U-Store-It Trust
Form DEF 14A
April 04, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

U-Store-It Trust

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

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(2) Aggregate number of securities to which the transaction applies:

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(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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50 Public Square, Suite 2800

Cleveland, OH 44113

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on May 6, 2008

Dear Shareholder:

You are cordially invited to attend our 2008 annual meeting of shareholders to be held on Tuesday, May 6, 2008, at 8:00 a.m., Eastern Daylight Savings time, at The Ritz Carlton Hotel, 1515 West 3rd Street, Cleveland, Ohio 44113, for the following purposes:

1. To elect seven trustees to serve one-year terms expiring in 2009 or until their successors are duly elected;

2. To ratify the appointment of Deloitte & Touche LLP as independent auditor; and

3. To transact such other business as may properly come before the meeting or any adjournment or postponement of the meeting.

Only shareholders of record at the close of business on March 24, 2008 will be entitled to notice of and to vote at the meeting.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, YOU ARE URGED TO COMPLETE, DATE AND SIGN THE ACCOMPANYING PROXY CARD AND RETURN IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED. IF YOU ATTEND THE MEETING, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON, IF YOU DESIRE.

By Order of the Board of Trustees

KATHLEEN A. WEIGAND

Secretary

Cleveland, Ohio

April 4, 2008

Important Notice Regarding the Availability of Proxy Materials

for the Shareholder Meeting to Be Held on Tuesday, May 6, 2008

This proxy statement and the 2007 Annual Report to Shareholders

are available at http://ir.ustoreit.com

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50 Public Square

Suite 2800

Cleveland, OH 44113

PROXY STATEMENT

FOR THE 2008 ANNUAL MEETING

OF SHAREHOLDERS

ABOUT THE MEETING

Why am I receiving this proxy statement?

This proxy statement contains information related to the solicitation of proxies for use at our 2008 annual meeting of shareholders, to be held at 8:00 a.m., Eastern Daylight Savings time, on Tuesday, May 6, 2008 at The Ritz Carlton Hotel, 1515 West 3rd Street, Cleveland, Ohio 44113, for the purposes stated in the Notice of Annual Meeting of Shareholders. This solicitation is made by U-Store-It Trust on behalf of our Board of Trustees. We, our, us and the Company refer to U-Store-It Trust, a Maryland real estate investment trust and its subsidiaries. This proxy statement, the enclosed proxy card and our 2007 Annual Report to Shareholders and Form 10-K are first being mailed and made available electronically on our website at http://ir.ustoreit.com to shareholders beginning on or about April 4, 2008.

Who is entitled to vote at the annual meeting?

Only holders of record of our common shares at the close of business on March 24, 2008, the record date for the annual meeting, are entitled to receive notice of and to vote at the meeting or any adjournment or postponement of the annual meeting. Our common shares are the only class of securities entitled to vote at the meeting.

What are the voting rights of shareholders?

Each common share outstanding on the record date entitles its holder to cast one vote on each matter to be voted upon.

Who can attend the annual meeting?

All holders of our common shares at the close of business on March 24, 2008, the record date for the annual meeting, or their duly appointed proxies, are authorized to attend the annual meeting. If you attend the meeting, you may be asked to present valid picture identification, such as a driver s license or passport, before being admitted. Cameras, recording devices, and other electronic devices will not be permitted at the meeting. If you hold your shares in street name (that is, through a bank, broker or other nominee), you will need to bring a copy of the brokerage statement reflecting your stock ownership as of March 24, 2008, or a legal proxy from your bank or broker.

What will constitute a quorum at the annual meeting?

The presence at the meeting, in person or by proxy, of the holders of a majority of the common shares outstanding at the close of business on March 24, 2008 will constitute a quorum, permitting the shareholders to conduct business at the meeting. We will include abstentions and broker non-votes in the number of shares present at the meeting for purposes of determining a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner has not received instructions from the beneficial owner and does not have discretionary authority to vote the shares.

As of the record date, there were 57,840,178 common shares outstanding.

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How do I vote my shares that are held by my bank or broker?

If your shares are held by a bank or broker, you should follow the voting instructions provided to you by the bank or broker. Although most banks and brokers offer voting by mail, telephone and on the Internet, availability and specific procedures will depend on their voting arrangements.

How do I vote?

