantity of our product that may be imported into the U.S. from countries or regions where we do business;
- financial or political instability in any of the countries in which our product is manufactured;
- potential recalls or cancellations of orders for any product that does not meet our quality standards;
- disruption of imports by labor disputes or strikes and local business practices;
- political or military conflict involving the U.S. or any country in which our suppliers are located, which could cause a delay in the transportation of our products, an increase in transportation costs and additional risk to product being damaged and delivered on time;
- heightened terrorism security concerns, which could subject imported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods;
- inability of our non-U.S. suppliers to obtain adequate credit or access liquidity to finance their operations; and
- our ability to enforce any agreements with our foreign suppliers.

For example, during the first quarter of 2018, the United States Customs and Border Protection ("CBP") imposed an enhanced bonding requirement on the company at a level equivalent to three times the commercial invoice value of each shipment. While the Company has been granted relief removing the bonding requirement, CBP may impose other requirements on the Company which would make it more difficult or more expensive for the Company to import

products. If we were unable to import products from China and Taiwan or were unable to import products from China and Taiwan in a cost-effective manner, we could suffer irreparable harm to our business and be required to significantly curtail our operations, file for bankruptcy or cease operations.

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

Our financial condition and results of operations for fiscal 2020 may be adversely affected by the recent COVID-19 outbreak.

Our financial condition and results of operations for fiscal year 2020 may be adversely affected by the recent COVID-19 (also known as coronavirus) outbreak. The ongoing coronavirus outbreak emanating from China at the beginning of 2020 has resulted in increased travel restrictions and extended shutdowns of certain businesses in the region. We acquire a majority of our products from manufacturers and distributors located in Taiwan and China, and we maintain international business operations in the Philippines. Consequently, we are susceptible to factors adversely affecting this region. The effects could include restrictions on our ability to travel to support our suppliers located in Asia, disruptions in our ability to distribute our products in the Asia region, and/or temporary closures of the facilities of our manufacturers and distributors. Disruption to the operations of our manufacturers and distributors would likely impact our sales and operating results. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

Our supply chain may be adversely affected by political events, domestic or international hostilities, international health emergencies, or complications due to natural, nuclear or other disasters.

The ongoing coronavirus outbreak emanating from China at the beginning of 2020 has resulted in increased travel restrictions and extended shutdown of certain businesses in the region, including those of some of our suppliers. This or any other governmental developments or health concerns in China or other countries could result in social or economic instability. These developments could disrupt our supply chain, and have material adverse effect on our business and or our operating results.

We depend on third-party delivery services to deliver our products to our customers on a timely and consistent basis, and any deterioration in our relationship with any one of these third parties or increases in the fees that they charge could harm our reputation and adversely affect our business and financial condition.

We rely on third parties for the shipment of our products and we cannot be sure that these relationships will continue on terms favorable to us, or at all. Shipping costs have increased from time to time, and may continue to increase, and we may not be able to pass these costs directly to our customers. Any increased shipping costs could harm our business, prospects, financial condition and results of operations by increasing our costs of doing business and reducing gross margins which could negatively affect our operating results. In addition, we utilize a variety of shipping methods for both inbound and outbound logistics. For inbound logistics, we rely on trucking and ocean carriers and any increases in fees that they charge could adversely affect our business and financial condition. For outbound logistics, we rely on ''Less-than-Truckload'' (''LTL'') and parcel freight based upon the product and quantities being shipped and customer delivery requirements. These outbound freight costs have increased on a year-over-year basis and may continue to increase in the future. We also ship a number of oversized auto parts which may trigger additional shipping costs by third-party delivery services. Any increases in fees or any increased use of LTL would increase our shipping costs which could negatively affect our operating results.

In addition, if our relationships with these third parties are terminated or impaired, or if these third parties are unable to deliver products for us, whether due to labor shortage, slow down or stoppage, deteriorating financial or business condition, responses to terrorist attacks or for any other reason, we would be required to use alternative carriers for the

shipment of products to our customers. Changing carriers could have a negative effect on our business and operating results due to reduced visibility of order status and package tracking and delays in order processing and product delivery, and we may be unable to engage alternative carriers on a timely basis, upon terms favorable to us, or at all.

If commodity prices such as fuel, plastic and steel increase, our margins may be negatively impacted.

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

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

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

- difficulties and costs of staffing and managing foreign operations, including any impairment to our relationship with employees caused by a reduction in force;
- restrictions imposed by local labor practices and laws on our business and operations;
- exposure to different business practices and legal standards;
- unexpected changes in regulatory requirements;
- the imposition of government controls and restrictions;
- political, social and economic instability and the risk of war, terrorist activities or other international incidents;
- the failure of telecommunications and connectivity infrastructure;
- natural disasters and public health emergencies;
- potentially adverse tax consequences; and
- fluctuations in foreign currency exchange rates and relative weakness in the U.S. dollar.

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

Our success depends on our ability to successfully receive and fulfill orders and to promptly deliver our products to our customers. The majority of orders for our auto collision parts products are filled from our inventory in our distribution centers, where all our inventory management, packaging, labeling and product return processes are performed. Increased demand and other considerations may require us to expand our distribution centers or transfer our

fulfillment operations to larger or other facilities in the future. If we do not successfully expand our fulfillment capabilities in response to increases in demand, our sales could decline.

In addition, our distribution centers are susceptible to damage or interruption from human error, fire, flood, power loss, telecommunications failures, terrorist attacks, acts of war, break-ins, earthquakes and similar events. We do not currently maintain back-up power systems at our fulfillment centers. We do not presently have a formal disaster recovery plan and our business interruption insurance may be insufficient to compensate us for losses that may occur in the event operations at our fulfillment center are interrupted. In addition, alternative arrangements may not be available, or if they are available, may increase the cost of fulfillment. Any interruptions in our fulfillment operations for any significant period of time, including interruptions resulting from the expansion of our existing facilities or the transfer of operations to a new facility, could damage our reputation and brand and substantially harm our business and results of operations.

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

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

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

It is essential to our business strategy that our technology and network infrastructure remain secure and is perceived by our customers to be secure. Despite security measures, however, any network infrastructure may be vulnerable to cyber-attacks. Information security risks have significantly increased in recent years in part due to the proliferation of new technologies and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign private parties and state actors. As a leading online source for automotive aftermarket parts, we may face cyber-attacks that attempt to penetrate our network security, including our data centers, to sabotage or otherwise disable our network of websites and online marketplaces, misappropriate our or our customers' proprietary information, which may include personally identifiable information, or cause interruptions of our internal systems and services. If successful, any of these attacks could negatively affect our reputation, damage our network infrastructure and our ability to sell our products, harm our relationship with customers that are affected and expose us to financial liability.

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

Moreover, we are subject to the Payment Card Industry Data Security Standard ("PCI DSS"), issued by the PCI Council. PCI DSS contains compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. We cannot be certain that all of our information technology systems are able to prevent, contain or detect any cyber-attacks, cyber terrorism, or security breaches from known malware or malware that may be developed in the future. To the extent that any disruption results in the loss, damage or misappropriation of information, we may be materially adversely affected by claims from customers, financial institutions, regulatory authorities, payment card associations and others. In addition, the cost of complying with stricter privacy and information security laws and standards could be significant to us. For example, we were recently required to transition from PCI Data Security Standard 2.0 to PCI Data Security Standard 3.2. We are in the process of conforming to the new standards which we expect to be completed in 2020. There is no guarantee that we will be able to conform to these new standards, and if we fail to meet these standards, we could become subject to fines and other penalties and experience a significant increase in payment card transaction costs. In addition, such failure could damage our reputation, inhibit sales, and adversely affect our business.

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

Federal and state and regulations may govern the collection, use, sharing and security of data that we receive from our customers. In addition, we have and post on our websites our own privacy policies and practices concerning the collection, use and disclosure of customer data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, U.S. Federal Trade Commission requirements or other federal, state or international privacy-related laws and regulations could result in proceedings or actions against us by governmental entities or others, which could potentially harm our business. Further, failure or perceived failure to comply with our policies or applicable requirements related to the collection, use or security of personal information or other privacy-related matters could damage our reputation and result in a loss of customers.

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

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

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

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

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

Barriers to entry are low, and current and new competitors can launch websites at a relatively low cost. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing, technical, management and other resources than we do. For example, in the event that online marketplace companies such as Amazon or eBay, who have larger customer bases, greater brand recognition and significantly greater resources than we do, focus more of their resources on competing in the aftermarket auto parts market, it could have a material adverse effect on our business and results of operations. In addition, some of our competitors have used and may continue to use aggressive pricing tactics and devote substantially more financial resources to website and system development than we do. We expect that competition will further intensify in the future as Internet use and online commerce continue to grow worldwide. Increased competition may result in reduced sales, lower operating margins, reduced profitability, loss of market share and diminished brand recognition.

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

If we fail to offer a broad selection of products at competitive prices or fail to maintain sufficient inventory to meet customer demands, our revenue could decline.

In order to expand our business, we must successfully offer, on a continuous basis, a broad selection of auto parts that meet the needs of our customers, including by being the first to market with new SKUs. Our auto parts are used by consumers for a variety of purposes, including repair, performance, improved aesthetics and functionality. In addition, to be successful, our product offerings must be broad and deep in scope, competitively priced, well-made, innovative and attractive to a wide range of consumers. We cannot predict with certainty that we will be successful in offering products

that meet all of these requirements. Moreover, even if we offer a broad selection of products at competitive prices, we must maintain sufficient in-stock inventory to meet consumer demand. If our product offerings fail to satisfy our customers' requirements or respond to changes in customer preferences or we otherwise fail to maintain sufficient in-stock inventory, our revenue could decline.

Challenges by OEMs to the validity of the aftermarket auto parts industry and claims of intellectual property infringement could adversely affect our business and the viability of the aftermarket auto parts industry.

OEMs have attempted to use claims of intellectual property infringement against manufacturers and distributors of aftermarket products to restrict or eliminate the sale of aftermarket products that are the subject of the claims. The OEMs have brought such claims in federal court and with the United States International Trade Commission. We have received in the past, and we anticipate we may in the future receive, communications alleging that certain products we sell infringe the patents, copyrights, trademarks and trade names or other intellectual property rights of OEMs or other third parties. For instance, after approximately three and a half years of litigation and related costs and expenses, on April 16, 2009, we entered into a settlement agreement with Ford Motor Company and Ford Global Technologies, LLC that ended the two legal actions that were initiated by Ford against us related to claims of patent infringement. The United States Patent and Trademark Office records indicate that OEMs are seeking and obtaining more design patents and trademarks then they have in the past.

In 2018, for example, the CBP alleged that certain repair grilles imported by the Company were counterfeit and infringed on trademarks registered by OEMs. The Company subsequently settled with CBP, however, to the extent that the OEMs are successful in obtaining and enforcing other intellectual property rights, we could be restricted or prohibited from selling certain aftermarket products which could have an adverse effect on our business. Infringement claims could also result in increased costs of doing business arising from new importing requirements, increased port and carrier fees and legal expenses, adverse judgments or settlements or changes to our business practices required to settle such claims or satisfy any judgments. For example, during fiscal 2018 we incurred approximately $5,046 of port and carrier fees and legal expenses attributable to CBP's wrongful seizures and the Company's litigation with CBP. Litigation or regulatory enforcement could also result in interpretations of the law that require us to change our business practices or otherwise increase our costs and harm our business. We may not maintain sufficient, or any, insurance coverage to cover the types of claims that could be asserted. If a successful claim were brought against us, it could expose us to significant liability.

If we are unable to protect our intellectual property rights, our reputation and brand could be impaired and we could lose customers.

We regard our trademarks, trade secrets and similar intellectual property such as our proprietary back-end order processing and fulfillment code and process as important to our success. We rely on trademark and copyright law, and trade secret protection, and confidentiality and/or license agreements with employees, customers, partners and others to protect our proprietary rights. We cannot be certain that we have taken adequate steps to protect our proprietary rights, especially in countries where the laws may not protect our rights as fully as in the United States. In addition, our proprietary rights may be infringed or misappropriated, and we could be required to incur significant expenses to preserve them. In the past we have filed litigation to protect our intellectual property rights. The outcome of such litigation can be uncertain, and the cost of prosecuting such litigation may have an adverse impact on our earnings. We have common law trademarks, as well as pending federal trademark registrations for several marks and several registered marks. However, any registrations may not adequately cover our intellectual property or protect us against infringement by others. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our products and services may be made available online. We also currently own or control a number of Internet domain names, including www.usautoparts.net, www.carparts.com, www.autopartswarehouse.com, and 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.

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

We are sometimes the subject of complaints or litigation from customers, employees or other third parties for various reasons. The damages sought against us in some of these litigation proceedings could be substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim, this could have a material adverse effect on our business, financial condition, results of operations and cash flows. For more information on our ongoing litigation, see the information set forth under the caption "*Legal Matters*" in "*Note 8 Commitments and Contingencies*" of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

We are in the process of implementing a new enterprise resource planning system, and problems with the design or implementation of this system could interfere with our business and operations.

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

Risks Related To Our Capital Stock

Our common stock price has been and may continue to be volatile, which may result in losses to our stockholders.

The market prices of technology and e-commerce companies generally have been extremely volatile and have recently experienced sharp share price and trading volume changes. The trading price of our common stock is likely to be volatile and could fluctuate widely in response to, among other things, the risk factors described in this report and other factors beyond our control such as fluctuations in the operations or valuations of companies perceived by investors to be comparable to us, our ability to meet analysts' expectations, our trading volume, activities of activist investors, the impact of any stock repurchase program or conditions or trends in the Internet or auto parts industries.

Since the completion of our initial public offering in February 2007 through December 28, 2019, the trading price of our common stock has been volatile, ranging from a high of $12.61 per share to a low per share of $0.88. We have also experienced significant fluctuations in the trading volume of our common stock. General economic and political conditions unrelated to our performance may also adversely affect the price of our common stock. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been initiated. Due to the inherent uncertainties of litigation, we cannot predict the ultimate outcome of any such litigation if it were initiated. The initiation of any such litigation or an unfavorable result could have a material adverse effect on our financial condition and results of operations.

Our 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 NASDAQ. If our stock trades at bid prices of less than $1.00 for a period in excess of 30 consecutive business days, NASDAQ could send a deficiency notice to us for not remaining in compliance with the minimum bid listing standards. 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 December 28, 2019, 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 have historically collected sales or other similar taxes only on the shipment of goods to customers in the states of California, Virginia, Illinois, and Ohio. However, following the Supreme Court decision in South Dakota v. Wayfair, the Company is now required to collect sales tax in any state which passes legislation requiring out of state retailers to collect sales tax even where they have no physical nexus. We have historically enjoyed a competitive advantage to the extent our competitors are already subject to those tax obligations. By collecting sales tax in additional states, we will lose this competitive advantage as total costs to our customers will increase, which could adversely affect our sales.

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

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

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

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

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

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

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

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

We are subject to federal and state consumer protection laws and regulations, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices, as well as laws and regulations governing businesses in general and the Internet and e-commerce and certain environmental laws. Additional laws and regulations may be adopted with respect to the Internet, the effect of which on e-commerce is uncertain. These laws may cover issues such as user privacy, spyware and the tracking of consumer activities, marketing e-mails and communications, other advertising and promotional practices, money transfers, pricing, content and quality of products and services, taxation, electronic contracts and other communications, intellectual property rights, and information security. Furthermore, it is not clear how existing laws such as those governing issues such as property ownership, sales and other taxes, trespass, data mining and collection, and personal privacy apply to the Internet and e-commerce. To the

extent we expand into international markets, we will be faced with complying with local laws and regulations, some of which may be materially different than U.S. laws and regulations. Any such foreign law or regulation, any new U.S. law or regulation, or the interpretation or application of existing laws and regulations to the Internet or other online services or our business in general, may have a material adverse effect on our business, prospects, financial condition and results of operations by, among other things, impeding the growth of the Internet, subjecting us to fines, penalties, damages or other liabilities, requiring costly changes in our business operations and practices, and reducing customer demand for our products and services. We may not maintain sufficient, or any, insurance coverage to cover the types of claims or liabilities that could arise as a result of such regulation.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 28, 2019, the total square footage of our leased office and distribution centers was 683,000 square feet. This includes approximately 640,000 square feet for our corporate headquarters located in Carson, California and distribution centers in LaSalle, Illinois, Chesapeake, Virginia and Las Vegas, Nevada; and approximately 43,000 square feet of office space in the Philippines. For additional information regarding our obligations under property leases, see *“Note 8-Commitments and Contingencies”* of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the caption "*Legal Matters*" in "*Note 8-Commitments and Contingencies"* of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report, and is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see the section entitled "Risk Factors" in Item 1A of this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock trades on NASDAQ under the symbol “PRTS.”

Holders

As of March 5, 2020, there were approximately 19 registered shareholders of record of our common stock.

Dividend Policy

No dividends on common stock were paid during the fiscal year ended December 28, 2019. We issued approximately $161 in dividends to our Series A Preferred stockholders during each of the fiscal years ended December 28, 2019 and December 29, 2018, respectively. We do not anticipate that we will declare or pay any cash dividends on our common stock in the foreseeable future; however, we will have to pay dividends to our preferred stockholders until such shares are redeemed or converted. We maintain an asset-based revolving credit facility with JPMorgan Chase Bank (the "Credit Agreement") that provides for, among other things, a revolving commitment in an aggregate principal amount of up to $30,000 subject to a borrowing base derived from certain of our receivables, inventory and property and equipment. The Credit Agreement requires us to obtain a prior written consent from JPMorgan Chase Bank when we determine to pay any dividends on or make any distribution with respect to our common stock. Under the Second Amendment to Credit Agreement dated March 25, 2013, we obtained written consent from JPMorgan Chase Bank to pay dividends on our Series A Preferred Shares. See *“Liquidity and Capital Resources”* in Item 7 of Part II included in this report for further information on the covenants under the secured Credit Agreement. Any future determination to pay cash dividends on our common stock will be subject to the above restriction, as well as restrictions under any other existing indebtedness, at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and other factors the Board of Directors deems relevant.

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Sales of Registered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

ITEM 6. SELECTED FINANCIAL DATA

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

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

Cautionary Statement

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

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

Overview

We are a leading online provider of aftermarket auto parts, including collision parts, engine parts, and performance parts and accessories. Our user-friendly websites provide customers with a broad selection of SKUs, with detailed product descriptions and photographs. Our proprietary product database maps our SKUs to product applications based on vehicle makes, models and years. We principally sell our products to individual consumers through our network of websites and online marketplaces. Our flagship consumer websites are located at *www.carparts.com, www.jcwhitney.com, www.autopartswarehouse.com* and our corporate website is located at *www.usautoparts.com*. The inclusion of our website addresses in this report does not include or incorporate by reference into this report any information on our websites.

