U.S. Auto Parts Network, Inc.
Form 10-Q
May 09, 2018

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-33264

U.S. AUTO PARTS NETWORK, INC.
(Exact name of registrant as specified in its charter)

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

16941 Keegan Avenue, Carson, CA 90746
(Address of Principal Executive Office) (Zip Code)
(424) 702-1455
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
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	ý
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	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. o

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

As of May 4, 2018, the registrant had 34,973,332 shares of common stock outstanding, $0.001 par value.

U.S. AUTO PARTS NETWORK, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THIRTEEN WEEKS ENDED MARCH 31, 2018
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Unless the context requires otherwise, as used in this report, the terms “U.S. Auto Parts,” the “Company,” “we,” “us” and “our” refer to U.S. Auto Parts Network, Inc. and its wholly-owned and majority-owned subsidiaries. Unless otherwise stated, all amounts are presented in thousands. In addition, unless the context requires otherwise, references to AutoMD refer to AutoMD, Inc., our former majority-owned subsidiary which was dissolved in March 2017.

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

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 “will likely result” and variations of these words or similar expressions. These forward-looking statements include, but are not limited to, statements regarding future events, our future operating and financial results, financial expectations, expected growth and strategies, current business indicators, capital needs, financing plans, capital deployment, liquidity, contracts, litigation including our litigation with U.S. customs, the anticipated impact of the issues we are experiencing with U.S. customs including the related trademark issues, product offerings, customers and suppliers, acquisitions, competition and the status of our facilities. Forward-looking statements, no matter where they occur in this document or in other statements attributable to the Company involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in greater detail under the heading “Risk Factors” in Part II, Item 1A of this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report and the documents that we reference in this report and have filed as exhibits to the report completely and with the understanding that our actual future results may be materially different from what we expect. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$9,222	$ 2,850
Short-term investments	10	9
Accounts receivable, net	3,357	2,470
Inventory	58,120	54,231
Other current assets	3,009	2,972
Total current assets	73,718	62,532
Deferred income taxes	21,062	21,476
Property and equipment, net	15,021	15,085
Intangible assets, net	604	651
Other non-current assets	1,328	954
Total assets	$111,733	$ 100,698
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$42,691	$ 35,999
Accrued expenses	10,915	7,363
Current portion of capital leases payable	586	579
Customer deposits	660	2,500
Other current liabilities	3,553	2,457
Total current liabilities	58,405	48,898
Capital leases payable, net of current portion	9,020	9,173
Other non-current liabilities	2,275	2,266
Total liabilities	69,700	60,337
Commitments and contingencies		
Stockholders’ equity:		
Series A convertible preferred stock, $0.001 par value; $1.45 per share liquidation value or aggregate of $6,017; 4,150 shares authorized; 2,771 shares issued and outstanding at both March 31, 2018 and December 30, 2017	3	3
Common stock, $0.001 par value; 100,000 shares authorized; 34,939 and 34,666 shares issued and outstanding at March 31, 2018 and December 30, 2017 (of which 2,525 are treasury stock)	37	37
Treasury stock	(7,146)	(7,146)
Additional paid-in capital	180,517	179,906
Accumulated other comprehensive income	579	557
Accumulated deficit	(131,957)	(132,996)
Total stockholders’ equity	42,033	40,361
Total liabilities and stockholders’ equity	$111,733	$ 100,698

See accompanying notes to consolidated financial statements (unaudited).

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

	Thirteen Weeks Ended	
	March 31, 2018	April 1, 2017
Net sales	$ 78,385	$ 80,833
Cost of sales [1]	54,926	57,046
Gross profit	23,459	23,787
Operating expenses:		
Marketing	9,982	10,314
General and administrative	4,885	4,801
Fulfillment	5,848	6,082
Technology	1,088	1,273
Amortization of intangible assets	47	112
Total operating expenses	21,850	22,582
Income from operations	1,609	1,205
Other income (expense):		
Other income, net	1	16
Interest expense	(433)	(378)
Total other expense, net	(432)	(362)
Income from continuing operations before income taxes	1,177	843
Income tax provision	442	27
Income from continuing operations	735	816
Discontinued operations [2]		
Loss from operations and disposal of discontinued AutoMD operations	—	(558)
Income tax provision	—	1
Loss on discontinued operations	—	(559)
Net income	735	257
Other comprehensive income (loss):		
Foreign currency translation adjustments	19	(2)
Total other comprehensive income (loss)	19	(2)
Comprehensive income	$ 754	$ 255
Income from continuing operations per share:		
Basic income from continuing operations per share	$ 0.02	$ 0.02
Diluted income from continuing operations per share	$ 0.02	$ 0.02
Weighted average common shares outstanding:		
Shares used in computation of basic income from continuing operations per share	34,821	34,510
Shares used in computation of diluted income from continuing operations per share	38,066	40,231