You or your duly authorized agent may vote by completing and returning the accompanying proxy card, or you may attend the meeting and vote in person.

May I change my vote after I return my proxy card?

Yes. You may revoke a previously granted proxy at any time before it is exercised by submitting to our Secretary a notice of revocation or a duly executed proxy bearing a later date, or by attending the meeting and voting in person.

How are proxy card votes counted?

If the accompanying proxy card is properly signed and returned to us, and not revoked, it will be voted as directed by you. Unless contrary instructions are given, the persons designated as proxy holders on the proxy card will vote **FOR** the election of all nominees for our Board of Trustees named in this proxy statement, **FOR** the ratification of Deloitte & Touche LLP as our independent auditor and, as recommended by our Board of Trustees with regard to any other matters which properly come before the annual meeting, or, if no such recommendation is given, the persons designated as proxy holders on the proxy card will vote in their own discretion.

Who pays the costs of soliciting proxies?

We will pay the costs of soliciting proxies. We hired Georgeson Inc. to serve as proxy solicitors for us at a cost of $7,500. In addition to soliciting proxies by mail, our officers, trustees and other employees, without additional compensation, may solicit proxies personally or by other appropriate means. It is anticipated that banks, brokers, fiduciaries, custodians and nominees will forward proxy soliciting materials to their principals, and that we will reimburse such persons out-of-pocket expenses.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Final results will be published in the Company s quarterly report on Form 10-Q for the first quarter of 2008.

How can I obtain the Company s Annual Report and Form 10-K?

Our Annual Report to Shareholders and Form 10-K for the fiscal year ended December 31, 2007, is being mailed along with this proxy statement. These documents are also available electronically on our website at http://ir.ustoreit.com. Our 2007 Annual Report is not incorporated into this proxy statement and shall not be considered proxy solicitation material.

If you wish to have additional printed copies of our Annual Report to Shareholders and Form 10-K for the fiscal year ended December 31, 2007, as well as a copy of any exhibit specifically requested, we will mail these documents to you without charge. Requests should be sent to: The Secretary of the Company, U-Store-It Trust, 50 Public Square, Suite 2800, Cleveland, Ohio 44113. These materials have been filed with the Securities and Exchange Commission, or SEC, and may be accessed from the SEC s homepage at www.sec.gov.

Who should I contact if I have any questions?

If you have any questions about the annual meeting, these proxy materials or your ownership of our common shares, please contact our Secretary by telephone at (216) 274-1340 or by fax at (216) 274-1360.

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PROPOSAL 1: ELECTION OF TRUSTEES

Our Board of Trustees is currently comprised of eight trustees, each of whose term expires at the 2008 annual meeting. Thomas A. Commes will not stand for re-election at the annual meeting, and the Board of Trustees decreased the size of the Board to seven trustees, effective as of the date of the annual meeting. The Corporate Governance and Nominating Committee recommended to our Board of Trustees that the remaining seven trustees be nominated to stand for re-election. The Board of Trustees recommends that shareholders vote in favor of the re-election of each of the seven nominees to serve as trustees until the 2009 annual meeting of shareholders or until their successors are duly elected and qualified. Based on its review of the relationships between the trustee nominees and the Company, the Board of Trustees affirmatively determined that if these nominees are elected, six of the seven trustees John C. Dannemiller, William M. Diefenderfer III, Harold S. Haller, Daniel B. Hurwitz, Marianne M. Keler and David J. LaRue, will be independent trustees under the rules of the New York Stock Exchange, or NYSE.

The Board of Trustees knows of no reason why any nominee would be unable to serve as a trustee. If any nominee is unavailable for election or service, the Board of Trustees may designate a substitute nominee and the persons designated as proxy holders on the proxy card will vote for the substitute nominee recommended by the Board of Trustees, or the Board of Trustees may decrease the size of our Board of Trustees, as permitted by our bylaws. Each nominee has consented to be named in this proxy statement and has agreed to serve if elected.

Nominees for Election for a Term Expiring at the 2009 Annual Meeting

Set forth below are descriptions of the backgrounds and principal occupations of each of our trustees, and the period during which he or she has served as a trustee.