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

1. *Number of SKUs required to serve the market.* The number of automotive SKUs has grown dramatically over the last several years. In today's market, unless the consumer is driving a high volume produced vehicle and needs a simple maintenance item, the part they need is not typically on the shelf at a brick-and-mortar store. We believe our user-friendly websites provide customers with a favorable alternative to the brick-and-mortar shopping experience by offering a comprehensive selection of over 1.2 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. light vehicles, an indicator of auto parts demand, remained near record-highs at 11.8 years during 2019, according to the U.S. Auto Care Association, up from 11.7 years during 2018. In addition, IHS, a market analytics firm, found that the total number of light vehicles in operation in the U.S. has increased to record levels, and should continue to rise through 2020. We believe an increasing vehicle base and rising average age of vehicles will have a positive impact on overall aftermarket parts demand because older vehicles generally require more repairs. In many

cases we believe these older vehicles are driven by do-it-yourself ("DIY") car owners who are more likely to handle any necessary repairs themselves rather than taking their car to the professional repair shop.

3. *Growth of online sales.* The U.S. Auto Care Association estimated that overall revenue from online sales of auto parts and accessories would reach 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 had 508 employees in the Philippines as of December 28, 2019. 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.

Key Metrics. To understand revenue generation through our network of e-commerce websites and online marketplaces, we monitor several key business metrics to evaluate our business, measure our performance, develop financial forecasts and make strategic decisions, including the following:

	52 Weeks Ended December 28, 2019	52 Weeks Ended December 29, 2018
Unique Visitors (millions)[1]	59.5	69.3
E-commerce Orders (thousands)	1,705	1,760
Online Marketplace Orders (thousands)	1,707	1,573
Total Online Orders (thousands)	3,412	3,333
E-commerce Average Order Value	$ 90	$ 98
Online Marketplace Average Order Value	$ 69	$ 73
Total Online Average Order Value	$ 80	$ 86
Revenue Capture[1]	88.7 %	87.5 %
Conversion[1]	2.87 %	2.54 %

1 Excludes online marketplaces.

Unique Visitors: A unique visitor to a particular website represents a user with a distinct IP address that visits that particular website. We define the total number of unique visitors in a given month as the sum of unique visitors to each of our websites during that month. We measure unique visitors to understand the volume of traffic to our websites and to track the effectiveness of our online marketing efforts. The number of unique visitors has historically varied based on a number of factors, including our marketing activities and seasonality. Included in the unique visitors are mobile device based customers, who are becoming an increasing part of our business. Shifting consumer behavior and technology enhancements indicates that customers are becoming more inclined to purchase auto parts through their mobile devices. User sophistication and technological advances have increased consumer expectations around the user experience on mobile devices, including speed of response, functionality, product availability, security, and ease of use. We believe enhancements to online solutions specifically catering to mobile based shopping can result in an increase in the number of orders and revenues. We believe an increase in unique visitors to our websites will result in an increase in the number

of orders. We seek to increase the number of unique visitors to our websites by attracting repeat customers and improving search engine marketing and other internet marketing activities. During fiscal year 2019, our unique visitors decreased by 14.1% compared to the fiscal year 2018 primarily due to our focus on private label sales, which led us to proactively reduce marketing spend for branded product sales.

Total Number of Orders: We monitor the total number of orders as an indicator of future revenue trends. During the fiscal year 2019, the total number of orders increased by 2.4% compared to the fiscal year 2018, with e-commerce and online marketplace orders decreasing by 3.1% and increasing by 8.5%, respectively. We believe total number of orders increased primarily due to improved conversion, driven by enhanced customer experience as well as increased marketing and inventory optimization efforts.

Average Order Value: Average order value represents our net sales on a placed orders basis for a given period of time divided by the total number of orders recorded during the same period of time. During the fiscal year 2019, our average order value decreased by 7.0% when compared to the fiscal year 2018 primarily driven by decreases in e-commerce order value as well as a shift in product mix toward private label products which are priced lower than branded products, yet have higher gross margins. We seek to increase the average order value as a means of increasing net sales. Average order values vary depending upon a number of factors, including the components of our product offering, the order volume in certain online sales channels, mix changes between private label and branded, macro-economic conditions, and the 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 fiscal year 2019, our revenue capture increased by 1.4% to 88.7% compared to 87.5% in fiscal year 2018 primarily due to an improved fill rate resulting from higher inventory levels on hand during the year.

Conversion: Conversion is the number of orders as a rate to the total number of unique visitors. This rate indicates how well we convert a visitor to a customer sales order. During fiscal year 2019, our conversion increased by 13.0% to 2.9% in fiscal year 2019 compared to 2.5% in fiscal year 2018 as a result of initiatives designed to improve the overall customer experience as well as shifts in channel mix and declines in traffic.

Executive Summary

For fiscal 2019, the Company’s continuing operations generated net sales of $280,657, compared with $289,467 for fiscal year 2018, representing a decrease of 3.0% compared to the prior year. Our continuing operations incurred a net loss for fiscal 2019 of $31,548, compared to a net loss of $4,889 for fiscal 2018, attributable largely to a $21,437 non-cash income tax charge resulting from a change in the valuation allowance. Our continuing operations incurred a loss before interest expense, net, income tax provision, depreciation and amortization expense, amortization of intangible assets, share-based compensation expense and costs related to our customs issues and employee transition costs ("Adjusted EBITDA"), of $4,532 in fiscal 2019 compared to $10,379 in fiscal 2018. Adjusted EBITDA, which is not a Generally Accepted Accounting Principle (“GAAP”) measure, is presented because management uses it as one measure of the Company’s operating performance, as it assists in comparing the Company’s operating performance on a consistent basis by removing the impact of stock compensation expense, as well as items that are not expected to be recurring. Internally, this non-GAAP measure is also used by management for planning purposes, including the preparation of internal budgets; for allocating resources to enhance financial performance; and for evaluating the effectiveness of operational strategies. The Company also believes that such measure is used by rating agencies, securities analysts, investors and other parties in evaluating the Company. It should not be considered, however, as an alternative to operating income, or as an alternative to cash flows as a measure of the Company’s overall liquidity, as presented in the Company’s consolidated financial statements. Further, the Adjusted EBITDA measure shown may not be comparable to similarly titled measures used by other companies. Refer to the table presented below for reconciliation of net loss to Adjusted EBITDA.

Total revenues decreased in fiscal 2019 compared to fiscal 2018 primarily due to a decline in our offline sales, and to a lesser extent, due to a decrease in our online sales. Our offline sales, which consist of our Kool-Vue® and wholesale

operations, contributed 8.8% of total revenues and our online sales, which include our e-commerce, online marketplace sales channels and online advertising, contributed 91.2% of total revenues. Our offline sales decreased by $6,853, or 21.8%, to $24,607 compared to the same period last year primarily due to a decrease in revenue from our wholesale operations. Our online sales for fiscal year 2019 decreased by $1,957 or 0.8%, to $256,050 due to a decrease in total online orders of 2.4% and a lower average order value. The decreases were primarily attributable to decreases in marketplace sales with one of our channel partners, as well as due to a decrease in e-commerce sales attributable to a reduction of traffic and a shift in our focus to private label sales vs. branded sales.

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 online 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, but during the fiscal year 2019, our unique visitor count decreased by 9,800 or 14.1%, to 59,500 unique visitors compared to 69,300 unique visitors in fiscal 2018 primarily driven by our focus on private label sales, which led us to proactively reduce marketing spend for branded product sales. As in the past we expect Google will continue to make changes in their search engine algorithms to improve their user experience. As we are significantly dependent upon search engines for our website traffic, if we are unable to address these ongoing changes and attract unique visitors, our business and results of operations will be harmed.

Total expenses, which primarily consisted of cost of sales and operating costs, increased in fiscal year 2019 compared to the same period in 2018. Components of our cost of sales and operating costs are described in further detail under — *"Basis of Presentation*" below.

We continue to pursue strategies to improve sales growth and 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 features 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 can improve the conversion rate of visitors to our websites, 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 58,000 private label SKUs and over 700,000 branded SKUs in our product selection. We will continue to seek to add new categories and expand our existing specialty categories. We believe continued product expansion will increase the total number of orders and contribute to our revenue growth. Additionally, we plan to continue to maintain certain in-stock inventory throughout the year to provide consistent service levels and improve customer experience.

- We continue to implement cost saving measures.

Non-GAAP measures

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

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

Management uses Adjusted EBITDA as one measure of the Company's operating performance because it assists in comparing the Company's operating performance on a consistent basis by removing the impact of stock compensation expense and 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 table below reconciles net loss from continuing operations to Adjusted EBITDA for the periods presented (in thousands):

	Fifty-two weeks ended	
	December 28, 2019	December 29, 2018
Net loss from continuing operations	(31,548)	(4,889)
Depreciation & amortization	6,252	5,802
Amortization of intangible assets	100	185
Interest expense, net	1,897	1,595
Taxes	21,437	(329)
EBITDA	$ (1,862)	$ 2,364
Stock compensation expense	$ 3,656	$ 3,595
Employee transition costs[(1)]	2,274	774
Customs Costs[(2)]	464	5,046
Proceeds from AutoMD sale	—	(1,400)
Adjusted EBITDA	$ 4,532	$ 10,379

(1) We incurred employee transition costs related to the transition of our executive management team including severance, recruiting, hiring bonus and relocation costs.

(2) We incurred port and carrier fees and legal costs associated with our customs related issues. Refer to "*Note 8 —Commitments and Contingencies*" of our Notes to Consolidated Financial Statements for additional details.

Basis of Presentation

Net Sales. Online and offline sales represent two different sales channels for our products. We generate online net sales primarily through the sale of auto parts to individual consumers through our network of e-commerce websites, online marketplace sales channels and online advertising. E-commerce sales are derived from our network of websites, which we own and operate. E-commerce and online marketplace sales also include inbound telephone sales through our call center that supports these sales channels. Online marketplaces consist primarily of sales of our products on online marketplace websites, where we sell through storefronts that we maintain on third-party owned websites. Prior to March 2019, we sold advertising and sponsorship positions on our e-commerce websites to highlight vendor brands and offer complementary products and services that benefit our customers. Advertising is targeted to specific sections of the websites and can also be targeted to specific users based on the vehicles they drive. Advertising partners primarily include part vendors, national automotive aftermarket brands and automobile manufacturers. Our offline sales channel represents our distribution of products directly to commercial customers by selling auto parts to collision repair shops. Our offline sales channel also includes both stock ship distribution as well as drop ship programs for automotive warehouse distributors and other online resellers. The product mix includes the majority of our private labeled stock ship items, which include the replacement collision parts and our Kool-Vue® mirror line.

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

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

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

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

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

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

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

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.

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:

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Net sales	100.0 %	100.0 %
Cost of sales	70.0	72.8
Gross profit	30.0	27.2
Operating expenses:		
Marketing	15.8	13.2
General and administrative	6.3	6.9
Fulfillment	8.9	7.4
Technology	1.9	1.4
Amortization of intangible assets	0.0	0.1
Total operating expenses	32.9	28.9
Loss from operations	(2.9)	(1.7)
Other income (expense):		
Other income, net	0.0	0.5
Interest expense	(0.7)	(0.6)
Total other expense, net	(0.7)	(0.1)
Loss before income taxes	(3.6)	(1.8)
Income tax provision (benefit)	7.6	(0.1)
Net loss	(11.2)%	(1.7)%

Fifty-Two Weeks Ended December 28, 2019 Compared to the Fifty-Two Weeks Ended December 29, 2018

Net Sales and Gross Margin

	Fiscal Year Ended			
	December 28, 2019	December 29, 2018	$ Change	% Change
	(in thousands)			
Net sales	$ 280,657	$ 289,467	$ (8,810)	(3.0)%
Cost of sales	196,434	210,746	(14,312)	(6.8)%
Gross profit	$ 84,223	$ 78,721	$ 5,502	7.0 %
Gross margin	30.0 %	27.2 %		2.8 %

Net sales decreased $8,810 for fiscal year 2019 compared to fiscal year 2018. Our net sales consisted of online sales, which include our e-commerce sites, online marketplace sales channels and online advertising, representing 91.2% of the total for fiscal year 2019 (compared to 89.1% in fiscal year 2018), and offline sales, representing 8.8% of the total for fiscal year 2019 (compared to 10.9% in fiscal year 2018). The net sales decrease was due to a decrease of $1,957, or 0.8%, in online sales, and a decrease of $6,853, or 21.8%, in offline sales. Offline sales decreased primarily due to decreased revenue from wholesale operations. Our online sales decreased primarily due to a decrease in total online orders of 2.4%, as well as a decrease in average order value of 7.0%. The decrease in total orders was primarily attributable to a decrease in marketplace sales with one of our channel partners, as well as due to a decrease in e-commerce sales attributable to a reduction of traffic and a shift in our focus to private label sales vs. branded sales.

Gross profit increased $5,502, or 7.0%, in fiscal year 2019 compared to fiscal year 2018. Gross margin increased 280 basis points to 30.0% in fiscal year 2019 compared to 27.2% in fiscal year 2018. Gross margin increased in fiscal year 2019 compared to fiscal year 2018 primarily due to a shift towards higher margin private label sales.

Marketing Expense

	Fiscal Year Ended			
	December 28, 2019	December 29, 2018	$ Change	% Change
	(in thousands)			
Marketing expense	$ 44,341	$ 38,081	$ 6,260	16.4
Percent of net sales	15.8 %	13.2 %		2.6 %

Total marketing expense increased $6,260, or 16.4%, for fiscal year 2019 compared to fiscal year 2018. As a percent to net sales, total marketing expense was 15.8% for fiscal 2019 compared to 13.2% for fiscal year 2018. Online advertising expense, which includes catalog costs, was $25,691, or 10.0%, of online sales for fiscal year 2019, compared to $20,942, or 8.1%, of online sales for fiscal year 2018. Online advertising expense increased primarily due to an increase in paid search advertising. Marketing expense, excluding online advertising, was $18,649, or 6.6%, of net sales for fiscal year 2019, compared to $17,181, or 5.9%, of net sales for fiscal year 2018. The increase was primarily due to an increase in overhead driven by investments in marketing platforms and employees.

General and Administrative Expense

	Fiscal Year Ended			
	December 28, 2019	December 29, 2018	$ Change	% Change
	(in thousands)			
General and administrative expense	$ 17,744	$ 19,964	$ (2,220)	(11.1)%
Percent of net sales	6.3 %	6.9 %		(0.6)%

General and administrative expense decreased $2,220, or 11.1%, for fiscal year 2019 compared to fiscal year2018 primarily due to decreased depreciation and amortization. General and administrative expense decreased as a percentage of net sales compared to 2018 primarily due to a decrease in stock based compensation expense as well as lower legal fees resulting from customs issues in 2018.

Fulfillment Expense

	Fiscal Year Ended			
	December 28, 2019	December 29, 2018	$ Change	% Change
	(in thousands)			
Fulfillment expense	$ 24,946	$ 21,310	$ 3,636	17.1 %
Percent of net sales	8.9 %	7.4 %		1.5

Fulfillment expense increased $3,636, or 17.1%, for fiscal year 2019 compared to fiscal year 2018 primarily due to an increase in overhead and employee costs. Fulfillment expense increased as a percentage of net sales compared to 2018 due primarily to an increased number of orders shipped out of our distribution centers as well as the opening of the third warehouse in Las Vegas, Nevada.

Technology Expense

	Fiscal Year Ended			
	December 28, 2019	December 29, 2018	$ Change	% Change
	(in thousands)			
Technology expense	$ 5,342	$ 4,188	$ 1,154	27.6 %
Percent of net sales	1.9 %	1.4 %		0.5 %

Technology expense increased $1,154, or 27.6%, for fiscal year 2019 compared to fiscal year 2018 primarily due to increased overhead driven by employee costs. Technology expense increased as a percentage of net sales compared to 2018 primarily due to PCI compliance costs and increased headcount.

Total Other Expense, Net

	Fiscal Year Ended			
	December 28, 2019	December 29, 2018	$ Change	% Change
	(in thousands)			
Other expense, net	$ (1,861)	$ (211)	$ (1,650)	782.0 %
Percent of net sales	(0.7)%	(0.1)%		(0.6)

Total other expense, net increased $1,650, or 782.0%, for fiscal year 2019 compared to fiscal year 2018. Total other expense increased during fiscal year 2019 compared to fiscal year 2018 primarily due to interest expense compared to the prior year, as well as the sale of AutoMD assets for $1,400 in 2018.

Income Tax Provision

	Fiscal Year Ended			
	December 28, 2019	December 29, 2018	$ Change	% Change
	(in thousands)			
Income tax (benefit) provision	$ 21,437	$ (329)	$ 21,766	(6,615.8)%
Percent of net sales	7.6 %	(0.1)%		7.8 %

The Company accounts for income taxes in accordance with ASC 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 based on the consideration of all available evidence using a “more likely than not” standard. Realization of deferred tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies, and reversal of existing taxable temporary difference. ASC 740 provides that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years or losses expected in early future years. As of December 28, 2019, when revaluating all available evidence, including (1) recent history of operating losses, (2) inability to objectively estimate future income and (3) lack of (i) tax planning strategies, (ii) income in carryback periods and (iii) reversing existing temporary differences, management considered it appropriate to record an additional valuation allowance of approximately $23,015 against our deferred tax assets. As of December, 29, 2018, the Company maintained a valuation allowance in the amount of $29,791 against deferred tax assets that were nor more likely than not to be realized.

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. As we continue to assess our operations, to the extent our results and expectations of core earnings continue, we may be in a position to release additional valuation allowance in the future.

As of December 28, 2019, the Company had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters. At December 28, 2019, the Company’s federal and state net operating loss (“NOL”) carryforwards were $85,830 and $79,643, respectively. Federal NOL carryforwards of $2,106 were acquired in the acquisition of WAG which are subject to Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) and limited to an annual usage limitation of $135. The Company’s federal NOL carryforwards begin to expire in 2029, while the Company’s state NOL carryforwards being to expire in 2020.

Liquidity and Capital Resources

Sources of Liquidity

During the fifty-two weeks ended December 28, 2019, 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 $2,273 as of December 28, 2019, representing a $242 increase from $2,031 of cash and cash equivalents as of December 29, 2018. 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 December 28, 2019, 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 December 28, 2019 and December 29, 2018, our working capital was $2,472 and $10,466, 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 decrease in working capital is primarily due to an increase in accounts payable.