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

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

See accompanying notes to consolidated financial statements (unaudited).

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

	Thirteen Weeks Ended	
	March 31, 2018	April 1, 2017
Operating activities		
Net income	$735	$257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,504	1,633
Amortization of intangible assets	47	112
Deferred income taxes	415	—
Share-based compensation expense	976	1,089
Stock awards issued for non-employee director service	4	2
Amortization of deferred financing costs	1	22
Gain from disposition of assets	—	(8)
Changes in operating assets and liabilities:		
Accounts receivable	(887)	105
Inventory	(3,889)	(6,282)
Other current assets	(442)	(161)
Other non-current assets	20	135
Accounts payable and accrued expenses	10,339	10,662
Other current liabilities	(402)	(67)
Other non-current liabilities	139	59
Net cash provided by operating activities	8,560	7,558
Investing activities		
Additions to property and equipment	(1,490)	(1,262)
Proceeds from sale of property and equipment	—	39
Net cash used in investing activities	(1,490)	(1,223)
Financing activities		
Borrowings from revolving loan payable	3,106	3,576
Payments made on revolving loan payable	(3,106)	(3,576)
Proceeds from stock options	—	33
Minority shareholder redemption	—	(2,485)
Payments on capital leases	(144)	(136)
Treasury stock repurchase	—	(2,272)
Statutory tax withholding payment for share-based compensation	(395)	(688)
Payment of liabilities related to financing activities	(100)	(100)
Preferred stock dividends paid	(41)	(120)
Net cash used in financing activities	(680)	(5,768)
Effect of exchange rate changes on cash	(18)	(12)
Net change in cash and cash equivalents	6,372	555
Cash and cash equivalents, beginning of period	2,850	6,643
Cash and cash equivalents, end of period	$9,222	$7,198
Supplemental disclosure of non-cash investing and financing activities:		
Accrued asset purchases	$766	$694
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$—	$15
Cash paid during the period for interest	442	337

See accompanying notes to consolidated financial statements (unaudited).

U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(In Thousands, Except Per Share Data)
Note 1 – Basis of Presentation and Description of Company
U.S. Auto Parts Network, Inc. (including its subsidiaries) is a leading online provider of aftermarket auto parts and accessories and was established in 1995. The Company entered the e-commerce sector by launching its first website in 2000 and currently derives the majority of its revenues from online sales channels. The Company sells its products to individual consumers through a network of websites and online marketplaces. Our flagship consumer websites are located at www.autopartswarehouse.com, www.carparts.com, and www.jcwhitney.com and our corporate website is located at www.usautoparts.net. References to the "Company," "we," "us," or "our" refer to U.S. Auto Parts Network, Inc. and its consolidated subsidiaries.

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

The Company is a Delaware C corporation and is headquartered in Carson, California. The Company has employees located in both the United States and the Philippines.
Basis of Presentation
The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to U.S. Securities and Exchange Commission ("SEC") Form 10-Q and Article 10 of SEC Regulation S-X. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company as of March 31, 2018 and the consolidated results of operations and cash flows for the thirteen weeks ended March 31, 2018 and April 1, 2017. The Company's results for the interim periods are not necessarily indicative of the results that may be expected for any other interim period, or for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 30, 2017, which was filed with the SEC on March 14, 2018 and all our other periodic filings, including Current Reports on Form 8-K, filed with the SEC after the end of our 2017 fiscal year, and throughout the date of this report.
During the thirteen weeks ended March 31, 2018, the Company had net income of $735 compared to net income of $257 during the thirteen weeks ended April 1, 2017. Based on our current operating plan, we believe that our existing cash, cash equivalents, investments, cash flows from operations and available debt financing will be sufficient to finance our operational cash needs through at least the next twelve months.
Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606), which was further updated in March, April, May and December 2016. The guidance in this update supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition". Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. We adopted this ASU on December 31, 2017 through the modified retrospective method, with a cumulative adjustment that decreased accumulated deficit by approximately $342. The cumulative adjustment related to no longer recording a synthetic shipping lag adjustment, as we began to recognize revenue upon shipment.