William M. Diefenderfer III, 62, has served as our Chairman of the Board since February 2007 and as a trustee since our initial public offering in October 2004. Mr. Diefenderfer has been a partner in the law firm of Diefenderfer, Hoover, Boyle & Wood since 1991. He served as Chief Executive Officer and President of Enumerate Solutions Inc., a privately-owned technology company that he co-founded, from 2000 to 2002. From 1992 to 1996, Mr. Diefenderfer served as Treasurer and Chief Financial Officer of Icarus Aircraft, Inc., a privately-owned aviation technology company. Mr. Diefenderfer served a two-year term on the Public Company Accounting Oversight Board s Standing Advisory Group from 2004 through 2005. In October 2006, he accepted appointment to the Commission on the Future of American Veterans, the purpose of which is to formulate a clear plan to guide the U.S. Department of Veteran s Affairs for the next twenty years. Mr. Diefenderfer serves as Vice-Chairman of the Board of Directors of Enumerate Solutions Inc., as well as chairman of its Audit Committee. He currently serves on the board of SLM Corporation, a publicly-traded company more commonly known as Sallie Mae, a leading provider of student loans and administrator of college savings plans. He chairs SLM s Audit Committee and is a member of its Nomination and Governance Committee and its Executive Committee.

John C. (Jack) Dannemiller, 69, has served as a trustee since our initial public offering in October 2004. From 1992 to 2000, Mr. Dannemiller served as the Chairman of the Board of Directors and Chief Executive Officer of Applied Industrial Technologies, Inc., a publicly-traded distributor of industrial, fluid power and engineered products and systems. He served as President of Applied Industrial Technologies, Inc. from 1996 to 1999, as Executive Vice President and Chief Operating Officer from 1988 to 1992, and served as a member of its Board of Directors from 1985 to 2000 (including his tenure as Chairman). Prior to joining Applied Industrial Technologies, Inc., he served as President and Chief Operating Officer of Leaseway Transportation, a privately-owned motor vehicle transportation company. Mr. Dannemiller currently serves on the boards of The Cleveland Clinic Foundation, Cleveland Clinic Western Region and Fairview Lutheran Foundation.

Harold S. Haller, Ph.D., 69, has served as a trustee since our initial public offering in October 2004. Dr. Haller has been a management consultant since 1967. He formed Harold S. Haller & Company in 1983 to help management of companies improve quality and productivity in production, marketing, business administration and research and development. Dr. Haller is also a lecturer and a writer of technical papers within his field. He has been an adjunct professor at Case Western Reserve University for 21 years and is currently the Director of the Case Statistical Consulting Center. Dr. Haller worked closely with Dr. W.E. Deming in Dr. Deming s four-day management seminars from 1985 until Dr. Deming s death in 1993. Dr. Haller is the principal consultant for Real World Quality System s NASA projects.

Daniel B. Hurwitz, 44, was recommended to the Corporate Governance and Nominating Committee by one of our non-management trustees, and he was appointed by the Board of Trustees on January 25, 2008. Mr. Hurwitz has been President and Chief Operating Officer of Developers Diversified Realty, a self-administered and self-managed real estate investment trust, or REIT, which acquires, develops, leases and manages shopping centers, since May 2007. Mr. Hurwitz is responsible for Developers Diversified s core revenue departments, in addition to management of the various disciplines related to the day-to-day operations of the company. Moreover, he is a member of Developers Divesified s executive management and investment committee. He previously served as Senior Executive Vice President and Chief Investment Officer of Developers Diversified from May 2005 to April 2007, and as Executive Vice President of Developers Diversified from June 1999 through April 2005.

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Dean Jernigan, 62, has been President and Chief Executive Officer of the Company since April 2006 and also has served as a member of our Board of Trustees since that time. From 2004 to April 2006, Mr. Jernigan served as President of Jernigan Property Group, LLC, a Memphis-based company that formerly owned and operated self-storage facilities in the United States. From 2002 to 2004, Mr. Jernigan was a private investor. From 1984 to 2002, he was Chairman of the Board and Chief Executive Officer of Storage USA, Inc., which was a publicly-traded self-storage REIT, from 1994 to 2002. Mr. Jernigan served as a member of the National Association of Real Estate Investment Trusts Board of Governors from 1995 to 2002, and as a member of its Executive Committee from 1998 to 2002. Mr. Jernigan currently serves on the board of Thomas & Betts, Inc., a publicly-traded electrical components and equipment company.