Cash Flows

The following table summarizes the key cash flow metrics from our consolidated statements of cash flows for fiscal year 2019, and 2018, respectively (in thousands):

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Net cash provided by operating activities	$ 6,877	$ 6,181
Net cash used in investing activities	(6,160)	(5,688)
Net cash used in financing activities	(465)	(1,283)
Effect of exchange rate changes on cash	(10)	(29)
Net change in cash and cash equivalents	$ 242	$ (819)

Operating Activities

Cash provided by operating activities is primarily comprised of net loss, adjusted for non-cash activities such as deferred income tax, 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 $(233) (adjusted for non-cash charges primarily consisting of deferred income tax of 21,287, depreciation and amortization expense of $6,252 and share-based compensation expense of $3,656) for the period ended December 28, 2019 compared to $4,267 (adjusted for non-cash charges primarily consisting of depreciation and amortization expense of $5,802 and share-based compensation expense of $3,595) for the period ended December 29, 2018. After excluding the effects of the non-cash charges, the primary changes in cash flows relating to operating activities resulted from changes in operating assets and liabilities.

- Accounts receivable decreased to $2,669 at December 28, 2019 from $3,727 at December 29, 2018, resulting in a decrease in operating assets and reflecting a cash inflow of $1,058 for the fiscal year ended December 28, 2019. Accounts receivable increased primarily due to the timing of payments at the end of the year.

- Inventory increased to $52,500 at December 28, 2019 from $49,626 at December 29, 2018, resulting in an increase in operating assets and reflecting a cash outflow of $2,874 for the fiscal year ended December 28, 2019.

- Accounts payable and accrued expenses increased to $53,952 at December 28, 2019 compared to $44,286 at December 29, 2018 resulting in an increase in operating liabilities and reflecting a cash inflow of $9,666

for the fiscal year ended December 28, 2019. Accounts payable and accrued expenses increased primarily due to an increase in accounts payable of $10,394.

Investing Activities

For the fiscal years ended December 28, 2019 and December 29, 2018, net cash used in investing activities was primarily the result of increases in property and equipment ($6,160, and $5,689 respectively). Property and equipment is primarily internally developed software. Capitalized costs include amounts directly related to website and software development, primarily payroll and payroll related costs for employees and outside contractors who are directly associated with and devote time to the internal use software project.

Financing Activities

For the fiscal years ended December 28, 2019 December 29, 2018, net cash used in financing activities was primarily due to payments made on capital leases (see further discussion in "*Note 8 — Commitments and Contingencies*" below).

Debt and Available Borrowing Resources

Total debt was $11,056 as of December 28, 2019 compared to $9,153 as of December 29, 2018. Total debt as of December 28, 2019 consisted of Right-of-use ("ROU") obligation financing totaling $9,267 and a financing arrangement with a third-party financial institution related to the development of the Company's warehouse located in Las Vegas totaling $1,789. Of this total debt, $1,369 was included in current liabilities and $9,687 was included in non-current liabilities (see further discussion in "*Note 8 — Commitments and Contingencies*" below).

The Company maintains an asset-based revolving credit facility ("Credit Facility") that provides for, among other things a revolving commitment in an aggregate principal amount of up to $30,000, which is subject to a borrowing base derived from certain receivables, inventory and property and equipment. Our Credit Facility also provides for an option to increase the aggregate principal amount from $30,000 to $40,000 subject to lender approval. At December 28, 2019, our outstanding revolving loan balance was $0. The customary events of default under the credit facility (discussed below) include certain subjective acceleration clauses, which management has determined the likelihood of such acceleration is more than remote, considering the recurring losses experienced by the Company, therefore a current classification of our revolving loan payable was required.

On December 18, 2019, the Company and JPMorgan Chase Bank, N.A. ("JPMorgan") entered into the Eleventh Amendment (the "Amendment") which amended the Credit Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012 and the Pledge and Security Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012. Pursuant to the Amendment, among other changes, the maturity date of the Credit Agreement was extended from April 26, 2020 to December 16, 2022, the net orderly liquidation value inventory advance rate was increased from 90% to 95% for a six-month period following the effective date of the Amendment, and the Company's $5,000 basket for sales and dispositions of property in connection with Permitted Acquisitions (as defined in the Credit Agreement) was made available in full following the effective date of the Amendment.

On January 17, 2020, the Company and JPMorgan entered into the Twelfth Amendment to Credit Agreement and Fifth Amendment to Pledge and Security Agreement (the "Twelfth Amendment"), which amended the Credit Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012 and the Pledge and Security Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012. Pursuant to the Twelfth Amendment, letters of credit will be made available to the Company, subject to certain customary restrictions and conditions, in an aggregate amount not to exceed $25,000, an increase from $20,000. As of December 28, 2019, our outstanding letters of credit balance was $17,638.

The other amendments to the Credit Agreement made under the Twelfth Amendment were as follows:

- Solely until March 31, 2020 and for purposes of the covenant testing and cash dominion triggers in the Credit Agreement, the facility will incorporate elements of the borrowing base above the $30,000 available to borrow.
- Until March 31, 2020, the Company will be subject to reporting on a weekly basis with respect to the borrowing base and other metrics.
- Customary LIBOR successor provisions were added to the Credit Agreement.

Loans drawn under the credit facility bear interest at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.75%, or (b) a “alternate 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 December 28, 2019, the Company’s LIBOR based interest rate was 3.56% (on $0 principal) and the Company’s prime based rate was 5.0% (on $0 principal). A commitment fee, based upon undrawn availability under the Credit Facility bearing interest at a rate of 0.25% per annum, is payable monthly. Under the terms of the Credit Agreement, cash receipts are deposited into a lock-box, which are at the Company’s discretion unless the “cash dominion period” is in effect, during which cash receipts will be used to reduce amounts owing under the Credit Agreement. The cash dominion period is triggered in an event of default or if excess availability is less than the $3,600 for three consecutive business days, and will continue until, during the preceding 45 consecutive days, no event of default existed and excess availability has been greater than $3,600 at all times (with the trigger subject to adjustment based on the Company’s revolving commitment). The Company’s required excess availability related to the “Covenant Testing Trigger Period” (as defined under the Credit Agreement) under the revolving commitment under the Credit Agreement is less than $3,000 for the period commencing on any day that excess availability is less than $3,000 for three consecutive business days, and continuing until excess availability has been greater than or equal to $3,000 at all times for 45 consecutive days (with the trigger subject to adjustment based on the Company’s revolving commitment). The Company’s excess availability was $6,622 at December 28, 2019. The credit facility matures on December 16, 2022.As of December 28, 2019, our outstanding letters of credit balance was $17,638 of which $13,011 was utilized and included in accounts payable in our consolidated balance sheet.

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

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

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

to be in full force and effect; and certain criminal indictments or convictions of any Loan Party. As of December 28, 2019, the Company was in compliance with all covenants under the Credit Agreement.

Our Credit Facility requires us to satisfy certain financial covenants which could limit our ability to react to market conditions or satisfy extraordinary capital needs and could otherwise restrict our financing and operations. If we are unable to satisfy the financial covenants and tests at any time, we may as a result cease being able to borrow under the Credit Facility or be required to immediately repay loans under the Credit Facility, and our liquidity and capital resources and ability to operate our business could be severely impacted, which would have a material adverse effect on our financial condition and results of operations. In those events, we may need to sell 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.

See additional information in *"Note 4 – Borrowings"* of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report.

Funding Requirements

Based on our current operating plan, we believe that our existing cash, cash equivalents, investments, cash flows from operations and available debt financing will be sufficient to finance our operational cash needs through at least the next twelve months. Our future capital requirements may, however, vary materially from those now planned or anticipated. Changes in our operating plans, lower than anticipated net sales or gross margins, increased expenses, continued or worsened economic conditions, worsening operating performance by us, or other events, including those described in "*Risk Factors*" included in Part II, Item 1A may force us to sell 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 significant off-balance sheet arrangements.

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.

Recent Accounting Pronouncements

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition. We recognize revenue from product sales and shipping revenues, net of promotional discounts and return allowances, when the following five revenue recognition criteria are met: a contract has been identified, separate performance obligations are identified, the transaction price is determined, the transaction price is allocated to separate performance obligations and revenue is recognized upon satisfying each performance obligation. The Company transfers the risk of loss or damage upon shipment, therefore, revenue from product sales is recognized when it is shipped to the customer. Return allowances, which reduce product revenue by the Company's best estimate of expected product returns, are estimated using historical experience.

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

We evaluated the criteria of ASC 606 - *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 primarily responsible for fulfilling the promise to provide a specified good or service, the Company is subject to inventory risk before the good or service has been transferred to a customer and the Company has discretion in establishing the price, revenue is recorded at gross.

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

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

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

Inventory. Inventory consists of finished goods available-for-sale. We purchase inventory from suppliers both domestically and internationally, primarily in Taiwan and China. We believe that our products are generally available from more than one supplier, and we maintain multiple sources for many of our products, both internationally and domestically. We offer a broad line of auto parts for automobiles, trucks, motorcycles and recreational vehicles from model years 1965 to 2019. Because of the continued demand for our products, we primarily purchase products in bulk quantities to take advantage of quantity discounts and to ensure inventory availability.

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

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

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

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Tax-planning strategies.

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

Concluding that a valuation allowance is not required is difficult when there is significant negative evidence that is objective and verifiable, such as cumulative losses in recent years. We utilized a three-year analysis of actual results as the primary measure of cumulative losses in recent years. In addition, the near- and medium-term financial outlook is considered when assessing the need for a valuation allowance.

The valuation of deferred tax assets requires judgment and assessment of the future tax consequences of events that have been recorded in the financial statements or in the tax returns, and our future profitability represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material effect on our financial condition and results of operations.

We utilize a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to

measure the tax benefit as the largest amount which is more than 50% likely to be realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. The Company's policy is to record interest and penalties as income tax expense.

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

The Company has incorporated its own historical volatility into the grant-date fair value calculations. The Company's historical volatility was not materially different than the estimates applied to past award fair value calculations. The expected term of an award is based on combining historical exercise data with expected weighted time outstanding. Expected weighted time outstanding is calculated by assuming the settlement of outstanding awards is at the midpoint between the remaining weighted average vesting date and the expiration date.

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* ("ASC 505-50"). 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. Forfeitures are accounted for as they occur.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the specified time periods, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 28, 2019 pursuant to Rule 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective to meet the objectives for which they were designed and operated at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). We assessed the effectiveness of our internal control over financial reporting as of December 28, 2019, based on the "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. This assessment was conducted utilizing our documentation of policies and procedures, risk control matrices, gap analysis, key process walk-throughs and management's knowledge of and interaction with its controls and testing of our key controls.

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Based on such assessment and criteria, management has concluded that the internal controls over financial reporting were effective as of December 28, 2019.

Changes in Internal Control Over Financial Reporting

The Company monitors and evaluates on an ongoing basis its internal control over financial reporting in order to improve its overall effectiveness. In the course of these evaluations, the Company modifies and refines its internal processes as conditions warrant. As required by Rule 13a-15(d), the Company's management, including the Chief Executive Officer and the Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the quarter ended December 28, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

(a) *Identification of Directors.* The information under the caption "Election of Directors," appearing in the Proxy Statement to be filed in connection with our 2020 Annual Meeting of Stockholders ("Proxy Statement"), is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2019.

(b) *Identification of Executive Officers and Certain Significant Employees.* The information under the caption "Delinquent Section 16(a) Reports," appearing in the Proxy Statement, is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2019.

(c) *Compliance with Section 16(a) of the Exchange Act.* The information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," appearing in the Proxy Statement, is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2019.

(d) We have adopted a Code of Ethics and Business Conduct which applies to all directors, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) and employees. The full text of our Code of Ethics and Business Conduct is available on the Investor Relations section of our website at *www.usautoparts.net* which can be directly accessed at *http://investor.usautoparts.net/*. We intend to disclose future amendments to certain provisions of the Code of Ethics and Business Conduct, and any waivers of provisions of the Code of Ethics and Business Conduct required to be disclosed under the rules of the SEC, at the same location on our website.

(e) *Board Committees.* The information under the caption "Corporate Governance — Board Committees and Meetings," appearing in the Proxy Statement, is hereby incorporated by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2019.

ITEM 11. EXECUTIVE COMPENSATION

The information under the caption "Executive Compensation and Other Information", appearing in the Proxy Statement, is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2019.

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

The information under the captions "Securities Authorized for Issuance Under Equity Compensation Plans" and "Ownership of Securities by Certain Beneficial Owners and Management," appearing in the Proxy Statement, is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2019.

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

The information under the captions "Corporate Governance — Director Independence" and "Certain Relationships and Related Transactions," appearing in the Proxy Statement, is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the caption "Fees Paid to Independent Registered Public Accounting Firm," appearing in the Proxy Statement, is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days from the end of fiscal year 2019.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

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

	Page
Report of RSM US LLP, independent registered public accounting firm	F-1
Consolidated Balance Sheets as of December 28, 2019 and December 29, 2018	F-2
Consolidated Statements of Operations and Comprehensive Operations for each of the two years in the period ended December 28, 2019	F-3
Consolidated Statements of Stockholders' Equity for each of the two years in the period ended December 28, 2019	F-4
Consolidated Statements of Cash Flows for each of the two years in the period ended December 28, 2019	F-5
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(2) Financial Statement Schedules.

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

(3) Exhibits.

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

EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement executed August 2, 2010 among the Acquisition Sub, WAG, Riverside and the other stockholders of WAG (incorporated by reference to Exhibit 10.57 to the Company's Current Report on Form 8 K filed with the Securities and Exchange Commission on August 4, 2010).
3.1	Second Amended and Restated Certificate of Incorporation of U.S. Auto Parts Network, Inc. as filed with the Delaware Secretary of State on February 14, 2007 (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10 K filed with the Securities and Exchange Commission on April 2, 2007).
3.2	Amended and Restated Bylaws of U.S. Auto Parts Network, Inc. (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10 K filed with the Securities and Exchange Commission on April 2, 2007).
3.3	Certificate of Designation, Preferences and Rights of the Series A Convertible Preferred Stock of U.S. Auto Parts Network, Inc. (incorporated by reference to the Current Report on Form 8 K filed on March 25, 2013).
3.4	Amendment to Amended and Restated Bylaws of U.S. Auto Parts Network, Inc. (incorporated by reference to Exhibit 3.4 to the Annual Report on Form 10 K file with the Securities and Exchange Commission on March 11, 2016).
4.1*	Specimen common stock certificate.
4.2	Description of Common Stock of the Company.
10.1+*	U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.2+*	Form of Stock Option Agreement under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.3+*	Form of Notice of Grant of Stock Option under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.4+*	Form of Acceleration Addendum to Stock Option Agreement under the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan.
10.5+*	U.S. Auto Parts Network, Inc. 2007 Omnibus Plan and Form of Award Agreements
10.6+	2019 Independent Director Compensation Plan (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10 Q filed with the Securities and Exchange Commission on August 9, 2018).
10.7+	Form of Indemnification Agreement for Officers and Directors (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10 K filed with the Securities and Exchange Commission on March 11, 2016).
10.8+	Employment Agreement dated March 15, 2019 between U.S. Auto Parts Network, Inc. and David Meniane (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on March 15, 2019).
10.9+	Employment Agreement dated February 7, 2019 between the Company and Houman Akhavan.
10.10+	Employment Agreement dated November 27, 2018 between the Company and Lev Peker (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on November 28, 2018).
10.11	Board Candidate Agreement dated May 31, 2018 by and among the Company, Mehran Nia, and the Nia Living Trust Established September 2, 2004 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on June 1, 2018).
10.12	Letter Agreement, dated May 31, 2018, by and U.S. Auto Parts Network, Inc., Mina Khazani, and the Mina Khazani Living Trust, Dated May 30, 2007 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on June 1, 2018).

Exhibit No.	Description
10.13+	Form of Notice of Grant of Restricted Stock Units to Directors under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10 Q filed with the Securities and Exchange Commission on August 9, 2018).
10.14+	U.S. Auto Parts Network Inc. Director Payment Election Plan (incorporated by reference to Exhibit 10.68 to the Company's Quarterly Report on Form 10 Q filed with the Securities and Exchange Commission on November 9, 2011).
10.15	Credit Agreement, dated April 26, 2012, by and between U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JP Morgan Chase Bank, N.A. (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on April 30, 2012).
10.16	Lease Agreement dated April 17, 2013 by and among U.S. Auto Parts Network, Inc. and STORE Master Funding III, LLC (incorporated by reference to the Current Report on Form 8 K filed on April 23, 2013)
10.17+	Form of Stock Unit Award Agreement (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2014).
10.18+	Form of Stock Unit Award Agreement under the U.S. Auto Parts Network, Inc. 2007 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2014).
10.19	Eleventh Amendment to Credit Agreement and Fifth Amendment to Pledge and Security Agreement, dated December 18, 2019 by and among U.S. Auto Parts Network Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8 K filed on December 20, 2019).
10.20	Twelfth Amendment to Credit Agreement and Fifth Amendment to Pledge and Security Agreement, dated January 17, 2020 by and among U.S. Auto Parts Network Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A.
10.21	Form of 2019 Performance Restricted Stock Unit Award Agreement under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed on August 8, 2019)).
10.22	Form of 2018 Restricted Stock Unit Agreement under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on January 11, 2018).
10.23	Deed of Lease dated February 4, 2016 by and between U.S. Auto Parts Network, Inc. and Liberty Property Limited Partnership (incorporated by reference to Exhibit 10.43 to the Annual Report on Form 10 K filed with the Securities and Exchange Commission on March 11, 2016).
10.24	U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on June 2, 2016).
10.25	Form of Employee Option Agreement under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on June 2, 2016).
10.26	Form of Director Option Agreement under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 2, 2016).
10.27	Form of Restricted Stock Unit Agreement under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 2, 2016).

Exhibit No.	Description
10.28	Form of Performance Restricted Stock Unit Award Agreement under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2017).
10.29	Form of Performance Cash Bonus Award Agreement under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2017).
10.30	Form of Director and Section 16 Officer Restricted Stock Unit Agreement under the U.S. Auto Parts Network, Inc. 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2017).
10.31	Deferred Compensation Plan (incorporated by reference to Exhibit 10.54 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 7, 2017).
10.32	Dissolution Agreement, dated March 6, 2017, by and among AutoMD, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust. (incorporated by reference to Exhibit 10.55 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 7, 2017).
10.33	Board Candidate Agreement dated January 18, 2019 by and among the Company, David Kanen, Kanen Wealth Management LLC, and Philotimo Fund, LP. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on January 23, 2019) .
10.34	Amendment to Board Candidate Agreement dated January 17, 2019 by and among the Company, Mehran Nia, and the Nia Living Trust Established September 2, 2004. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8 K filed with the Securities and Exchange Commission on January 23, 2019) .
21.1	Subsidiaries of U.S. Auto Parts Network, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of the Principal Executive Officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of the Principal Financial Officer required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of the Chief Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Incorporated by reference to the exhibit of the same number from the registration statement on Form S-1 of U.S. Auto Parts Network, Inc. (File No. 333-138379) initially filed with the Securities and Exchange Commission on November 2, 2006, as amended.