Note 2 –Intangible Assets, Net

Intangible assets consisted of the following at March 31, 2018 and December 30, 2017 (in thousands):

		March 31, 2018			December 30, 2017		
	Useful Life	Gross Carrying Amount	Accumulated Amort. and Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amort. and Impairment	Net Carrying Amount
Intangible assets subject to amortization:							
Product design intellectual property	4 years	$2,750	$ (2,750)	$ —	$2,750	$ (2,750)	$ —
Patent license agreements	3 - 5 years	462	(382)	$ 80	462	(360)	$ 102
Domain and trade names	10 years	1,407	(883)	$ 524	1,407	(858)	$ 549
Total		$4,619	$ (4,015)	$ 604	$4,619	$ (3,968)	$ 651

Intangible assets subject to amortization are amortized on a straight-line basis. Amortization expense relating to intangible assets held for continuing operations was $47 and $112 for the thirteen weeks ended March 31, 2018, and April 1, 2017 respectively.

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

2018	$138
2019	100
2020	100
2021	100
2022	100
Thereafter	66
Total	$604

Note 3 – Borrowings

The Company maintains an asset-based revolving credit facility ("Credit Facility") that provides for, among other things, a revolving commitment in an aggregate principal amount of up to $30,000, which is subject to a borrowing base derived from certain receivables, inventory, and property and equipment. At March 31, 2018, our outstanding revolving loan balance was $0. The guaranteed total letters of credit balance at March 31, 2018 was $17,064, of which $12,261 was utilized and included in accounts payable in our consolidated balance sheet.

Loans drawn under the Credit Facility bear interest, at the Company’s option, at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.75%, or (b) an “alternate prime base rate” subject to an increase or reduction by up to 0.25% per annum based on the Company's fixed charge coverage ratio. At March 31, 2018, the Company’s LIBOR based interest rate was 3.44% (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 Credit Agreement, cash receipts are deposited into a lock-box, which are at the Company’s discretion unless the “cash dominion period” is in effect, during which cash receipts will be used to reduce amounts owing under the Credit Agreement. The cash dominion period is triggered in an event of default or if excess availability is less than the $3,600 for three business days (on a cumulative basis) and will continue until, during the preceding 60 consecutive days, no event of

default existed and excess availability has been greater than $3,600 at all times (with such trigger subject to adjustment based on the Company's revolving commitment). In addition, in the event that “excess availability,” as defined under the Credit Agreement, is less than $2,400, the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 (with the trigger subject to adjustment based on the Company's revolving commitment). The credit facility matures on April 26, 2020.
The Company's excess availability was $10,324 at March 31, 2018. As of the date hereof, the cash dominion period has not been in effect; accordingly, no principal payments are due.

Note 4 – Stockholders’ Equity and Share-Based Compensation
Options and Restricted Stock Units
The Company had the following common stock option activity during the thirteen weeks ended March 31, 2018:
•Granted options to purchase 554 common shares.
•Exercise of 0 options to purchase common shares.
•Forfeiture of 9 option to purchase common shares.
•Expiration of 42 options to purchase common shares.

The following table summarizes the Company’s restricted stock unit ("RSU") activity for the thirteen weeks ended March 31, 2018, and details regarding the awards outstanding and exercisable at March 31, 2018 (in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Awards outstanding, December 30, 2017	1,113	$ —		
Awarded	1,033	$ —		
Vested	(438)	$ —		
Forfeited	(299)	$ —		
Awards outstanding, March 31, 2018	1,409	$ —	1.33	$ 2,890
Vested and expected to vest at March 31, 2018	1,360	$ —	1.33	$ 2,788

During the thirteen weeks ended March 31, 2018, 307 RSU's that vested were time-based and 131 were performance-based. For the RSUs awarded, the number of shares issued on the date of vest is net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. For those employees who elect not to receive shares net of the minimum statutory withholding requirements, the appropriate taxes are paid directly by the employee. During the thirteen weeks ended March 31, 2018, we withheld 166 shares to satisfy $395 of employees' tax obligations. Although shares withheld are not issued, they are treated as a common stock repurchase in our consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting.