Marianne M. Keler, 53, has served as a trustee since March 2007. From 1985 to February 2006, Ms. Keler served in various positions with SLM Corporation, a publicly-traded company more commonly known as Sallie Mae. From 2005 to 2006, she served as Executive Vice President, Corporate Strategy, Consumer Lending and Administration, where she led several business lines, including SLM Financial. From 2001 to 2004, she was Executive Vice President and General Counsel for SLM. She is a partner of Keler-Kershow, LLC, a private law firm, and serves on various non-profit boards, including the American University of Bulgaria, Georgetown University Law Center, the National Student Clearinghouse and Building Hope, a charter school lender.

David J. LaRue, 46*,* has served as a trustee since our initial public offering in October 2004. Mr. LaRue has been President and Chief Operating Officer of Forest City Commercial Group, the largest strategic business unit of Forest City Enterprises, Inc., a publicly-traded real estate company, since 2003. Mr. LaRue is responsible for the execution of operating and development plans within the Commercial Group, which owns, develops, acquires and manages retail, office, hotel and mixed-use projects throughout the United States. Mr. LaRue served as Executive Vice President of Forest City Rental Properties from 1997 to 2003. Mr. LaRue has been with Forest City since 1986. Additionally, Mr. LaRue is involved as a board member of the following non-profit entities: the Greater Cleveland Sports Commission, the Friends of the Cleveland School of the Arts and Cleveland Leadership Center.

Vote Required and Recommendation of Our Board of Trustees

The affirmative vote of a plurality of all the votes cast at the annual meeting is necessary for the election of a trustee. Therefore, the seven individuals with the highest number of affirmative votes will be elected to the seven trusteeships. For purposes of the election of trustees, abstentions and other shares not voted (whether by broker non-vote or otherwise) will not be counted as votes cast and will have no effect on the result of the vote.

OUR BOARD OF TRUSTEES RECOMMENDS A VOTE FOR EACH OF THE NOMINEES SET FORTH ABOVE.

CORPORATE GOVERNANCE

Committee Charters and Corporate Governance Documents

Our Board of Trustees maintains written charters for all Board committees and adopted corporate governance guidelines and a code of business conduct and ethics. To view the committee charters, corporate governance guidelines, and code of business conduct and ethics, please visit our website at www.ustoreit.com. Each of these documents is also available in print, free of charge, to any shareholder who requests them in writing to the Secretary, U-Store-It Trust, 50 Public Square, Suite 2800, Cleveland, Ohio 44113.

Independence of Trustees

NYSE listing standards require listed companies to have a majority of independent board members and to have each of the nominating/corporate governance, compensation and audit committees comprised solely of independent trustees. Under the NYSE listing standards, in order for a trustee to qualify as independent, our Board of Trustees must affirmatively determine that the trustee has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). In addition, the NYSE listing standards provide that a trustee is not independent in the following circumstances:

- a trustee who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship;

a trustee who has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than $100,000 in direct compensation from the Company, other than trustee and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

(a) a trustee who is, or whose immediate family member is, a current partner of a firm that is the Company s internal or external auditor;

(b) a trustee who is a current employee of such a firm;

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(c) a trustee who has an immediate family member who is a current employee of such a firm and who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice; or

(d) a trustee who was, or whose immediate family member was, within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company s audit within that time;

a trustee who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company s present executive officers at the same time serve or served on the other company s compensation committee until three years after the end of such service or employment relationship; or

a trustee who is an employee, or whose immediate family member is an executive officer, of another company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2 percent of such other company s consolidated gross revenues.

For these purposes, an immediate family member includes a trustee s spouse, parents, children, siblings, mother and father-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares the trustee s home.

Our Board of Trustees evaluated the status of each trustee and has affirmatively determined, after broadly considering all facts and circumstances, that each of Messrs. Commes, Dannemiller, Diefenderfer, Haller, Hurwitz and LaRue and Ms. Keler is independent, under NYSE listing standards because each has no known relationship (material or otherwise) with us.

In making the foregoing determination, the Board of Trustees was aware that Mr. LaRue is the President and Chief Operating Officer of Forest City Commercial Group, a company from which we lease approximately 8,000 square feet of office space. The Board determined that this does not constitute a relationship, material or otherwise, between us and Mr. LaRue, because Mr. LaRue is not a party to this arrangement and does not derive any benefit from it, and the arrangement is not material to any of the parties.