\+ Indicates a management contract or compensatory plan or arrangement.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of U.S. Auto Parts Network, Inc. and subsidiaries (the Company) as of December 28, 2019 and December 29, 2018, the related consolidated statements of operations and comprehensive operations, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 28, 2019 and December 29, 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2015.

/s/ RSM US LLP

Los Angeles, CA
March 9, 2020

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

	December 28, 2019	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,273	$ 2,031
Accounts receivable, net	2,669	3,727
Inventory	52,500	49,626
Other current assets	4,931	3,401
Total current assets	62,373	58,785
Deferred income taxes	—	21,833
Property and equipment, net	9,650	15,184
Right-of-use - assets - operating leases, net	4,544	—
Right-of-use - assets - financing leases, net	9,011	—
Other non-current assets	2,368	2,163
Total assets	$ 87,946	$ 97,965
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 44,433	$ 34,039
Accrued expenses	9,519	10,247
Current portion of capital leases payable	—	594
Customer deposits	652	521
Notes payable, current	729	—
Right-of-use - obligation - operating, current	1,368	—
Right-of-use - obligation - finance, current	640	—
Other current liabilities	2,605	2,918
Total current liabilities	59,946	48,319
Capital leases payable, net of current	0	8,559
Notes payable, non-current	1,060	—
Right-of-use - obligation - operating, non-current	3,419	—
Right-of-use - obligation - finance, non-current	8,627	—
Other non-current liabilities	2,514	2,265
Total liabilities	75,566	59,143
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 December 28, 2019 and December 29, 2018	3	3
Common stock, $0.001 par value; 100,000 shares authorized; 36,167 and 34,992 shares issued and outstanding at December 28, 2019 and December 29, 2018 (of which 2,525 are treasury stock)	38	38
Treasury stock	(7,146)	(7,146)
Additional paid-in capital	187,147	183,139
Accumulated other comprehensive income	214	579
Accumulated deficit	(167,876)	(137,791)
Total stockholders' equity	12,380	38,822
Total liabilities and stockholders' equity	$ 87,946	$ 97,965

See accompanying notes to consolidated financial statements.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE OPERATIONS

(In Thousands, Except Per Share Data)

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Net sales	$ 280,657	$ 289,467
Cost of sales [1]	196,434	210,746
Gross profit	84,223	78,721
Operating expenses:		
Marketing	44,341	38,081
General and administrative	17,744	19,964
Fulfillment	24,946	21,310
Technology	5,342	4,188
Amortization of intangible assets	100	185
Total operating expenses	92,473	83,728
Loss from operations	(8,250)	(5,007)
Other income (expense):		
Other, net	36	1,387
Interest expense	(1,897)	(1,598)
Total other expense, net	(1,861)	(211)
Loss before income taxes	(10,111)	(5,218)
Income tax (benefit) provision	21,437	(329)
Net loss	(31,548)	(4,889)
Other comprehensive income:		
Foreign currency translation adjustments	(52)	22
Actuarial loss on defined benefit plan	(313)	—
Total other comprehensive income	(365)	22
Comprehensive loss	$ (31,913)	$ (4,867)
Loss per share:		
Basic and diluted net loss per share	$ (0.89)	$ (0.14)
Weighted average common shares outstanding:		
Shares used in computation of basic and diluted net loss per share	35,720	34,941

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

See accompanying notes to consolidated financial statements.

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

(In Thousands)

	Preferred Stock		Common Stock		Additional Paid-in-Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as originally stated at December 30, 2017	2,771	$ 3	34,666	$ 37	$ 179,906	$ (7,146)	$ 557	$ (132,996)	$ 40,361
Effect of new accounting adoption	—	—	—	—	—	—	—	255	255
Balance as currently stated at December 30, 2017	2,771	3	34,666	37	179,906	(7,146)	557	(132,741)	40,616
Net loss	—	—	—	—	—	—	—	(4,889)	(4,889)
Issuance of shares in connection with stock option exercises	—	—	6	—	6	—	—	—	6
Issuance of shares in connection with restricted stock units vesting	—	—	479	1	—	—	—	—	1
Minimum tax withholding on RSU's	—	—	(166)	—	(430)	—	—	—	(430)
Issuance of shares in connection with BOD fees	—	—	7	—	14	—	—	—	14
Share-based compensation	—	—	—	—	3,643	—	—	—	3,643
Cash dividends on preferred stock	—	—	—	—	—	—	—	(161)	(161)
Effect of changes in foreign currencies	—	—	—	—	—	—	22	—	22
Balance, December 29, 2018	2,771	$ 3	34,992	$ 38	$ 183,139	$ (7,146)	$ 579	$ (137,791)	$ 38,822
Balance as originally reported at December 29, 2018	2,771	$ 3	34,992	$ 38	$ 183,139	$ (7,146)	$ 579	$ (137,791)	$ 38,822
Effect of new accounting adoption	—	—	—	—	—	—	—	1,623	1,623
Balance as currently stated at, December 29, 2018	2,771	3	34,992	38	183,139	(7,146)	579	(136,168)	40,445
Net loss	—	—	—	—	—	—	—	(31,548)	(31,548)
Issuance of shares in connection with stock option exercise	—	—	305	—	460	—	—	—	460
Issuance of shares in connection with restricted stock units vesting	—	—	795	—	(302)	—	—	—	(302)
Issuance of shares in connection with BOD fees	—	—	16	—	19	—	—	—	19
Share-based compensation	—	—	—	—	3,710	—	—	—	3,710
Dividend on preferred stock	—	—	59	—	121	—	—	(160)	(39)
Actuarial loss on defined benefit plan	—	—	—	—	—	—	(313)	—	(313)
Effect of changes in foreign currencies	—	—	—	—	—	—	(52)	—	(52)
Balance, December 28, 2019	2,771	$ 3	36,167	$ 38	$ 187,147	$ (7,146)	$ 214	$ (167,876)	$ 12,380

See accompanying notes to consolidated financial statements.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Fiscal Year Ended	
	December 28, 2019	**December 29, 2018**
Operating activities		
Net loss	$ (31,548)	$ (4,889)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	6,252	5,802
Amortization of intangible assets	100	185
Deferred income taxes	21,287	(446)
Share-based compensation expense	3,656	3,595
Stock awards issued for non-employee director service	19	14
Amortization of deferred financing costs	1	4
Loss from disposition of assets	—	1
Changes in operating assets and liabilities:		
Accounts receivable	1,058	(1,257)
Inventory	(2,874)	4,605
Other current assets	(1,527)	(1,326)
Other non-current assets	166	150
Accounts payable and accrued expenses	9,953	742
Other current liabilities	(99)	(1,135)
Right-of-Use Obligation - Operating Leases - Current	1,364	—
Right-of-Use Obligation - Operating Leases - Long-term	(1,121)	—
Other non-current liabilities	190	136
Net cash provided by operating activities	6,877	6,181
Investing activities		
Additions to property and equipment	(6,160)	(5,689)
Proceeds from sale of property and equipment	—	1
Net cash used in investing activities	(6,160)	(5,688)
Financing activities		
Borrowings from revolving loan payable	14,626	3,316
Payments made on revolving loan payable	(14,626)	(3,316)
Proceeds from notes payable	257	—
Payment of notes payable	(130)	—
Payments on capital leases	(670)	(598)
Statutory tax withholding payment for share-based compensation	(302)	(430)
Proceeds from exercise of stock options	460	6
Payment of liabilities related to financing activities	—	(100)
Preferred stock dividends paid	(80)	(161)
Net cash used in financing activities	(465)	(1,283)
Effect of exchange rate changes on cash	(10)	(29)
Net change in cash and cash equivalents	242	(819)
Cash and cash equivalents, beginning of period	2,031	2,850
Cash and cash equivalents, end of period	$ 2,273	$ 2,031
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use operating asset acquired	$ 1,098	$ —
Right-of-use financed asset acquired	$ 947	$ —
Accrued asset purchases	$ 720	$ 1,008
Fixed asset purchased through note payable	$ 1,919	$ —
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 95	$ 81
Cash paid during the period for interest	$ 1,896	$ 1,606

See accompanying notes to consolidated financial statements.

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Data)

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

U.S. Auto Parts Network, Inc. (including its subsidiaries) is a leading online provider of aftermarket auto parts and accessories and was established in 1995. The Company entered the e-commerce sector by launching its first website in 2000 and currently derives the majority of its revenues from online sales channels. The Company sells its products to individual consumers through a network of websites and online marketplaces and offline to wholesale distributors. Our flagship websites are located at *www.carparts.com, www.jcwhitney.com, www.autopartswarehouse.com* and our corporate website is located at *www.usautoparts.com*. 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-Vue®, which are marketed and sold as aftermarket replacement parts and as upgrades to existing parts. The engine parts category is comprised of engine components and other mechanical and electrical parts including our private label brand of catalytic converters called Evan Fischer®. These parts serve as replacement parts for existing engine parts and are generally used by professionals and do-it-yourselfers for engine and mechanical maintenance and repair. We 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.

Fiscal Year

The Company's fiscal year is based on a 52/53 week fiscal year ending on the Saturday closest to December 31. The fiscal years ended December 28, 2019 (fiscal year 2019) and December 29, 2018 (fiscal year 2018) are both 52 week periods.

Principles of Consolidation

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

Basis of Presentation

In fiscal year 2019, the Company incurred a net loss of $31,548, compared to net loss of $4,889 in fiscal year 2018. $23,015 of the net loss for fiscal 2019 was related to a valuation allowance recorded on the Company's deferred tax assets. Based on our current operating plan, we believe that our existing cash, cash equivalents, short-term investments, cash flows from operations and available debt financing will be sufficient to finance our operational cash needs through at least the next twelve months. Should the Company's operating results not meet expectations in 2020, it could negatively impact our liquidity as we may not be able to provide positive cash flows from operations in order to meet our working capital requirements. We may need to borrow additional funds from our credit facility, which under certain circumstances may not be available, sell assets or seek additional equity or additional debt financing in the future. There can be no assurance that we would be able to raise such additional financing or engage in such additional asset sales on

acceptable terms, or at all. If revenues were to decline and we incur net losses because our strategies to return to consistent profitability are not successful or otherwise, and if we are not able to raise adequate additional financing or proceeds from asset sales to continue to fund our ongoing operations, we will need to defer, reduce or eliminate significant planned expenditures, restructure or significantly curtail our operations.

Use of Estimates

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

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 2 – Fair Value Measurements*" for additional fair value information. If the Company's revolving loan payable (see *"Note 4 – Borrowings"*) had been measured at fair value, it would be categorized in Level 2 of the fair value hierarchy, as the estimated value would be based on the quoted market prices for the same or similar issues or on the current rates available to the Company for debt of the same or similar terms. The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term maturities. Short-term investments are carried at fair value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of our revolving loan payable, classified as current liability in our consolidated balance sheet, approximates its carrying amount because the interest rate is variable.

Accounts Receivable and Concentration of Credit Risk

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

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

Inventory

Inventories consist of finished goods available-for-sale and are stated at the lower of cost or net realizable value, determined using the first-in first-out ("FIFO") method. The Company purchases inventory from suppliers both domestically and internationally, and routinely enters into supply agreements with Asia-Pacific based suppliers of private label products and U.S.–based suppliers who are primarily drop-ship vendors. The Company believes that its products are generally available from more than one supplier and seeks to maintain multiple sources for its products, both internationally and domestically. The Company primarily purchases products in bulk quantities to take advantage of quantity discounts and to ensure inventory availability. Inventory is reported at the lower of cost or net realizable value, adjusted for slow moving, obsolete or scrap product. Inventory at December 28, 2019 and December 29, 2018 included items in-transit to our warehouses, in the amount of $14,502 and $9,701, respectively.

Website and Software Development Costs

The Company capitalizes certain costs associated with website and software developed for internal use according to ASC 350-50 - *Intangibles – Goodwill and Other – Website Development Costs* and ASC 350-40 *Intangibles – Goodwill and Other – Internal-Use Software*, when both the preliminary project design and testing stage are completed and management has authorized further funding for the project, which it deems probable of completion and to be used for the function intended. Capitalized costs include amounts directly related to website and software development such as payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the internal-use software project. Capitalization of such costs ceases when the project is substantially complete and ready for its intended use. These amounts are amortized on a straight-line basis over two to three years once the software is placed into service. The Company capitalized website and software development costs of $4,907 and $3,883 during fiscal year 2019 and 2018, respectively. At December 28, 2019 and December 29, 2018, our internally developed website and software costs amounted to $24,142 and $19,234, respectively, and the related accumulated amortization and impairment amounted to $20,740 and $16,425, respectively.

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. At December 28, 2019 the Company’s long-lived assets did not indicate a potential impairment under the provisions of ASC 360, therefore no impairment charges were recorded for fiscal 2019.

Deferred Financing Costs

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

Revenue Recognition

The Company recognizes revenue from product sales and shipping revenues, net of promotional discounts and return allowances, when the following revenue recognition criteria are met: a contract has been identified, separate performance obligations are identified, the transaction price is determined, the transaction price is allocated to separate performance obligations and revenue is recognized upon satisfying each performance obligation. The Company transfers the risk of loss or damage upon shipment, therefore, revenue from product sales is recognized when it is shipped to the customer. Return allowances, which reduce product revenue by the Company’s best estimate of expected product returns, are estimated using historical experience.

Revenue from sales of advertising is recorded when performance requirements of the related advertising program agreement are met. For each of the fiscal years ended 2019, and 2018, the advertising revenue represented less than 1% of our total revenue.

The Company evaluates the criteria of ASC 606 - *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 primarily responsible for fulfilling the promise to provide a

specified good or service, the Company is subject to inventory risk before the good or service has been transferred to a customer and the Company has discretion in establishing the price, revenue is recorded at gross.

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

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

Sales discounts are recorded in the period in which the related sale is recognized. Sales return allowances are estimated based on historical amounts and are recorded upon recognizing the related sales. Credits are issued to customers for returned products. Credits for returned products amounted to $18,436 and $19,691 for fiscal year 2019, and 2018, respectively.

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

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

	Balance at Beginning of Period	Charged to Revenue, Cost or Expenses	Deductions	Balance at End of Period
Fifty-Two Weeks Ended December 28, 2019				
Allowance for sales returns	$ 1,297	$ 18,436	$ (18,539)	$ 1,194
Allowance for doubtful accounts	21	28	(43)	6
Fifty-Two Weeks Ended December 29, 2018				
Allowance for sales returns	$ 861	$ 19,691	$ (19,255)	$ 1,297
Allowance for doubtful accounts	1	66	(46)	21

Cost of Sales

Cost of sales consists of the direct costs associated with procuring parts from suppliers and delivering products to customers. These costs include direct product costs, outbound freight and shipping costs, warehouse supplies and warranty costs, partially offset by purchase discounts and cooperative advertising. Total freight and shipping expense included in cost of sales for fiscal year 2019 and 2018 was $47,140, and $43,674, respectively. Depreciation and amortization expenses are excluded from cost of sales and included in marketing, general and administrative and fulfillment expenses.

Warranty Costs

The Company or the vendors supplying its products provide the Company's customers limited warranties on certain products that range from 30 days to lifetime. Historically, the Company's vendors have been the party primarily responsible for warranty claims. Standard product warranties sold separately by the Company are recorded as deferred revenue and recognized ratably over the life of the warranty, ranging from one to five years. The Company also offers extended warranties that are imbedded in the price of selected private label products sold. The product brands that include the extended warranty coverage are offered at three different service levels: (a) a five year unlimited product replacement, (b) a five year one-time product replacement, and (c) a three year one-time product replacement. Warranty costs relating to merchandise sold under warranty not covered by vendors are estimated and recorded as warranty obligations at the time of sale based on each product's historical return rate and historical warranty cost. The standard and extended warranty obligations are recorded as warranty liabilities and included in other current liabilities in the consolidated balance sheets. For the fiscal year 2019 and 2018, the activity in the aggregate warranty liabilities was as follows (in thousands):

	December 28, 2019	December 29, 2018
Warranty liabilities, beginning of period	$ 1,420	$ 1,410
Additions to warranty liabilities	690	597
Reductions to warranty liabilities	(698)	(587)
Warranty liabilities, end of period	$ 1,412	$ 1,420

Marketing Expense

Marketing costs, including advertising, are expensed as incurred. The majority of advertising expense is paid to internet search engine service providers and internet commerce facilitators. For fiscal year 2019 and 2018, the Company recognized advertising costs of $25,691 and $20,942, 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 depreciation and amortization expense, and 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 depreciation and amortization expense, and share-based compensation expense.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC 718 -*Compensation – Stock Compensation* ("ASC 718"). All share-based payment awards issued to employees are recognized as share-based compensation expense in the financial statements based on their respective grant date fair values, and are recognized within the statement of comprehensive income or loss as marketing, general and administrative, fulfillment or

technology expense, based on employee departmental classifications. Under this standard, compensation expense for both time-based and performance-based restricted stock units is based on the closing stock price of our common shares on the date of grant, and is recognized on a straight-line basis over the requisite service period. Compensation expense for performance-based awards is measured based on the amount of shares ultimately expected to vest, estimated at each reporting date based on management's expectations regarding the relevant performance criteria. Compensation expense for stock options is based on the fair value estimated on the date of grant using an option pricing model, and is recognized over the vesting period of three to four years. The Company currently uses the Black-Scholes option pricing model to estimate the fair value of share-based payment awards for such stock options, which is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends.

The Company incorporates its own historical volatility into the grant-date fair value calculations for the stock options. The expected term of an award is based on combining historical exercise data with expected weighted time outstanding. Expected weighted time outstanding is calculated by assuming the settlement of outstanding awards is at the midpoint between the remaining weighted average vesting date and the expiration date. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected life of awards. The dividend yield assumption is based on the Company's expectation of paying no dividends on its common stock.

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. 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. Forfeitures are accounted for as they occur.

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 to be 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 December 28, 2019, 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

On January 1, 2019, the Company adopted ASC 842 – Leases ("ASC 842"), which requires lessees to record right-of-use assets and related lease obligations on the balance sheet, as well as disclose key information regarding leasing arrangements. The Company adopted the standard by applying the modified retrospective method without the restatement of comparative periods. Adoption of the standard resulted in the recognition of $1,623 to the opening balance of retained earnings as of the adoption date and the recognition of ROU assets and related lease obligations as of January 1, 2019. The standard did not have a significant impact on the Company's operating results or cash flows.