For the thirteen weeks ended March 31, 2018 and April 1, 2017, we recorded compensation expense of $1,003 and $1,113, respectively. As of March 31, 2018, there was unrecognized compensation expense of $6,685.

Non-Controlling Interest

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

Note 5 – Net Income Per Share

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

	Thirteen Weeks Ended	
	March 31, 2018	April 1, 2017
Net income per share:		
Numerator:		
Income from continuing operations	$735	$ 816
Dividends on Series A Convertible Preferred Stock	40	59
Income from continuing operations available to common shares	$695	$ 757
Denominator:		
Weighted-average common shares outstanding (basic)	34,821	34,510
Common equivalent shares from common stock options, restricted stock, preferred stock and warrants	3,245	5,721
Weighted-average common shares outstanding (diluted)	38,066	40,231
Basic net income from continuing operations per share	$0.02	$ 0.02
Diluted net income from continuing operations per share	$0.02	$ 0.02

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

	Thirteen Weeks Ended	
	March 31, 2018	April 1, 2017
Common stock warrants	—	20
Performance stock units	743	700
Restricted stock units	525	6
Options to purchase common stock	5,438	2,588
Total	6,706	3,314

Note 6 – Income Taxes

The Company is subject to U.S. federal income tax as well as income tax of foreign and state tax jurisdictions. The tax years 2013-2017 remain open to examination by the major taxing jurisdictions to which the Company is subject, except the Internal Revenue Service for which the tax years 2014-2017 remain open.

For the thirteen weeks ended March 31, 2018 the effective tax rate for the Company's continuing operations was 37.6%. The effective tax rate for the thirteen weeks ended March 31, 2018 differed from the U.S. federal statutory rate primarily due to state income taxes and share-based compensation that is either not deductible for tax purposes or for which the tax deductible amount is different than the financial reporting amount.

For the thirteen weeks ended April 1, 2017, the effective tax rate for the Company's continuing operations was 3.2%. The effective tax rate for the thirteen weeks ended April 1, 2017 differed from the U.S. federal statutory rate primarily as a result of net operating losses previously subject to a full valuation allowance.

Note 7 – Commitments and Contingencies

Facilities Leases

Facility rent expense for the thirteen weeks ended March 31, 2018 and April 1, 2017 was $441 and $427 respectively.
Minimum lease commitments under non-cancellable operating leases as of March 31, 2018 were as follows (in thousands):

2018	$1,499
2019	1,016
2020	325
2021	—
Total	$2,840

Capital lease commitments as of March 31, 2018 were as follows (in thousands):

2018	$1,299
2019	1,301
2020	1,046
2021	960
2022	974
Thereafter	10,734
Total minimum payments required	16,314
Less amount representing interest	6,708
Present value of minimum capital lease payments	$9,606

Legal Matters

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

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

On April 2, 2018, the Company also moved for entry of a temporary restraining order ("TRO") preventing the Defendants from enforcing the Bonding Requirement. On April 6, 2018, the Court granted the TRO with respect to the Bonding Requirement and ordered that (i) the Defendants may only impose a single entry bonding requirement at three times the shipment value proportional to the percentage of allegedly infringing goods contained in the shipments (which represent less than one percent of the Company's overall revenue and product assortment); and (ii) the Defendants shall expeditiously process all of the Company's shipping containers and immediately release to the Company all imports not implicated by CBP's underlying trademark infringement allegations. On April 12, 2018, the Court clarified the TRO ordering that the amount of the single entry bond shall be limited to three percent of the commercial invoice value of each shipment, and on April 19, 2018, the Court extended the TRO through May 9, 2018, at which time the parties are scheduled to appear for a preliminary injunction hearing on the matter.