Communications with the Board

Shareholders and other interested parties may communicate with the Board of Trustees by communicating directly with the Chairman of the Board. Please send any correspondence you may have in writing to the Chairman of the Board c/o Secretary of U-Store-It Trust, 50 Public Square, Suite 2800, Cleveland, Ohio 44113, who will then directly forward your correspondence to the Chairman of the Board. The Chairman of the Board will decide what action should be taken with respect to the communication, including whether such communication should be reported to the Board of Trustees.

MEETINGS AND COMMITTEES OF THE BOARD OF TRUSTEES

Board of Trustees Meetings

During 2007, the Board of Trustees met 17 times, including telephonic meetings. Each trustee is expected to attend, in person or by telephone, all Board meetings and meetings of committees on which he or she serves. Each trustee attended at least 75 percent of the Board and committee meetings on which he or she served. Pursuant to our corporate governance guidelines, all of our trustees are expected to attend our annual meetings of shareholders. All of our trustees, with the exception of Mr. Hurwitz, who was appointed as a trustee in January 2008, attended our annual meeting of shareholders last year.

Executive Sessions of Independent Trustees

Pursuant to our corporate governance guidelines and the NYSE listing standards, in order to promote open discussion among independent trustees, our Board of Trustees devotes a portion of each regularly scheduled Board meeting to sessions of independent trustees without management participation. The Chairman of the Board presides over these sessions.

Board Committees

The Board of Trustees has a standing Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee. All members of these committees are independent of us as that term is defined in the NYSE listing standards.

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The table below provides current membership information for each of the Board committees and the number of meetings held by each committee during 2007:

Name (1)	**Audit**	**Compensation**	**Corporate Governance and Nominating**
T. A. Commes	ü	Chairman	
J. C. Dannemiller		ü	Chairman
H. S. Haller		ü	ü
D. B. Hurwitz	ü	ü	
M. M. Keler	ü		ü
D. J. LaRue (2)	Chairman		
Number of Meetings in 2007	8	4	7

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(1) Mr. Diefenderfer, our Chairman of the Board, serves as an ex officio member of each committee.

(2) D. J. LaRue has served as the Chairman of the Audit Committee since February 2007. Prior to that, Mr. Diefenderfer was Chairman of the Audit Committee.

Audit Committee

The principal purposes of the Audit Committee are to assist the Board of Trustees in the oversight of:

the integrity of our financial statements;

our compliance with legal and regulatory requirements;

the qualification and independence of our independent auditor; and

the performance of our internal audit function and independent auditor.

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent auditor and is also responsible for reviewing with our independent auditor any audit problems or difficulties they encounter in the course of their audit. The Audit Committee is also charged with the tasks of reviewing our financial statements, any financial reporting issues and the adequacy of internal controls with management and our independent auditor.

Our Audit Committee s written charter requires that all members of the committee meet the independence, experience, financial literacy and expertise requirements of the NYSE, the Sarbanes-Oxley Act of 2002, the Securities Exchange Act of 1934, as amended, or Exchange Act, and applicable rules and regulations of the SEC, all as in effect from time to time. All of the members of the Audit Committee meet the foregoing requirements. The Board of Trustees determined that Mr. LaRue is an audit committee financial expert as defined by the rules and regulations of the SEC.

Compensation Committee

The principal purposes of the Compensation Committee are to:

- review and approve our corporate goals and objectives with respect to the compensation of our Chief Executive Officer, evaluate the Chief Executive Officer s performance in light of those goals and objectives, and determine and approve, either as a committee or with our other independent trustees, the appropriate level and structure of the Chief Executive Officer s compensation;

- determine and approve, either as a committee or together with our other independent trustees, the compensation of the other executive officers;

- make recommendations to the Board of Trustees regarding compensation of trustees; and

- recommend, implement and administer our incentive and equity-based compensation plans.

In carrying out its duties, the Compensation Committee has sole authority, pursuant to its charter, to retain advisors, including compensation consultants to advise the Compensation Committee on executive compensation matters. In August 2006, the Compensation Committee engaged Towers Perrin, an outside compensation consultant, to review and redesign our executive compensation and trustee compensation programs. The Compensation Committee also has authority to delegate to one or more subcommittees as it deems necessary and appropriate.