The Company elected the package of practical expedients, which permits a lessee to not reassess under the new standard its prior conclusions regarding lease identification, lease classification and initial direct costs. The Company did not elect the practical expedient which permits the use of hindsight when determining the lease term and assessing right-of-use assets for impairment.

As permitted by the transition guidance, the Company used the remaining lease term as of the date of adoption of the standard to estimate discount rates. As permitted by the standard, the Company elected, for all asset classes, the short-term lease exemption. A short-term lease is a lease that, at the commencement date, has a term of twelve months or less and does not include an option to purchase the underlying asset.

The Company determines if an arrangement contains a lease at inception. The Company elected the practical expedient, for all asset classes, to account for each lease component of a contract and its associated non-lease components as a single lease component, rather than allocating a standalone value to each component of a lease.
For purposes of calculating operating lease obligations under the standard, the Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such option. The Company's leases do not contain material residual value guarantees or material restrictive covenants.
Operating lease expense is recognized on a straight-line basis over the lease terms.

The discount rate used to measure a lease obligation should be the rate implicit in the lease; however, the Company's operating leases generally do not provide an implicit rate. Accordingly, the Company uses its incremental borrowing rate at lease commencement to determine the present value of lease payments. The incremental borrowing rate is an entity-specific rate which represents the rate of interest a lessee would pay to borrow on a collateralized basis over a similar term with similar payments.

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* ("ASC 220"). 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, of actuarial gains and losses on the Company's defined benefit plan in the Philippines. The Company presents the components of net income or loss and other comprehensive income or loss in its consolidated statements of comprehensive operations.

Recent Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2018-15, '*Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40)"* ("ASU 2018-15"). The objective of this update is to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect the adoption to have a significant impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13,*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and other subsequent amendments including ASU 2019-04 Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, collectively referred to as ("ASC 326"), which provides a new impairment model that require measurement and recognition of expected credit losses for most financial assets and certain other instruments, including but not limited to accounts receivable, contract assets, available for sale securities and certain financial guarantees. The new standard is effective for fiscal years beginning after December 15, 2019. The Company does not expect the adoption to have a significant impact on its consolidated financial statements and related disclosures.

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

Note 2 – Fair Value Measurements

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

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

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

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

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

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

(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 December 28, 2019 and December 29, 2018, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included the Company's cash and cash equivalents which consist primarily of money market funds and short-term investments with original maturity dates of three months or less at the date of purchase. The Company determines fair value of these assets through quoted market prices and as such they are considered Level 1 assets. Level 1 cash and cash equivalents were valued at $2,273 and $2,031 as of December 28, 2019 and December 29, 2018, respectively. During fiscal year 2019 and 2018 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 December 28, 2019 the Company determined long-lived assets, including intangible assets, were not impaired, as such, they were not measured at fair value. The fair value measurements are categorized as Level 3 of the fair value hierarchy, as the Company developed its own assumptions and analysis to determine if such assets were impaired.

Note 3 – Property and Equipment, Net

The Company's fixed assets are stated at cost less accumulated depreciation, amortization and impairment. Depreciation and amortization expense are provided for in amounts sufficient to relate the cost of depreciable and amortizable assets to operations over their estimated service lives. Depreciation and amortization expense for fiscal year 2019 and 2018 was $6,252 and $5,802, respectively, which included amortization expense of $8 and $475 in 2019 and 2018, respectively, for capital leased assets. The cost and related accumulated depreciation of assets retired or otherwise disposed of are removed from the accounts and the resultant gain or loss is reflected in earnings. Repairs and maintenance are expensed as incurred.

Property and equipment consisted of the following at December 28, 2019 and December 29, 2018:

	December 28, 2019	December 29, 2018
Land	$ —	$ 630
Building	—	8,877
Machinery and equipment	12,766	12,683
Computer software (purchased and developed) and equipment	28,437	23,596
Vehicles	95	121
Leasehold improvements	1,161	996
Furniture and fixtures	744	723
Construction in process	3,091	3,211
	46,294	50,837
Less accumulated depreciation and amortization	(36,644)	(35,653)
Property and equipment, net	$ 9,650	$ 15,184

On April 17, 2013, the Company's wholly-owned subsidiary, Whitney Automotive Group, Inc. ("WAG") entered into a sales leaseback for its facility in LaSalle, Illinois, receiving $9,750 pursuant to a purchase and sale agreement dated April 17, 2013 between WAG and STORE Capital Acquisitions, LLC. The Company used the net proceeds of $9,507 from this sale to reduce its revolving loan payable. Simultaneously with the execution of the purchase and sale agreement and the closing of the sale of the property, the Company entered into a lease agreement with STORE Master Funding III, LLC ("STORE") whereby we leased back the property for our continued use as an office, retail and warehouse facility for storage, sale and distribution of automotive parts, accessories and related items for 20 years, terminating on April 30, 2033. The related assets represent the amounts included in land and building in the summary above. The Company's initial base annual rent is $853 for the first year ("Base Rent Amount"), after which the rental amount will increase annually on May 1 by the lesser of 1.5% or 1.25 times the change in the Consumer Price Index as published by the U.S. Department of Labor's Bureau of Labor Statistics, except that in no event will the adjusted annual rental amount fall below the Base Rent Amount. We were not required to pay any security deposit. Under the terms of the lease, we are required to pay all taxes associated with the lease, pay for any required maintenance on the property, maintain certain levels of insurance and indemnify STORE for losses incurred that are related to our use or occupancy of the property. The lease was accounted for as a capital lease and the $376 excess of the net proceeds over the net carrying amount of the property is amortized in interest expense on a straight-line basis over the lease term of 20 years. Upon the adoption of ASC 842, this capital lease was revalued and included in Right-of-use-assets-financing leases, on the balance sheet. Any capital lease with less than twelve month remaining life as of the adoption of ASC 842 will continue to be treated as a capital lease. Accordingly, as of December 28, 2019, the gross carrying value, the accumulated depreciation and net carrying value of all capital leased assets included in property, plant and equipment were $100, $100 and $0, respectively. As of December 29, 2018, the gross carrying value, the accumulated depreciation and the net carrying value of all capital leased assets included in property and equipment were $11,306, $3,969 and $7,337, respectively.

Construction in process primarily relates to the Company's internally developed software. Certain of the Company's net property and equipment were located in the Philippines as of December 28, 2019 and December 29, 2018, in the amount of $88 and $129, respectively.

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

	Years
Machinery and equipment	2 - 5
Computer software (purchased and developed)	2 - 3
Computer equipment	2 - 5
Vehicles	3 - 5
Leasehold improvements*	3 - 5
Furniture and fixtures	3 - 7

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

Refer to "*Note 8 - Commitments and Contingencies*" for additional lease information.

Note 4 – Borrowings

The Company maintains an asset-based revolving credit facility that provides for, among other things a revolving commitment in an aggregate principal amount of up to $30,000, which is subject to a borrowing base derived from certain receivables, inventory and property and equipment. At December 28, 2019, our outstanding revolving loan balance was $0. The customary events of default under the credit facility (discussed below) include certain subjective acceleration clauses, which management has determined the likelihood of such acceleration is more than remote, considering the recurring losses experienced by the Company, therefore a current classification of our revolving loan payable was required.

On December 18, 2019, the Company and JPMorgan Chase Bank, N.A. ("JPMorgan") entered into the Eleventh Amendment (the "Amendment") which amended the Credit Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012 (as amended, the "Credit Agreement") and the Pledge and Security Agreement previously entered into by the Company, certain of its domestic subsidiaries and JPMorgan on April 26, 2012. Pursuant to the Amendment, among other changes, the maturity date of the Credit Agreement was extended from April 26, 2020 to December 16, 2022, the net orderly liquidation value inventory advance rate was increased from 90% to 95% for a six-month period following the effective date of the Amendment, and the Company's $5,000,000 basket for sales and dispositions of property in connection with Permitted Acquisitions (as defined in the Credit Agreement) was made available in full following the effective date of the Amendment.

On January 17, 2020, the Company and JPMorgan entered into the Twelfth Amendment to Credit Agreement and Fifth Amendment to Pledge and Security Agreement (the "Twelfth Amendment"). Pursuant to the Twelfth Amendment, letters of credit will be made available to the Company, subject to certain customary restrictions and conditions, in an aggregate amount not to exceed $25,000, an increase from $20,000. As of December 28, 2019, our outstanding letters of credit balance was $17,638.

Loans drawn under the credit facility bear interest at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.75%, or (b) a "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 December 28, 2019, the Company's LIBOR based interest rate was 3.56% (on $0 principal) and the Company's prime based rate was 5.00% (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 terms of the agreement with JP Morgan, cash receipts are deposited into a lock-box, which are at the Company's discretion unless the "cash dominion period" is in effect, during which cash receipts will be used to reduce amounts owing under the Credit Agreement. The cash dominion period is triggered in an event of default or if excess availability is less than the $3,600 for three consecutive business days, and will continue until, during the preceding 45 consecutive days, no event of default existed and excess availability has been greater than $3,600 at all times (with the trigger subject to adjustment based on the Company's revolving commitment). The Company's required

excess availability related to the “Covenant Testing Trigger Period” (as defined under the Credit Agreement) under the revolving commitment under the Credit Agreement is less than $3,000 for the period commencing on any day that excess availability is less than $3,000 for three consecutive business days, and continuing until excess availability has been greater than or equal to $3,000 at all times for 45 consecutive days (with the trigger subject to adjustment based on the Company’s revolving commitment). As of December 28, 2019, our outstanding letters of credit balance was $17,638 of which $13,011 was utilized and included in accounts payable in our consolidated balance sheet.

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

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, fundamental changes, investments, dispositions, prepayment of other indebtedness, mergers, and dividends and other distributions. The Credit Agreement requires us to obtain a prior written consent from JPMorgan when we determine to pay any dividends on or make any distribution with respect to our common stock. The credit facility matures on December 16, 2022.

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.

Under the Twelfth Amendment, if JPMorgan determines that LIBOR is unavailable or that the syndicated loan market is using a different standard, it can at its discretion amend the loan agreement to utilize a different rate. The new rate may be the facility’s existing ABR rate or a new SOFR-based rate, and will incorporate a spread determined by market conditions and agreement between Chase and USAP.

Note 5 – Stockholders’ Equity and Share-Based Compensation

Treasury Stock

In November of 2016, our Board of Directors approved a share repurchase program which authorized the Company to purchase up to $5,000 of its outstanding shares of common stock. That share repurchase program expired on March 4, 2017. In May of 2017 our Board of Directors approved another share repurchase program which authorized the Company to purchase up to $5,000 of its outstanding shares of common stock. That share repurchase program expired on May 16, 2018.

The Company repurchased 2,525 shares of common stock at an average price of $2.83, for an aggregate purchase price of approximately $7,146, net of costs. No shares were repurchased during 2019 and 2018.

Series A Convertible Preferred Stock

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

Each share of Series A Preferred is convertible into shares of our common stock at the initial conversion rate of one share of common stock for each share of Series A Preferred. The conversion will be adjusted for certain non-price based events, such as dividends and distributions on the common stock, stock splits, combinations, recapitalizations, reclassifications, mergers, or consolidations. If not previously converted by the holder, the Series A Preferred will automatically convert to common stock if the volume weighted average price for the common stock for any 30 consecutive trading days is equal to or exceeds $4.35 per share.

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

Dividends on the Series A Preferred are payable quarterly at a rate of $0.058 per share per annum in cash, in shares of common stock or in any combination of cash and common stock as determined by the Company's Board of Directors. Certain conditions are required to be satisfied in order for the Company to pay dividends on the Series A Preferred in shares of common stock, including (i) the common stock being registered pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934, as amended, (ii) the common stock being issued having been approved for listing on a trading market and (iii) the common stock being issued either being covered by an effective registration statement or being freely tradable without restriction under Rule 144 (subject to certain exceptions). The Series A Preferred shall each be entitled to one vote per share for each share of common stock issuable upon conversion thereof (excluding from any such calculation any dividends accrued on such shares) and shall vote together with the holders of common stock as a single class on any matter on which the holders of common stock are entitled to vote. In addition, the Company must obtain the consent of holders of at least a majority of the then outstanding Series A Preferred in connection with (a) any amendment, alteration or repeal of any provision of the certificate of incorporation or bylaws of the Company as to adversely affect the preferences, rights or voting power of the Series A Preferred, or (b) the creation, authorization or issuance of any additional Series A Preferred or any other class or series of capital stock of the Company ranking senior to or on parity with the Series A Preferred or any security convertible into, or exchangeable or exercisable for Series A Preferred or any other class or series of capital stock of the Company ranking senior to or on parity with the Series A Preferred. Concurrent with the Company's issuance of Series A Preferred, the Company, certain of its domestic subsidiaries and JPMorgan entered into a Second Amended Credit Agreement to allow the Company to pay cash dividends on the Series A Preferred in an aggregate amount of up to $400 per year and pay cash in lieu of issuing fractional shares upon conversion of or in payment of dividends on the Series A Preferred (refer to *"Note 4 – Borrowings"* of our Notes to Consolidated Financial Statements for additional details). For the fiscal year ended December 29, 2018, the Company recorded dividends of $161. The Company did not issue any shares of common stock in payment of the fiscal 2018 dividends. There were $41 dividends accrued as of December 29, 2018. For the fiscal year ended December 28, 2019, the Company recorded dividends of $160. The Company issued 59 shares of common stock in payment of the fiscal 2019 dividends. There were $41 dividends accrued as of December 28, 2019. As of December 28, 2019, 2,771 shares of Series A Preferred shares were outstanding.

Share-Based Compensation Plan Information

The Company adopted the 2016 Equity Incentive Plan ("2016 Equity Plan") on March 9, 2016, which became effective on May 31, 2016, following stockholder approval. Subject to adjustment for certain changes in the Company's capitalization, the aggregate number of shares of the Company's common stock that may be issued under the 2016 Equity Plan will not exceed the sum of (i) two million five hundred thousand (2,500) new shares, (ii) the number of unallocated shares remaining available for the grant of new awards under the Company's prior equity plans described below (the "Prior Equity Plans") as of the effective date of the 2016 Plan (which was equal to 3,894 shares as of May 31, 2016) and (iii) any shares subject to a stock award under the Prior Equity Plans that are not issued because such stock award expires or otherwise terminates without all of the shares covered by such stock award having been issued, that are not issued because such stock award is settled in cash, that are forfeited back to or repurchased by the Company because of the failure to meet a contingency or condition required for the vesting of such shares, or that are reacquired, withheld (or not issued) to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a stock award. In addition, the share reserve will automatically increase on January 1st of each year, for a period of nine years, commencing on January 1, 2017 and ending on (and including) January 1, 2026, in an amount equal to one million five hundred thousand (1,500) shares per year; however the Board of Directors of the Company may act prior to January 1st of a given year to provide that there will be no January 1st increase in the share reserve for such year or that the increase in the share reserve for such year will be a lesser number of shares of common stock than would otherwise occur pursuant the automatic increase. Options granted under the 2016 Equity 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. As of December 28, 2019, 5,291 shares were available for future grants under the 2016 Equity Plan.

The following tables summarizes the Company's stock option activity for the fiscal years ended, and details regarding the options outstanding and exercisable at December 28, 2019, and December 29, 2018:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value[1]
Options outstanding, December 29, 2018	6,097	$ 2.69		
Granted	4,460	$ 1.19		
Exercised	(304)	$ 1.51		
Cancelled:				
Forfeited	(1,613)	$ 2.48		
Expired	(1,417)	$ 3.08		
Options outstanding, December 28, 2019	7,223	$ 2.76	6.57	$ 4,494
Vested and expected to vest at December 28, 2019	7,223	$ 1.78	6.57	$ 4,494
Options exercisable, December 28, 2019	3,080	$ 2.51	2.97	$ 747

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value[1]
Options outstanding, December 30, 2017	5,933	$ 2.91		
Granted	1,174	$ 2.02		
Exercised	(6)	$ 0.99		
Cancelled:				
Forfeited	(188)	$ 3.10		
Expired	(816)	$ 3.21		
Options outstanding, December 29, 2018	6,097	$ 2.69	4.42	$ —
Vested and expected to vest at December 29, 2018	6,097	$ 2.69	4.40	$ —
Options exercisable, December 29, 2018	3,956	$ 2.77	3.90	$ —

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

The weighted-average fair value of options granted during fiscal year 2019 and 2018 was $063 and $1.11, respectively. The intrinsic value of stock options at the date of the exercise is the difference between the fair value of the stock at the date of exercise and the exercise price. During fiscal year 2019 2018, the total intrinsic value of the exercised options was $96 and $1, respectively. The Company had $2,379 of unrecognized share-based compensation expense related to stock options outstanding as of December 28, 2019, which expense is expected to be recognized over a weighted-average period of 2.93 years.

Options exercised under all share-based compensation plans are granted net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. For those employees who do not receive shares net of the minimum statutory withholding requirements, the appropriate taxes are paid directly by the employee. During fiscal 2019 and 2018, we withheld 0 shares to satisfy $0 of employees' tax obligations related to the net settlement of the stock options.

Included in the total 2019 grants were 600 shares to a board member under a consulting agreement.

Restricted Stock Units

During 2019 and 2018 the Company granted an aggregate of 1,867 and 1,212 RSUs, respectively, to certain employees of the Company. The restricted stock units ("RSUs") were granted under the 2016 Equity Incentive Plan and reduced the pool of equity instruments available under that plan.

The vesting of each RSU is subject to the employee's continued employment through applicable vesting dates. Some RSUs granted to certain executives may vest on an accelerated basis in part or in full upon the occurrence of certain events. The RSUs are accounted for as equity awards and are measured at fair value based upon the grant date price of the Company's common stock. The closing price of the Company's common stock on each grant date during 2019 ranged from $0.97 to $2.41. The closing price of the Company's common stock on each grant during 2018 ranged from $1.54 to $2.62. Compensation expense is recognized on a straight-line basis over the requisite service period of one-to-three years. Compensation expense for performance-based RSUs ("PSUs") 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.

During 2019 there were 315 RSUs granted that were time-based and 1,552 granted that were performance-based. As of December 28, 2019, the performance criteria established to trigger vesting of PSUs was met, but still subject to certification by the Compensation Committee.

During 2018 there were 510 RSUs granted that were time-based and 702 granted that were performance-based. As of December 29, 2018, none of the performance criteria established to trigger vesting of the PSU's granted in 2018 was met.