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

Note 8 – Product information

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

	Thirteen Weeks Ended	
	March 31, 2018	April 1, 2017
Private Label		
Collision	58%	54%
Engine	17%	17%
Performance	1%	1%
Branded		
Collision	1%	1%
Engine	11%	10%
Performance	12%	17%
Total	100%	100%

Note 9 – Discontinued Operations

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

The following table summarizes the results of discontinued operations:

	Thirteen Weeks Ended April 1, 2017
Net Sales	37
Loss from operations and disposal of discontinued AutoMD operations	(558)
Income tax provision (benefit)	1
Loss from discontinued operations	(559)

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

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (In Thousands, Except Per Share Data, Or As Otherwise Noted)

Cautionary Statement

You should read the following discussion and analysis in conjunction with our consolidated financial statements and the related notes thereto contained in Part I, Item 1 of this report. Certain statements in this report, including statements regarding our business strategies, operations, financial condition, and prospects are forward-looking statements. Use of the words “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “projects,” “should,” “will,” “would”, “will likely continue,” “will likely result” and similar expressions that contemplate future events may identify forward-looking statements.

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

Overview

We are a leading online provider of aftermarket auto parts, including collision parts, engine parts, and performance parts and accessories. Our user-friendly websites provide customers with a broad selection of stock keeping units (“SKUs”), with detailed product descriptions and photographs. Our proprietary product database maps our SKUs to product applications based on vehicle makes, models and years. We principally sell our products to individual consumers through our network of websites and online marketplaces. Our flagship consumer websites are located at www.autopartswarehouse.com, www.carparts.com, and www.jcwhitney.com, and our corporate website is located at www.usautoparts.net.

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

1. Number of SKUs required to serve the market. The number of automotive SKUs has grown dramatically over the last several years. In today's market, unless the consumer is driving a high volume produced vehicle and needs a simple maintenance item, the part they need is not typically on the shelf at a brick-and-mortar store. We believe our user-friendly websites provide customers with a favorable alternative to the brick-and-mortar shopping experience by offering a comprehensive selection of over 1.0 million SKUs with detailed product descriptions, attributes and photographs combined with the flexibility of fulfilling orders using both drop-ship and stock-and-ship methods.

2.U.S. vehicle fleet expanding and aging. The average age of U.S. vehicles, an indicator of auto parts demand, rose to a record-high 11.5 years as of January 2015, according to IHS Automotive, a market analytics firm that expects the average age to rise to 11.8 years by 2019. IHS expects the number of vehicles that are 12 years or older to increase by 15% through 2019. IHS found that the total number of light vehicles in operation in the U.S. has increased to record levels, and should continue to rise through 2019. We believe an increasing vehicle base and rising average age of vehicles will have a positive impact on overall aftermarket parts demand because older vehicles generally require more repairs. In many cases we believe these older vehicles are driven by do-it-yourself ("DIY") car owners who are more likely to handle any necessary repairs themselves rather than taking their car to the professional repair shop.

3.Growth of online sales. The U.S. Auto Care Association estimates that overall revenue from online sales of auto parts and accessories is projected to increase to approximately $13.2 billion in 2018 and more than double by 2023. Improved product availability, lower prices and consumers' growing comfort with digital platforms are driving the shift to online sales. We believe that we are well positioned for the shift to online sales due to our history of being a leading source for aftermarket automotive parts through online marketplaces and our network of websites.

Our History. We were formed in California in 1995 as a distributor of aftermarket auto parts and launched our first website in 2000. We reincorporated in Delaware in 2006 and expanded our online operations, increasing the number of SKUs sold through our e-commerce network, adding additional websites, improving our Internet marketing proficiency and commencing sales in online marketplaces. Additionally, in August 2010, through our acquisition of Whitney Automotive Group, Inc. (referred to herein as "WAG"), we expanded our product-lines and increased our customer reach in the DIY automobile and off-road accessories market.

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

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

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

	Thirteen Weeks Ended	
	March 31, 2018	April 1, 2017
Unique Visitors (millions) [1]	20.1	28.9
E-commerce Orders (thousands)	460	518
Online Marketplace Orders (thousands)	441	431
Total Online Orders (thousands)	901	949
E-commerce Average Order Value	$ 98	$ 104
Online Marketplace Average Order Value	$ 72	