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The Chairman of the Compensation Committee sets the agenda for its meetings in consultation with our Secretary. Our Chief Executive Officer regularly attends meetings of the Compensation Committee and makes recommendations with respect to compensation of executive officers who report directly to him. The Board of Trustees has authority to approve grants of equity-based awards to our trustees. The Compensation Committee has authority to approve grants of equity-based awards to our executive officers and employees. The Board of Trustees delegated to our Chief Executive Officer the authority to make one-time grants of equity-based awards to non-executive new hires in an amount not to exceed the equivalent of $100,000, and the Chief Executive Officer must regularly report to the Compensation Committee information concerning the grants that are made pursuant to this authority. The Board of Trustees has not delegated authority with respect to executive or trustee compensation to any other group or person.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee during 2007 or as of the date of this proxy statement is or has been an officer or employee of the Company and no executive officer of the Company served on the compensation committee or board of any company that employed any member of the Company s Compensation Committee or Board of Trustees.

Corporate Governance and Nominating Committee

The principal purposes of the Corporate Governance and Nominating Committee are to:

- identify individuals that are qualified to serve as trustees;
- recommend such individuals to the Board of Trustees, either to fill vacancies that occur on the Board of Trustees from time to time or in connection with the selection of trustee nominees for each annual meeting of shareholders;
- periodically assess the size of the Board of Trustees to ensure it can effectively carry out its obligations;
- develop, recommend, implement and monitor our corporate governance guidelines and our code of business conduct and ethics;
- review any related party transactions and procedures for evaluating and approving such transactions;
- oversee the evaluation of the Board of Trustees and management; and
- ensure that we are in compliance with all NYSE corporate governance listing requirements.

The Board of Trustees adopted a policy to be used for considering potential trustee candidates to continue to ensure that our Board of Trustees consists of a diversified group of qualified individuals that function effectively as a group. The policy provides that qualifications and credentials for consideration as a trustee nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of the Board of Trustees. However, at a minimum, candidates for trustee must possess:

- the highest professional and personal ethics and values;
- a commitment to enhancing shareholder value;

broad experience at the policy-making level in business, government, education, technology or public interest;

an ability to provide insights and practical wisdom based on experience and expertise;

a willingness and ability to devote adequate time and resources to diligently perform Board duties;

a reputation, both personal and professional, consistent with the image and reputation of the Company; and

an ability to exercise sound judgment and make independent analytical inquiries.

In addition to the aforementioned minimum qualifications, the Corporate Governance and Nominating Committee also believes that there are other qualities and skills that, while not a prerequisite for nomination, should be taken into account when considering whether to recommend a particular person. These factors include:

whether the person possesses specific expertise and familiarity with general issues affecting our business;

whether the person s nomination and election would enable the Board of Trustees to have a member that qualifies as an audit committee financial expert as such term is defined by the SEC;

whether the person would qualify as an independent trustee under the NYSE listing standards and our corporate governance guidelines;

the importance of continuity of the existing composition of the Board of Trustees; and

the importance of a diversified Board membership, in terms of both the individuals involved and their various experiences and areas of expertise.

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The Corporate Governance and Nominating Committee will seek to identify trustee candidates based on input provided by a number of sources, including (a) Corporate Governance and Nominating Committee members, (b) other members of the Board of Trustees and (c) our shareholders. The Corporate Governance and Nominating Committee also has the authority to consult with or retain advisors or search firms to assist in the identification of qualified trustee candidates; however, the Corporate Governance and Nominating Committee has not retained a search firm, nor have we paid a fee to any other third party, to locate qualified trustee candidates.

As part of the identification process, the Corporate Governance and Nominating Committee determines the optimal size of the Board, assessing the future needs based on anticipated trustee vacancies and willingness of existing trustees to continue to serve as trustees if re-nominated. Once a trustee candidate has been identified, the Corporate Governance and Nominating Committee will evaluate the candidate in light of his or her qualifications and credentials, and any additional factors that it deems necessary or appropriate. Existing trustees who are being considered for re-nomination are re-evaluated as part of the Corporate Governance and Nominating Committee s process of recommending trustee candidates. The Corporate Governance and Nominating Committee will consider all persons recommended by shareholders in the same manner as all other trustee candidates provided that such recommendations are submitted in accordance with the procedures set forth in our bylaws.