For the fiscal year ended December 28, 2019, we recorded compensation expense of $2,753 related to RSU's. As of December 28, 2019, there was unrecognized compensation expense of $483 related to unvested RSUs based on awards that are expected to vest. The unrecognized compensation expense is expected to be recognized over a weighted-average period of 0.26 years.

Share-Based Compensation Expense

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

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Expected life	5.65 - 5.74 years	5.62 - 5.73 years
Risk-free interest rate	1% - 3%	2% - 3%
Expected volatility	54% - 58%	58%
Expected dividend yield	—%	—%

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

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Marketing expense	$ 551	$ 185
General and administrative expense	1,605	2,984
Fulfillment expense	1,250	284
Technology expense	250	142
Total share-based compensation expense	$ 3,656	$ 3,595

The share-based compensation expense is net of amounts capitalized to internally-developed software of $55 and $49 during the fiscal years 2019 2018, respectively. No tax benefit was recognized for fiscal years 2019 and 2018 due to the valuation allowance position.

Under ASC 718, we recognize forfeitures as they occur.

Note 6 – Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share:

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Net loss per share:		
Numerator:		
Net Loss	$ (31,548)	$ (4,889)
Dividends on Series A Convertible Preferred Stock	(161)	(161)
Net loss allocable to common shares	$ (31,709)	$ (5,050)
Denominator:		
Weighted-average common shares outstanding (basic)	35,720	34,941
Common equivalent shares from common stock options, restricted stock, preferred stock and warrants	—	—
Weighted-average common shares outstanding (diluted)	35,720	34,941
Basic and diluted net loss per share	$ (0.89)	$ (0.14)

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

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Performance stock units	1	204
Restricted stock units	43	760
Series A Convertible Preferred Stock	2,771	2,771
Options to purchase common stock	6,532	6,123
Total	9,347	9,858

Note 7 – Income Taxes

The components of income (loss) from continuing operations before income tax provision consist of the following:

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Domestic operations	$ (10,618)	$ (5,697)
Foreign operations	507	479
Total (loss) income before income taxes	$ (10,111)	$ (5,218)

Income tax (benefit) provision for fiscal year 2019 and 2018 consists of the following:

	Fiscal Year Ended	
	December 28, 2019	December 29, 2018
Current:		
State tax	$ 6	$ 6
Foreign tax	144	111
Total current taxes	150	117
Deferred:		
Federal tax	(1,311)	(490)
State tax	(417)	537
Total deferred taxes	(1,728)	47
Change in federal tax rate - deferred tax impact		—
Valuation allowance	23,015	(493)
Income tax (benefit) provision	$ 21,437	$ (329)

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

	December 28, 2019	December 29, 2018
Income tax at U.S. federal statutory rate	$ (2,123)	$ (1,096)
Tax attributes written off	—	522
Share-based compensation	729	727
State income tax, net of federal tax effect	(325)	(66)
Foreign tax	106	68
Other	35	9
Change in valuation allowance	23,015	(493)
Effective tax (benefit) provision	$ 21,437	$ (329)

For fiscal years 2019 and 2018 the effective tax rate for the Company was (212.0)% and 6.3%, respectively. The Company’s effective tax rate for fiscal years 2019 differs from the U.S. federal rate primarily as a result of non-deductible share-based compensation, the write-off of expired state net operating loss carryforwards, and the change in the valuation allowance maintained against the Company’s deferred tax assets.

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

	December 28, 2019	December 29, 2018
Deferred tax assets:		
Inventory and inventory related allowance	$ 529	$ 639
Share-based compensation	1,836	2,119
Intangibles	1,577	2,415
Sales and bad debt allowances	712	718
Vacation accrual	200	202
Book over tax amortization on property and equipment	—	193
Net operating loss	25,322	21,345
Other	1	86
Total deferred tax assets	30,177	27,717
Valuation Allowance	(29,731)	(5,816)
Net deferred tax assets	446	21,901
Deferred tax liabilities:		
Tax over book depreciation	398	—
Prepaid catalog expenses	48	68
Total deferred tax liabilities	446	68
Net deferred tax assets	$ —	$ 21,833

At December 28, 2019, federal and state net operating loss (“NOL”) carryforwards were $85,830 and $79,644, respectively. Federal NOL carryforwards of $2,106 were acquired in the acquisition of WAG which are subject to Internal Revenue Code section 382 and limited to an annual usage limitation of $135. Federal NOL carryforwards begin to expire in 2029. The state NOL carryforwards expire in the respective tax years as follows:

2020	$ 539
2021	5,345
2022	975
2023	3,028
2024	2,358
Thereafter	67,399
	$ 79,644

Under the provisions of ASC 740, management is required to evaluate whether a valuation allowance should be established against its deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. Realization of deferred tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies, and reversal of existing taxable temporary differences. ASC 740 provides that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years or losses expected in early future years. As of December 28, 2019, in part because in the year then ended the Company reached three years of cumulative pre-tax loss in the U.S federal tax jurisdiction, management considered it appropriate to record additional valuation allowance of approximately $23,015 against our deferred tax assets. As of December 28, 2019 the Company maintained a valuation allowance in the amount of $29,731 against deferred tax assets that were not more likely than not of being realized.

We are subject to U.S. federal income tax as well as income tax of foreign and state tax jurisdictions. The tax years 2015-2019 remain open to examination by the major taxing jurisdictions to which the Company is subject, except the Internal Revenue Service for which the tax years 2016-2019 remain open. The Company does not anticipate a significant change to the amount of unrecognized tax benefits within the next twelve months.

Included in accrued expenses are income taxes payable of $33 and $23 for the fiscal year 2019 and 2018 respectively, consisting primarily of current foreign taxes. Included in other non-current liabilities are income taxes payable of $662 and $614 for the fiscal year 2019 and 2018, respectively, relating to future foreign withholding taxes.

Note 8 – Commitments and Contingencies

Facilities Leases

The Company's corporate headquarters is located in Carson, California. The Company's corporate headquarters has a lease term through January 2020. The Company also leases warehouse space in LaSalle, Illinois, Chesapeake, Virginia and Las Vegas, Nevada. The Company's Philippines subsidiary leases office space under an agreement through April 2020. The Company is moving its corporate office from Carson, California to Torrance, California; the move is expected to be completed by the end of March 2020.

On April 25, 2019, the Company entered into a lease for its distribution center located in Las Vegas, Nevada. The Lease between the Company and Prologis Sunrise Industrial Park is for approximately 124,546 square feet. The initial sixty three-month term of the Lease commenced on July 1, 2019 and is set to expire in September of 2024. The Company is obligated to pay approximately $687 in annual base rent, which shall increase by approximately 3.0% each year. The Company is also obligated to pay certain operating expenses set forth in the Lease.

On February 4, 2016, the Company entered into a lease for its distribution center located in Chesapeake, Virginia. The Lease between the Company and Liberty Property Limited Partnership is for approximately 159,294 square feet. The initial three-year term of the Lease commenced on July 1, 2016 and expired in June of 2019. The extended three-year term of the Lease commenced on July 1, 2019 and is set to expire in June of 2022. The Company is obligated to pay approximately $640 in annual base rent, which shall increase by approximately 2.5% each year. The Company is also obligated to pay certain operating expenses set forth in the Lease. Pursuant to the Lease, the Company has the option to extend the Lease for an additional three-year term, with certain increases in base rent. During 2019, the Company reduced the square footage rented from 159,294 square feet to approximately 116,000 square feet which reduced the annual base rent to $574.

In February 2020, the Company's Philippines subsidiary entered into a new lease agreement. The lease renewed for a ten year term upon mutual agreement of both parties during 2020 and expires in 2030. The company is obligated to pay approximately $500 in annual base rent which shall increase by 5% beginning on the second year of the lease term and by 4% beginning on the sixth year of the lease term.

As described in detail under *"Note 3 – Property and Equipment Net"*, on April 17, 2013, the Company's wholly-owned subsidiary, Whitney Automotive Group, Inc. ("WAG") entered into a sales leaseback for its facility in LaSalle, Illinois, receiving $9,750 pursuant to a purchase and sale agreement dated April 17, 2013 between WAG and STORE Capital Acquisitions, LLC. The Company used the net proceeds of $9,507 from this sale to reduce its revolving loan payable. Simultaneously with the execution of the purchase and sale agreement and the closing of the sale of the property, the Company entered into a lease agreement with STORE Master Funding III, LLC ("STORE") whereby we leased back the property for our continued use as an office, retail and warehouse facility for storage, sale and distribution of automotive parts, accessories and related items for 20 years, terminating on April 30, 2033. The 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. Upon the adoption of ASC 842, this capital lease was revalued and included in Right-of-use-assets-financing leases, on the balance sheet.

Facility rent expense for fiscal year ended 2019 and 2018 was $2,275, and $1,752, respectively. The Company's facility rent expense did not include any amounts charged from a related party during fiscal years 2019 and 2018.

Quantitative information regarding the Company's leases as of December 28, 2019 is as follows (in thousands):

	Fiscal Year ended December 28, 2019
Components of lease cost	
Finance lease cost components	
Amortization of finance lease assets	$ 1,007
Interest on finance lease liabilities	692
Total finance lease costs	$ 1,699
Operating lease components	
Operating lease cost	$ 1,409
Short-term lease cost	—
Total operating lease costs	$ 1,409
Total lease cost	$ 3,108
Supplemental cash flow information related to our operating leases is as follows for the period ended December 28, 2019:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflow from operating leases	$ 1,297
Operating cash outflow from financing leases	692
Financing cash outflow from financing leases	654
Weighted-average remaining lease term-finance leases (in years)	12.3
Weighted-average remaining lease term-operating leases (in years)	3.7
Weighted-average discount rate-finance leases	7.69
Weighted-average discount rate-operating leases	5.59

Minimum lease commitments under non-cancelable operating leases as of December 28, 2019 are as follows:

Lease commitments as of December 28, 2019 were as follows:

	Finance Leases	Operating Leases	Total
2020	$ 1,334	$ 1,609	$ 2,943
2021	1,166	1,339	2,505
2022	1,175	1,045	2,220
2023	1,189	763	1,952
2024	1,121	586	1,707
Thereafter	8,767	—	8,767
Total minimum payments required	14,752	5,342	20,094
Less portion representing interest	5,485	555	6,040
Present value of lease obligations	$ 9,267	$ 4,787	$ 14,054
Less current portion of lease obligations	640	1,368	2,008
Long-term portion of lease obligations	$ 8,627	$ 3,419	$ 12,046

On August 8, 2019, the Company entered into a financing arrangement with a third-party financial institution related to the development of the Company's third warehouse which is located in Las Vegas, Nevada. The financing arrangement matures in April 2022 and has an effective interest rate of approximately 7.70% per annum. The total

borrowings under the financing arrangement shall not exceed $2,000. The arrangement also required a 25% deposit. The Company received proceeds of $257 from the note payable for the period ended December 28, 2019. A deposit of $470 was recorded as of December 28, 2019. At December 28, 2019, the total outstanding balance of the note payable was $1,790, of which $729 is recorded as current liability and $1,060 is recorded as non-current liability in the consolidated balance sheet. Total principal payments made towards the financing arrangement during 2021 and 2022 will be $792 and $268, respectively.

Legal Matters

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

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

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

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

Related Party Matters

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

Note 9 – Employee Retirement Plan and Deferred Compensation Plan

Effective February 17, 2006, the Company adopted a 401(k) defined contribution retirement plan covering all full time employees who have completed one month of service. The Company may, at its sole discretion, match fifty cents per dollar up to 6% of each participating employee's salary. The Company's contributions vest in annual installments over three years. Discretionary contributions made by the Company totaled $332 and $292 for fiscal year 2019 and 2018, respectively.

In January 2010, the Company adopted the U.S. Auto Parts Network, Inc. Management Deferred Compensation Plan (the "Deferred Compensation Plan"), for the purpose of providing highly compensated employees a program to meet their financial planning needs. The Deferred Compensation Plan provides participants with the opportunity to defer up to 90% of their base salary and up to 100% of their annual earned bonus, all of which, together with the associated investment returns, are 100% vested from the outset. The Deferred Compensation Plan, which is designed to be exempt from most provisions of the Employee Retirement Security Act of 1974, is informally funded by the Company through the purchase of mutual funds, held by a rabbi trust. The deferred compensation liabilities (consisting of employer contributions, employee deferrals and associated earnings and losses) are general unsecured obligations of the Company. Liabilities under the Deferred Compensation Plan are recorded at amounts due to participants, based on the fair value of participants' selected investments. The Company may at its discretion contribute certain amounts to eligible employee accounts. In January 2010, the Company began to contribute 50% of the first 2% of participants' eligible contributions into their Deferred Compensation Plan accounts. As of December 28, 2019, the assets and associated liabilities of the Deferred Compensation Plan were $671 and $674, respectively, and were $533 and $662, respectively, as of December 29, 2018 and are included in other non-current assets, other current liabilities and other non-current liabilities in our consolidated balance sheets. The interest dividend and realized/unrealized gain/loss for fiscal year 2019 and 2018 was immaterial.

Note 10 – Quarterly Information (Unaudited)

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

	Quarter Ended			
	March 30, 2019	June 29, 2019	Sept. 28, 2019	Dec. 28, 2019
Consolidated Statement of Income Data:				
Net sales	$ 74,739	$ 73,687	$ 69,273	$ 62,958
Gross profit	20,129	21,763	21,143	21,188
Income (loss) from operations	(3,446)	(1,205)	(1,458)	(2,141)
Income (loss) before income taxes	(3,861)	(1,643)	(1,976)	(2,631)
Net income (loss)	$ (3,581)	$ (1,457)	$ (1,424)	$ (25,086)
Basic income (loss) from continuing operations per share	$ (0.10)	$ (0.04)	$ (0.04)	$ (0.70)
Diluted income (loss) from continuing operations per share	$ (0.10)	$ (0.04)	$ (0.04)	$ (0.70)
Shares used in computation of basic income (loss) from continuing operations per share	35,365	35,632	35,856	36,013
Shares used in computation of diluted income (loss) from continuing operations per share	35,365	35,632	35,856	36,013

	Quarter Ended			
	March 31, 2018	June 30, 2018	Sept. 29, 2018	Dec. 29, 2018
Consolidated Statement of Income Data:				
Net sales	$ 78,385	$ 76,973	$ 69,463	$ 64,646
Gross profit	23,459	21,485	19,045	16,566
Income (loss) from operations	1,609	487	(579)	(4,689)
Income (loss) before income taxes	1,177	59	459	(5,078)
Net income (loss)	$ 735	$ (485)	$ 438	$ (4,480)
Basic income (loss) from continuing operations per share	$ 0.02	$ (0.02)	$ 0.01	$ (0.13)
Diluted income (loss) from continuing operations per share	$ 0.02	$ (0.02)	$ 0.01	$ (0.13)
Shares used in computation of basic income (loss) from continuing operations per share	34,821	34,972	34,983	34,989
Shares used in computation of diluted income (loss) from continuing operations per share	38,066	34,972	35,201	34,989

Note 11 – 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.

	2019	2018
Private Label		
Collision	62 %	57 %
Engine	20 %	18 %
Performance	1 %	1 %
Branded		
Collision	1 %	1 %
Engine	9 %	11 %
Performance	7 %	12 %
Total	100 %	100 %

SIGNATURES

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

Date: March 9, 2020 **U.S. AUTO PARTS NETWORK, INC.**

By: /s/ Lev Peker
Lev Peker
Chief Executive Officer

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ Lev Peker Lev Peker	Chief Executive Officer and Director (principal executive officer)	March 9, 2020
/s/ David Meniane David Meniane	Chief Financial Officer and Chief Operating Officer (principal financial and accounting officer)	March 9, 2020
/s/ Warren B. Phelps III Warren B. Phelps III	Chairman of the Board	March 9, 2020
/s/ Joshua L. Berman Joshua L. Berman	Director	March 9, 2020
/s/ Jay K. Greyson Jay K. Greyson	Director	March 9, 2020
/s/ David Kanen David Kanen	Director	March 9, 2020
/s/ Sol Khazani Sol Khazani	Director	March 9, 2020
/s/ Mehran Nia Mehran Nia	Director	March 9, 2020
/s/ Jim Barnes Jim Barnes	Director	March 9, 2020

Exhibit 4.2

DESCRIPTION OF COMMON STOCK

General

The following description summarizes the terms of our common stock. Because it is only a summary, it does not contain all the information that may be important to you. For a complete description of the matters set forth in this "Description of Common Stock," you should refer to our second amended and restated certificate of incorporation, our amended and restated bylaws, as amended, and our certificate of designation, preferences and rights of the Series A Convertible Preferred Stock, which are included as exhibits to our Annual Report on Form 10-K, and to the applicable provisions of the Delaware General Corporation Law. Our second amended and restated certificate of incorporation authorizes us to issue 100,000,000 shares of common stock, par value $0.001 per share, and 10,000,000 shares of preferred stock, par value $0.001 per share. Our board of directors is authorized, without stockholder approval except as required by the listing standards of The Nasdaq Stock Market LLC, to issue additional shares of our capital stock. In addition, our board of directors may, without further action by our stockholders, designate the rights, preferences, privileges, and restrictions of our preferred stock in one or more series. Any preferred stock that is designated and issued in the future may have voting or conversion rights that could have the effect of restricting dividends on our shares of common stock, diluting the voting power of our shares of common stock, impairing the rights of our shares of common stock in the event of our dissolution, liquidation or winding-up or otherwise adversely affect the rights of holders of our shares of common stock. In March 2013, our board of directors established our Series A Convertible Preferred, or Series A Preferred, which has various rights, preferences and privileges senior to the shares of our common stock, as discussed below.

Voting Rights

Common stockholders are entitled to one vote per share for the election of directors and on all other matters that require stockholder approval, and do not have cumulative voting rights.

Dividends

Subject to any preferential rights of outstanding preferred stock, including the Series A Preferred discussed below, holders of our common stock are entitled to share ratably in any dividends declared by our board of directors on the common stock and paid out of funds legally available for such dividends.

Distribution on Dissolution

Subject to any preferential rights of outstanding preferred stock, including the Series A Preferred discussed below, in the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in any assets remaining after payment of liabilities and the liquidation preferences of any outstanding preferred stock.

Rights and Preferences

Our common stock does not carry any preemptive rights enabling a holder to subscribe for, or receive shares of, our common stock or any other securities convertible into shares of our common stock. There are no redemption rights or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to and are adversely affected by the rights of the holders of shares of Series A Preferred as discussed below, and may be subject to and adversely affected by any series of our preferred stock that we may designate and issue in the future.

Series A Convertible Preferred Stock

Conversion. Each share of Series A Preferred is convertible into shares of our common stock at the initial conversion rate of one share of common stock for each share of Series A Preferred. The conversion will be adjusted for certain non-price based events, such as dividends and distributions on the common stock, stock splits, combinations, recapitalizations, reclassifications, mergers, or consolidations. If not previously converted by the

holder, the Series A Preferred will automatically convert to common stock if the volume weighted average price for the common stock for any 30 consecutive trading days is equal to or exceeds $4.35 per share.

Liquidation or Change of Control. 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. 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 our 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 Exchange Act, (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 of the Securities Act (subject to certain exceptions).

Voting. The Series A Preferred are 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 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 (i) any amendment, alteration or repeal of any provision of our second amended and restated certificate of incorporation or our amended and restated bylaws, as amended, as to adversely affect the preferences, rights or voting power of the Series A Preferred, or (ii) 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.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Limited.

Stock Exchange Listing

Our common stock is listed on the Nasdaq Global Market under the symbol "PRTS".

Anti-Takeover Provisions

Delaware Law. We are subject to the provisions of Section 203 of the DGCL. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder. Generally, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the stockholder. An "interested stockholder" is a person who either owns 15% or more of our outstanding voting stock or, together with affiliates and associates, owns or, within three prior years, did own, 15% or more of our outstanding voting stock. These restrictions do not apply if:

- before the date that the person became an "interested stockholder," our board of directors approved either the "business combination" or the transaction which makes the person an "interested stockholder";

- the "interested stockholder" owned at least 85% of the voting stock of the corporation outstanding at the time

the transaction commenced, excluding for purposes of determining the number of shares outstanding (i) shares owned by persons who are directors and also officers and (ii) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or after the date that the person became an "interested stockholder," the business combination is approved by (i) our board of directors and (ii) authorized at an annual or special meeting of our stockholders by the affirmative vote of at least 66 2/3% of our outstanding voting stock that is not owned by the "interested stockholder."

The statute could have the effect of delaying, deferring, or preventing a change in control.

Bylaw and Certificate of Incorporation Provisions. Our amended and restated bylaws, as amended, provide that special meetings of our stockholders may be called exclusively by a majority of our board of directors or the chairman of our board of directors. Our second amended and restated certificate of incorporation (i) provides for a board comprised of three classes of directors with each class serving a staggered three-year term, (ii) authorizes our board of directors to issue preferred stock from time to time, in one or more classes or series, without stockholder approval (subject to the rights of our Series A Preferred), (iii) requires the approval of at least two-thirds of the outstanding voting stock to amend certain provisions of our second amended and restated certificate of incorporation and our amended and restated bylaws, as amended, and (iv) does not include a provision for cumulative voting for directors. Under cumulative voting, a minority stockholder holding a sufficient percentage of a class of shares may be able to ensure the election of one or more directors.

Additionally, our amended and restated bylaws, as amended, provide that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors or officers to our company or our stockholders, (iii) any action asserting a claim against our company arising pursuant to any provision of the Delaware General Corporation Law or our amended and restated certificate of incorporation or our amended and restated bylaws, as amended, or (iv) any action asserting a claim against our company governed by the internal affairs doctrine; provided that this choice of forum provision does not apply to suits brought to enforce a duty or liability created by the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or any other claim for which the federal courts have exclusive jurisdiction.

These and other provisions contained in our second amended and restated certificate of incorporation and amended and restated bylaws, as amended, could delay or discourage transactions involving an actual or potential change in control of us or our management, including transactions in which stockholders might otherwise receive a premium for their shares over then current prices. Such provisions could also limit the ability of stockholders to remove current management or approve transactions that stockholders may deem to be in their best interests and could adversely affect the price of our common stock.

Exhibit 10.9

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "***Agreement***") is entered into February 7, 2019 (the "***Effective Date***") by and between U.S. Auto Parts Network, Inc., a Delaware corporation (the "***Company***"), and Houman Akhavan, an individual (the "***Executive***").

WHEREAS, the parties hereto desire to enter into a written agreement documenting the terms of Executive's employment with the Company.

1. **Duties and Responsibilities**.

A. Executive shall serve as the Company's Chief Marketing Officer commencing on February 11, 2019 (the " ***Start Date***"), 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 position.

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 Start Date, Executive's employment with the Company shall be governed by the provisions of this Agreement for the period commencing as of the date hereof and continuing until Executive's termination of employment with the Company for any reason (the "***Employment Period***").

3. **Cash Compensation**.

A . **Annual Salary**. Executive's base salary shall be $300,000 per year (the "***Annual Salary***"), which shall be payable in accordance with the Company's standard payroll schedule (but in no event less frequent than on a monthly basis), and may be increased from time to time at the discretion of the Compensation Committee of the Company's Board of Directors (the "***Compensation Committee***"). The Compensation Committee shall review Executive's Annual Salary at least annually and may increase the Annual Salary from time to time at its sole discretion. Any increased Annual Salary shall thereupon be the "Annual Salary" for the purposes hereof. Executive's Annual Salary shall not be decreased without his prior written consent at any time during the Employment Period.

B. **Annual Target Bonus**. Executive shall also be entitled to receive an annual target incentive bonus of up to 50% of the Executive's current salary. The annual bonus shall be based upon the Company achieving 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. **Applicable Withholdings**. The Company shall deduct and withhold from the compensation payable to Executive hereunder any and all applicable federal, state and local income and employment withholding taxes and any other amounts required to be deducted or withheld by the Company under applicable statutes, regulations, ordinances or orders governing or requiring the withholding or deduction of amounts otherwise payable as compensation or wages to employees.

4. **Equity Compensation**.

A . **Initial Grant.** As of the close of business on the date of the Executive's first day of employment with the Company or promptly thereafter, the Company's Compensation Committee shall grant Executive stock options (the "***Initial Option***") to purchase up to 350,000 shares of the Company's common stock which shall vest over four years as follows: 25% of the shares shall vest on the first anniversary of the grant date and the balance shall vest in 36 equal monthly installments thereafter. The Initial Option will be granted pursuant to the Company's 2016 Equity Incentive Plan (the "***Plan***"), and will be subject to the terms and conditions of the Plan in effect as of the grant date and the related stock option agreements. The exercise price for the options shall be equal to the closing sales price of the Company's common stock as reported by NASDAQ on the date of grant of the options.

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), within the period beginning three months before and ending twelve months following a Change in Control (as defined in the Company's 2016 Equity Incentive Plan (the "***Plan***")) 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 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 Plan) all stock options 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 that Executive's employment is terminated without Cause (as defined herein) or Executive resigns for Good Reason (as defined herein) and this provision shall supersede any provisions to the contrary contained in any of Executive's stock option agreements. For the purposes of this Agreement, "***Good Reason***" shall mean Executive's voluntary resignation following a Change in Control (as defined the Plan), 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 relocation of Executive more than thirty (30) miles from the

Company’s current corporate headquarters as of the date hereof, (iii) a material breach of any provision of this Agreement by the Company, (iv) the failure of the Company to have a successor entity specifically assume this Agreement, (v) 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 (vi) 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 the foregoing, the Executive shall be entitled to benefits described in this Section 4 due to a resignation resulting from (v) or (vi) of the preceding sentence only if such resignation occurs more than six months after the Change in Control. 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.

C. **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 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 August 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 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 $2,000 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 shall enter into the Company's standard indemnification agreement for its key executives.

D . **Auto Allowance**. During the Employment Period, Executive shall be entitled to an auto allowance for one vehicle for Executive's use up to $1,000 per month.

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. Additionally, upon termination of employment due to the Executive's death, or due to the Company's involuntary termination of Executive's employment due to the Executive's Disability, Executive (or Executive's estate or beneficiaries in the case of the death of 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 ½ months following the calendar year in which the termination occurs; and (ii) continuation of his Annual Salary following such termination for a period of six months, 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 six months. For the purposes of this Agreement, "***Disability***" shall mean a physical or mental impairment which, the Board of Directors determines, after consideration and implementation of reasonable accommodations, precludes the Executive from performing his essential job functions for a period longer than three consecutive months or a total of one hundred twenty (120) days in any twelve month period.

C. **Termination for Any Other Reason**. Should the Company terminate Executive's employment (other than for Cause or as a result of Executive's Death or Disability) then Executive shall also be entitled to the following upon the execution of a general release by the Executive in the form reasonably requested by the Company: (i) the Company shall pay Executive the Required Payments; (ii) any unpaid annual target bonus under Section 3B for the year immediately prior to the year of such termination or expiration (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 expiration) and a pro-rated share of Executive's annual target bonus under Section 3B for the year of such termination or expiration (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 expiration), which bonus amounts shall be paid at such time as the Company regularly pays bonuses and solely to the extent that such bonuses are paid to a majority of the Company's other bonus eligible employees; (iii) 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 (iv) the Company shall also reimburse Executive's actual COBRA payments for Executive's health insurance benefits for a period of six months. 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.

In the event Executive resigns for Good Reason (as defined in Section 4) within the period beginning three months before and ending twelve months following a Change in Control (as defined in the Plan) then the Company shall pay Executive the Required Payments.

D. **Health Care Reform Compliance**. Notwithstanding the foregoing, if the Company determines, in its sole discretion, that the Company cannot provide the health insurance premium reimbursement benefits under this Section 7 without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health

Service Act), the Company shall in lieu thereof pay Executive a taxable cash amount, which payment shall be made regardless of whether Executive elects or pays for health insurance benefits following termination (the "***Health Care Benefit Payment***"). The Health Care Benefit Payment shall be paid in monthly installments on the same schedule that the health insurance premium reimbursement amounts would otherwise have been paid. The Health Care Benefit Payment shall be equal to the amount that the Executive would have otherwise paid for health insurance premiums (which amount shall be calculated based on the premium for the first month of coverage), and shall be paid until the expiration of twelve months following Executive's termination.

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 directly or indirectly own, manage, operate, control or participate in the ownership, management, operation or control of, or be employed by or provide advice to, any enterprise that is engaged in any business directly competitive to that of the Company in the aftermarket auto parts market in the United States; provided, however, that such restriction shall not apply to any passive investment representing an interest of less than 1% of an outstanding class of publicly-traded securities of any company or other enterprise where Executive does not provide any management, consulting or other services to such company or enterprise.

9. **Proprietary Information**. On the Start Date, Executive shall execute the Company's standard Confidential Information and Assignment of Inventions Agreement (the "***Confidentiality Agreement***"), which is 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 Avenue Carson, California 90746 Attn: General Counsel
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 and/or consulting 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. For avoidance of doubt, the parties agree that the Professional Services Agreement dated January 17, 2019, and any related schedule thereto, between the Company and Idea Launch, Inc. shall hereby be terminated on the Start Date without any further obligation of the Company following the Start Date with the exception of any unpaid invoices for services performed by Idea Launch, Inc. prior to the Start Date. This Agreement may only be amended by written instrument signed by Executive and an authorized officer of the Company. Any and all prior agreements, understandings or representations relating to the Executive's employment with the Company are terminated and cancelled in their entirety and are of no further force or effect.

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

14. **Remedies**. All rights and remedies provided pursuant to this Agreement or by law shall be cumulative, and no such right or remedy shall be exclusive of any other. A party may pursue any one or more rights or remedies hereunder, or may seek damages or specific performance in

the event of another party's breach hereunder, or may pursue any other remedy by law or equity, whether or not stated in this Agreement.

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

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

17. **Section 409A**.

(a) Notwithstanding anything to the contrary herein, the following provisions apply to the extent severance benefits provided herein are subject to Section 409A of Code and the regulations and other guidance thereunder and any state law of similar effect (collectively "Section 409A"). Severance benefits shall not commence until Executive has a "separation from service" for purposes of Section 409A. Each installment of severance benefits is a separate "payment" for purposes of Treas. Reg. Section 1.409A-2(b)(2)(i), and the severance benefits are intended to satisfy the exemptions from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4) and 1.409A-1(b)(5) to the maximum extent such exemptions are available. However, to the extent 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.

18. **Section 280G**.

(a) If any payment or benefit Executive will or may receive from the Company or otherwise (a "280G Payment") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by

Section 4999 of the Code (the ***"Excise Tax"***), then any such 280G Payment pursuant to this Agreement (a ***"Payment"***) shall be equal to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (x) or by clause (y)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive's receipt, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the ***"Reduction Method"***) that results in the greatest economic benefit for Executive. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the ***"Pro Rata Reduction Method"***).

(b) Notwithstanding any provision of Section 18(a) to the contrary, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A of the Code that would not otherwise be subject to taxes pursuant to Section 409A of the Code, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A of the Code as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Executive as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without Cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are "deferred compensation" within the meaning of Section 409A of the Code shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A of the Code.

(c) Unless Executive and the Company agree on an alternative accounting firm or law firm, the accounting firm engaged by the Company for general tax compliance purposes as of the day prior to the effective date of the Change in Control shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, the Company shall appoint a nationally recognized accounting or law firm to make the determinations required hereunder. The Company shall bear all expenses with respect to the determinations by such accounting or law firm required to be made hereunder. The Company shall use commercially reasonable efforts to cause the accounting or law firm engaged to make the determinations hereunder to provide its calculations, together with detailed supporting documentation, to Executive and the Company within fifteen (15) calendar days after the date on which Executive's right to a 280G Payment becomes reasonably likely to occur (if requested at that time by Executive or the Company) or such other time as requested by Executive or the Company.

(d) If Executive receives a Payment for which the Reduced Amount was determined pursuant to clause (x) of Section 18(a) and the Internal Revenue Service determines thereafter that some portion of the Payment is subject to the Excise Tax, Executive shall promptly return to the

Company a sufficient amount of the Payment (after reduction pursuant to clause (x) of Section 18(a)) so that no portion of the remaining Payment is subject to the Excise Tax. For the avoidance of doubt, if the Reduced Amount was determined pursuant to clause (y) of Section 18(a), Executive shall have no obligation to return any portion of the Payment pursuant to the preceding sentence.

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

U.S. AUTO PARTS NETWORK, INC.

By: /s/ Neil Watanabe
Print Name: Neil Watanabe
Title: Chief Financial Officer
Address: 16941 Keegan Avenue
Carson, CA 90746

EXECUTIVE

/s/ Houman Akhavan
HOUMAN AKHAVAN

Exhibit 10.20

TWELFTH AMENDMENT TO CREDIT AGREEMENT AND FIFTH AMENDMENT TO PLEDGE AND SECURITY AGREEMENT

THIS TWELFTH AMENDMENT TO CREDIT AGREEMENT AND FIFTH AMENDMENT TO PLEDGE AND SECURITY AGREEMENT (this "Amendment"), dated as of January 17, 2020, is entered into by and among U.S. AUTO PARTS NETWORK, INC., a Delaware corporation ("Company"), PARTSBIN, INC., a Delaware corporation ("PartsBin"), LOCAL BODY SHOPS, INC., a Delaware corporation ("Local Body Shops"), PRIVATE LABEL PARTS, INC., a Delaware corporation (" Private Label Parts"), WHITNEY AUTOMOTIVE GROUP, INC., a Delaware corporation ("Whitney Auto", and together with the Company, PartsBin, Local Body Shops and Private Label Parts, collectively, "Borrowers" and each individually a "Borrower"), the other Loan Parties party hereto, the Lenders (as defined below) party hereto, and JPMORGAN CHASE BANK, N.A., as administrative agent for the Lenders (in such capacity, "Administrative Agent").

RECITALS

A. Borrowers, the other parties signatory thereto as "Loan Parties" (each individually, a " Loan Party" and collectively, the " Loan Parties"), Administrative Agent, and the financial institutions party thereto as lenders (each individually, a " Lender" and collectively, the "Lenders") have previously entered into that certain Credit Agreement, dated as of April 26, 2012 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which the Lenders have made certain loans and financial accommodations available to Borrowers. Terms used herein without definition shall have the meanings ascribed to them in the Credit Agreement (as amended by this Amendment).

B. Borrowers, the other Loan Parties and Administrative Agent have previously entered into that certain Pledge and Security Agreement, dated as of April 26, 2012 (as amended, restated, supplemented or otherwise modified from time to time, the "Security Agreement").

C. Borrowers and the other Loan Parties have further requested that Administrative Agent and the Lenders amend the Credit Agreement and the Security Agreement, and Administrative Agent and the Lenders are willing to amend the Credit Agreement and the Security Agreement pursuant to the terms and conditions set forth herein.

D. Each Borrower and each other Loan Party is entering into this Amendment with the understanding and agreement that, except as specifically provided herein, none of Administrative Agent's or any Lender's rights or remedies as set forth in the Credit Agreement and the other Loan Documents are being waived or modified by the terms of this Amendment.

AGREEMENT

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

1. Amendments to Credit Agreement.

   a. The following definitions in Section 1.01 of the Credit Agreement are hereby amended and restated in their respective entirety to read as follows:

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the NYFRB Rate in effect on such day plus ½ of 1%, and (c) the Adjusted LIBO Rate for a one-month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%, provided that, for the purpose of this definition, the Adjusted LIBO Rate for any day shall be based on the LIBO Screen Rate (or if the LIBO Screen Rate is not available for such one month Interest Period, the Interpolated Rate) at approximately 11:00 a.m. London time on such day. Any change in the Alternate Base Rate due to a change in the Prime Rate, the NYFRB Rate or the Adjusted LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the NYFRB Rate or the Adjusted LIBO Rate, respectively. If the Alternate Base Rate is being used as an alternate rate of interest pursuant to Section 2.14 (for the avoidance of doubt, only until any amendment has become effective pursuant to Section 2.14(c)), then the Alternate Base Rate shall be the greater of clause (a) and (b) above and shall be determined without reference to clause (c) above. For the avoidance of doubt, if the Alternate Base Rate as determined pursuant to the foregoing would be less than 1.00%, such rate shall be deemed to be 1.00% for purposes of this Agreement.

"Covenant Testing Trigger Period" means the period (a) commencing on any day that Excess Availability (or solely during the Temporary Period, Modified Excess Availability) is less than 10% of the aggregate amount of the Lenders' Revolving Commitments for any three (3) consecutive Business Days, and (b) continuing until Excess Availability (or solely during the Temporary Period, Modified Excess Availability) has been greater than or equal to 10% of the aggregate amount of the Lenders' Revolving Commitments at all times for 45 consecutive calendar days.

"Federal Funds Effective Rate" means, for any day, the rate calculated by the NYFRB based on such day's federal funds transactions by depositary institutions, as determined in such manner as shall be set forth on the Federal Reserve Bank of New York's Website from time to time, and published on the next succeeding Business Day by the NYFRB as the effective federal funds rate, provided that, if the Federal Funds Effective Rate as so determined would be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

"Overnight Bank Funding Rate" means, for any day, the rate comprised of both overnight federal funds and overnight Eurodollar borrowings by U.S.-managed banking offices of depository institutions (as such composite rate shall be determined by the NYFRB as set forth on the Federal Reserve Bank of New York's Website from time to time) and published on the next succeeding Business Day by the NYFRB as an overnight bank funding rate.

b. The following definitions are hereby added to Section 1.01 of the Credit Agreement in their proper alphabetical order:

"Benchmark Replacement" means the sum of: (a) the alternate benchmark rate (which may be a SOFR-Based Rate) that has been selected by the Administrative Agent and the Borrower giving due consideration to (i) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body and/or (ii) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the LIBO Rate for U.S. dollar-denominated syndicated credit facilities and (b) the Benchmark Replacement

Adjustment; provided that, if the Benchmark Replacement as so determined would be less than zero, the Benchmark Replacement will be deemed to be zero for the purposes of this Agreement; provided further that any such Benchmark Replacement shall be administratively feasible as determined by the Administrative Agent in its sole discretion.

"Benchmark Replacement Adjustment" means the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by the Administrative Agent and the Borrower giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the LIBO Rate with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body and/or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the LIBO Rate with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated syndicated credit facilities at such time (for the avoidance of doubt, such Benchmark Replacement Adjustment shall not be in the form of a reduction to the Applicable Rate).

"Benchmark Replacement Conforming Changes" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Alternate Base Rate," the definition of "Interest Period," timing and frequency of determining rates and making payments of interest and other administrative matters) that the Administrative Agent decides in its reasonable discretion may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by the Administrative Agent in a manner substantially consistent with market practice (or, if the Administrative Agent decides that adoption of any portion of such market practice is not administratively feasible or if the Administrative Agent determines that no market practice for the administration of the Benchmark Replacement exists, in such other manner of administration as the Administrative Agent decides is reasonably necessary in connection with the administration of this Agreement).

"Benchmark Replacement Date" means the earlier to occur of the following events with respect to the LIBO Rate:

(1) in the case of clause (1) or (2) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the LIBO Screen Rate permanently or indefinitely ceases to provide the LIBO Screen Rate; or

(2) in the case of clause (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the LIBO Rate:

(1) a public statement or publication of information by or on behalf of the administrator of the LIBO Screen Rate announcing that such administrator has ceased or will cease to provide the LIBO Screen Rate, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the LIBO Screen Rate;

(2) a public statement or publication of information by the regulatory supervisor for the administrator of the LIBO Screen Rate, the U.S. Federal Reserve System, an insolvency official with jurisdiction over the administrator for the LIBO Screen Rate, a resolution authority with jurisdiction over the administrator for the LIBO Screen Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the LIBO Screen Rate, in each case which states that the administrator of the LIBO Screen Rate has ceased or will cease to provide the LIBO Screen Rate permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the LIBO Screen Rate; and/or

(3) a public statement or publication of information by the regulatory supervisor for the administrator of the LIBO Screen Rate announcing that the LIBO Screen Rate is no longer representative.

"Benchmark Transition Start Date" means (a) in the case of a Benchmark Transition Event, the earlier of (i) the applicable Benchmark Replacement Date and (ii) if such Benchmark Transition Event is a public statement or publication of information of a prospective event, the 90th day prior to the expected date of such event as of such public statement or publication of information (or if the expected date of such prospective event is fewer than 90 days after such statement or publication, the date of such statement or publication) and (b) in the case of an Early Opt-in Election, the date specified by the Administrative Agent or the Required Lenders, as applicable, by notice to the Borrower Representative, the Administrative Agent (in the case of such notice by the Required Lenders) and the Lenders.

"Benchmark Unavailability Period" means, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the LIBO Rate and solely to the extent that the LIBO Rate has not been replaced with a Benchmark Replacement, the period (x) beginning at the time that such Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the LIBO Rate for all purposes hereunder in accordance with Section 2.14 and (y) ending at the time that a Benchmark Replacement has replaced the LIBO Rate for all purposes hereunder pursuant to Section 2.14.

"Compounded SOFR" means the compounded average of SOFRs for the applicable Corresponding Tenor, with the rate, or methodology for this rate, and conventions for this rate (which may include compounding in arrears with a lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Period) being established by the Administrative Agent in accordance with:

(1) the rate, or methodology for this rate, and conventions for this rate selected or recommended by the Relevant Governmental Body for determining compounded SOFR; provided that:

(2) if, and to the extent that, the Administrative Agent determines that Compounded SOFR cannot be determined in accordance with clause (1) above, then the rate, or methodology for this rate, and conventions for this rate that the Administrative Agent determines in its reasonable discretion are substantially consistent with any evolving or then-prevailing market convention for determining compounded SOFR for U.S. dollar-denominated syndicated credit facilities at such time;

provided, further, that if the Administrative Agent decides that any such rate, methodology or convention determined in accordance with clause (1) or clause (2) is not administratively feasible for the Administrative Agent, then Compounded SOFR will be deemed unable to be determined for purposes of the definition of "Benchmark Replacement."

"Corresponding Tenor" with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the applicable Interest Period with respect to the LIBO Rate.

"Early Opt-in Election" means the occurrence of:

(1) (i) a determination by the Administrative Agent or (ii) a notification by the Required Lenders to the Administrative Agent (with a copy to the Borrower Representative) that the Required Lenders have determined that U.S. dollar-denominated syndicated credit facilities being executed at such time, or that include language similar to that contained in Section 2.14 are being executed or amended, as applicable, to incorporate or adopt a new benchmark interest rate to replace the LIBO Rate, and

(2) (i) the election by the Administrative Agent or (ii) the election by the Required Lenders to declare that an Early Opt-in Election has occurred and the provision, as applicable, by the Administrative Agent of written notice of such election to the Borrower Representative and the Lenders or by the Required Lenders of written notice of such election to the Administrative Agent.

"Federal Reserve Bank of New York's Website" means the website of the NYFRB at http://www.newyorkfed.org, or any successor source.

"Modified Excess Availability" shall mean, at any time, (a) an amount equal to (i) the Borrowing Base *minus* (ii) the Aggregate Revolving Exposure (calculated, with respect to any Defaulting Lender, as if such Defaulting Lender had funded its Applicable Percentage of all outstanding Borrowings), *minus* (b) the aggregate amount of all outstanding trade payables of the Borrowers which have been unpaid for more than 45 days after the due date therefor (other than trade payables being contested or disputed by the Borrowers in good faith), as determined by the Administrative Agent in its Permitted Discretion.

"Relevant Governmental Body" means the Federal Reserve Board and/or the NYFRB, or a committee officially endorsed or convened by the Federal Reserve Board and/or the NYFRB or, in each case, any successor thereto.

"SOFR" with respect to any day means the secured overnight financing rate published for such day by the NYFRB, as the administrator of the benchmark (or a successor administrator), on the Federal Reserve Bank of New York's Website.

"SOFR-Based Rate" means SOFR, Compounded SOFR or Term SOFR.

"Temporary Period" means the period commencing on the Twelfth Amendment Effective Date and continuing through and including March 31, 2020.

"Term SOFR" means the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

"Twelfth Amendment Effective Date" means January 17, 2020.

"Unadjusted Benchmark Replacement" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment; provided that, if the Unadjusted Benchmark Replacement as so determined would be less than zero, the Unadjusted Benchmark Replacement will be deemed to be zero for the purposes of this Agreement.

c. Section 1.05 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

"Section 1.05. Interest Rates; LIBOR Notification. The interest rate on Eurodollar Loans is determined by reference to the LIBO Rate, which is derived from the London interbank offered rate. The London interbank offered rate is intended to represent the rate at which contributing banks may obtain short-term borrowings from each other in the London interbank market. In July 2017, the U.K. Financial Conduct Authority announced that, after the end of 2021, it would no longer persuade or compel contributing banks to make rate submissions to the ICE Benchmark Administration (together with any successor to the ICE Benchmark Administrator, the "IBA") for purposes of the IBA setting the London interbank offered rate. As a result, it is possible that commencing in 2022, the London interbank offered rate may no longer be available or may no longer be deemed an appropriate reference rate upon which to determine the interest rate on Eurodollar Loans. In light of this eventuality, public and private sector industry initiatives are currently underway to identify new or alternative reference rates to be used in place of the London interbank offered rate. Upon the occurrence of a Benchmark Transition Event or an Early Opt-In Election, Section 2.14(c) provides a mechanism for determining an alternative rate of interest. The Administrative Agent will promptly notify the Borrower, pursuant to Section 2.14(e), of any change to the reference rate upon which the interest rate on Eurodollar Loans is based. However, the Administrative Agent does not warrant or accept any responsibility for, and shall not have any liability with respect to, the administration, submission or any other matter related to the London interbank offered rate or other rates in the definition of "LIBO Rate" or with respect to any alternative or successor rate thereto, or replacement rate thereof (including, without limitation, (i) any such alternative, successor or replacement rate implemented pursuant to Section 2.14(c), whether upon the occurrence of a Benchmark Transition Event or an Early Opt-in Election, and (ii) the implementation of any Benchmark Replacement Conforming Changes pursuant to Section 2.14(d)), including without limitation, whether the composition or characteristics of any such alternative, successor or replacement reference rate will be similar to, or produce the same value or economic equivalence of, the LIBO Rate or have the same volume or liquidity as did the London interbank offered rate prior to its discontinuance or unavailability."

d. Clause (i) of the last sentence in Section 2.06(b) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

"(i) the LC Exposure shall not exceed $25,000,000 and"

e. Section 2.14 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

"SECTION 2.14. Alternate Rate of Interest; Illegality.

(a) If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(i) the Administrative Agent determines (which determination shall be conclusive and binding absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable (including, without limitation, by means of an Interpolated Rate or because the LIBO Screen Rate is not available or published on a current basis) for such Interest Period; provided that no Benchmark Transition Event shall have occurred at such time; or

(ii) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower Representative and the Lenders as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower Representative and the Lenders that the circumstances giving rise to such notice no longer exist, (A) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and any such Eurodollar Borrowing shall be repaid or converted into an ABR Borrowing on the last day of the then current Interest Period applicable thereto, and (B) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

(b) If any Lender determines that any Requirement of Law has made it unlawful, or if any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable lending office to make, maintain, fund or continue any Eurodollar Borrowing, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower Representative through the Administrative Agent, any obligations of such Lender to make, maintain, fund or continue Eurodollar Loans or to convert ABR Borrowings to Eurodollar Borrowings will be suspended until such Lender notifies the Administrative Agent and the Borrower Representative that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower Representative will upon demand from such Lender (with a copy to the Administrative Agent), either prepay or convert all Eurodollar Borrowings of such Lender to ABR Borrowings, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Borrowings to such day, or immediately, if such Lender may not lawfully continue to maintain such Loans. Upon any such prepayment or conversion, the Borrower Representative will also pay accrued interest on the amount so prepaid or converted.

(c) Notwithstanding anything to the contrary herein or in any other Loan Document, upon the occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, the Administrative Agent and the Borrowers may amend this Agreement to replace the LIBO Rate with a Benchmark Replacement. Any such amendment with respect to a Benchmark Transition Event will become effective at 5:00

p.m. on the fifth (5th) Business Day after the Administrative Agent has posted such proposed amendment to all Lenders and the Borrower Representative, so long as the Administrative Agent has not received, by such time, written notice of objection to such proposed amendment from Lenders comprising the Required Lenders; provided that, with respect to any proposed amendment containing any SOFR-Based Rate, the Lenders shall be entitled to object only to the Benchmark Replacement Adjustment contained therein. Any such amendment with respect to an Early Opt-in Election will become effective on the date that Lenders comprising the Required Lenders have delivered to the Administrative Agent written notice that such Required Lenders accept such amendment. No replacement of LIBO Rate with a Benchmark Replacement will occur prior to the applicable Benchmark Transition Start Date.

(d) In connection with the implementation of a Benchmark Replacement, the Administrative Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(e) The Administrative Agent will promptly notify the Borrower Representative and the Lenders of (i) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, (ii) the implementation of any Benchmark Replacement, (iii) the effectiveness of any Benchmark Replacement Conforming Changes and (iv) the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by the Administrative Agent or Lenders pursuant to this Section 2.14, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section 2.14.

(f) Upon the Borrower Representative's receipt of notice of the commencement of a Benchmark Unavailability Period, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and any such Eurodollar Borrowing shall be repaid or converted into an ABR Borrowing on the last day of the then current Interest Period applicable thereto, and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing."

f. The parenthetical in Section 5.01(f) of the Credit Agreement is hereby deleted and replaced with the following:

"(and for any week ending (x) in a Reporting Trigger Period, or (y) during the Temporary Period, in each case, within 3 Business Days of the end of each such calendar week)"

g. The first parenthetical in Section 5.01(g) of the Credit Agreement is hereby deleted and replaced with the following:

"(and for any week ending (x) in a Reporting Trigger Period, or (y) during the Temporary Period, in each case, within 3 Business Days of the end of each such calendar week)"

h. In the first line of Section 9.02(b) of the Credit Agreement, the text "Neither" is hereby deleted and replaced with the text "Subject to Section 2.14(c) and (d), neither".

2. Amendment to Security Agreement.

a. The following definition set forth in Article I of the Security Agreement is hereby amended and restated to read in its entirety as follows:

" 'Dominion Trigger Period' means the period (a) commencing on the date that (i) an Event of Default occurs or (ii) Excess Availability (or solely during the Temporary Period, Modified Excess Availability) is less than 12% of the aggregate amount of the Lenders' Revolving Commitments for any three (3) consecutive Business Days and (b) continuing until, during the preceding sixty (60) consecutive days, no Event of Default existed and Excess Availability (or solely during the Temporary Period, Modified Excess Availability) has been greater than 12% of the aggregate amount of the Lenders' Revolving Commitments at all times."

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

a. Amendment. Administrative Agent shall have received this Amendment fully executed in a sufficient number of counterparts for distribution to all parties.

b. Representations and Warranties. The representations and warranties set forth herein, and in the Credit Agreement and the Security Agreement (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof), must be true and correct in all material respects without duplication of any materiality qualifier contained therein.

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

a. Authority. Each Borrower and each other Loan Party has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Loan Documents (as amended or modified hereby) to which it is a party. The execution, delivery, and performance by each Borrower and each other Loan Party of this Amendment have been duly approved by all necessary corporate action, have received all necessary governmental approval, if any, and do not contravene any law or any contractual restriction binding on such Borrower or such Loan Party.

b. Enforceability. This Amendment has been duly executed and delivered by each Borrower and each other Loan Party. This Amendment and each Loan Document (as amended or modified hereby) is the legal, valid, and binding obligation of each Borrower and each other Loan Party, enforceable against each Borrower and each other Loan Party in accordance with its terms, and is in full force and effect.

c. Representations and Warranties. The representations and warranties contained in the Credit Agreement and the Security Agreement (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof) are correct on and as of the date hereof in all material respects without duplication of any materiality qualifier contained therein as though made on and as of the

date hereof.

d. No Default. No event has occurred and is continuing that constitutes a Default or Event of Default.

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

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

7. Reference to and Effect on the Loan Documents .

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

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

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

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

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

9 . Estoppel. To induce Administrative Agent and Lenders to enter into this Amendment and to induce Administrative Agent and the Lenders to continue to make advances to Borrowers under the Credit Agreement, each Borrower and each other Loan Party hereby acknowledges and agrees that, after giving effect to this Amendment, as of the date hereof, there exists no Default or Event of Default and no

right of offset, defense, counterclaim, or objection in favor of any Borrower or any other Loan Party as against Administrative Agent or any Lender with respect to the Obligations.

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

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

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

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

BORROWERS:

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

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

PARTSBIN, INC.,
a Delaware corporation

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

LOCAL BODY SHOPS, INC.,
a Delaware corporation

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

PRIVATE LABEL PARTS, INC.,
a Delaware corporation

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

WHITNEY AUTOMOTIVE GROUP, INC.,

a Delaware corporation

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

OTHER LOAN PARTIES:

LOBO MARKETING, INC.,
a Texas corporation

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

PACIFIC 3PL, INC.,
a Delaware corporation

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

GO FIDO, INC.,
a Delaware corporation

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

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

By /s/ Alfredo Gomez
Name: Alfredo Gomez
Title: General Counsel

ADMINISTRATIVE AGENT AND LENDER

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

By /s/Nathan Shay
Name: /s/ Nathan Shay
Title: Authorized Officer

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction	DBA
PartsBin, Inc.	Delaware	
U.S. Auto Parts Network (Philippines) Corporation	Philippines	
Lobo Marketing, Inc.	Texas	
Go Fido, Inc.	Delaware	
Private Label Parts, Inc.	Delaware	Kool-Vue
Pacific 3PL, Inc.	Delaware	
Local Body Shops, Inc.	Delaware	Perfect Fit
Automotive Specialty Accessories and Parts, Inc. (1)	Delaware	
Whitney Automotive Group, Inc. (2)	Delaware	

(1) Subsidiary of Go Fido, Inc.

(2) Subsidiary of Automotive Specialty Accessories and Parts, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (Nos. 333-143179, 333-149973, 333-158224, 333-165493, 333-173851, 333-204096, 333-212256, 333-210093, 333-216671 and 333-226736) on Form S-8 and Registration Statements (Nos. 333-163811, 333-188492, 333-197903 and 333-213223) on Form S-3 of U.S. Auto Parts Network, Inc. and subsidiaries of our report dated March 9, 2020, relating to our audit of the consolidated financial statements which appear in this Annual Report on Form 10-K of U.S. Auto Parts Network, Inc. and subsidiaries for the year ended December 28, 2019.

/s/ RSM US LLP

Los Angeles, CA
March 9, 2020

EXHIBIT 31.1

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

I, Lev Peker, certify that:

1. I have reviewed this annual report on Form 10-K of U.S. Auto Parts Network, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 9, 2020

/s/ LEV PEKER
Lev Peker
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

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

I, Neil Watanabe, certify that:

1. I have reviewed this annual report on Form 10-K of U.S. Auto Parts Network, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2020

/s/ DAVID MENIANE

David Meniane
Chief Financial Officer
(principal financial officer)

EXHIBIT 32.1

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

In connection with the Annual Report of U.S. Auto Parts Network, Inc. (the "Company") on Form 10-K for the fiscal year ended December 28, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lev Peker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2020

/s/ LEV PEKER

Lev Peker
Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Annual Report of U.S. Auto Parts Network, Inc. (the “Company”) on Form 10-K for the fiscal year ended December 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David Meniane, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2020

/s/ DAVID MENIANE

David Meniane

Chief Financial Officer