After completing the identification and evaluation process described above, the Corporate Governance and Nominating Committee recommends to the Board of Trustees the nomination of a number of candidates equal to the number of trustees expected to be elected at the next annual meeting of shareholders. The Board of Trustees selects the trustee nominees for shareholders to consider and vote upon at the annual meeting.

For nominations for election to the Board of Trustees or other business to be properly brought before an annual meeting by a shareholder, the shareholder must comply with the advance notice provisions and other requirements of Article II, Section 12 of our bylaws. These notice provisions require that nominations for trustees must be received no more than 120 days and no less than 90 days before the first anniversary of the date of mailing of the notice for the preceding year s annual meeting. In the event that the date of the mailing of the notice for the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the mailing of the notice for the preceding year s annual meeting, notice by the shareholder to be timely must be delivered not earlier than the close of business on the 120th day prior to the date of mailing of the notice for such annual meeting and not later than the close of business on the later of the 90th day prior to the date of mailing of the notice for such annual meeting or the 10th day following the day on which public announcement of the date of mailing of the notice for such meeting is first made by us. Such shareholder s notice must set forth:

- as to each person whom the shareholder proposes to nominate for election or reelection as a trustee (1) the name, age, business address and residence address of such person, (2) the class and number of shares of beneficial interest of U-Store-It Trust that are beneficially owned or owned of record by such person, and (3) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of trustees in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act (including such person s written consent to being named in the proxy statement as a nominee and to serving as a trustee if elected);

- as to any other business that the shareholder proposes to bring before the meeting, a description in reasonable detail of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder (including any anticipated benefit to the shareholder therefrom) and of each beneficial owner, if any, on whose behalf the proposal is made; and

- as to the shareholder giving the notice and each beneficial owner, if any, on whose behalf the nomination or proposal is made, (1) the name and address of such shareholder, as they appear on our share ledger and current name and address, if different, of such beneficial owner, and (2) the class and number of shares of each class of beneficial interest of U-Store-It Trust that are owned beneficially and of record by such shareholder and owned beneficially by such beneficial owner.

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TRUSTEE COMPENSATION

From January 1 through May 7, 2007, compensation to our independent trustees consisted of an annual retainer for service on the Board of $25,000; an additional annual retainer for service as chairman of a committee of $10,000 for the Audit Committee, $7,500 for the Compensation Committee and $5,000 for the Corporate Governance and Nominating Committee; an additional annual retainer for service as lead trustee of $10,000; and a meeting attendance fee of $1,000 per Board meeting and per committee meeting attended for the members of the committee.

Beginning May 8, 2007, cash compensation to our independent trustees consisted of an annual retainer for service on the Board of $25,000; an additional annual retainer of $25,000 for the Chairman of the Board; an additional annual retainer of $10,000 for service as chairman for the Audit Committee and $7,500 for each chairman of the Compensation Committee and the Corporate Governance and Nominating Committee; and an additional annual retainer of $7,500 for each committee on which a trustee serves. In addition to the cash compensation paid to independent trustees for their Board service, we grant to each independent trustee a number of restricted shares equal to $60,000 in value, which is adjusted using a valuation model based on the closing price for the Company s common shares on the date of grant, and which reflects factors such as risk of forfeiture, dividend yield and vesting term. As an employee of the Company, Mr. Jernigan does not receive compensation for his service as a trustee. Compensation paid to Mr. Jernigan can be found in the table captioned Summary Compensation Table. Barry L. Amsdell served as a trustee in 2007 through February 20, 2007, during which time he did not receive compensation for his services as a trustee. Robert J. Amsdell, who was a non-independent trustee, received compensation during the time in 2007 when he served as Chairman of the Board equal to his 2006 base annual salary of $75,000. Mr. Hurwitz was not a trustee during 2007 and his name is omitted from the table below.

The table below shows the actual amounts earned by our trustees for their service during 2007.

Name (1)	**Fees Earned or Paid in Cash ($)**	(2) **Stock Awards ($)**	(3) **All Other Compensation ($)**	**Total ($)**
R. J. Amsdell Chairman of the Board *From January 1 - February 13, 2007*	$9,375	$ -	$21,096	$30,471
T. A. Commes Chairman, Compensation Committee	$54,420	$41,158	$2,028	$97,606
J. C. Dannemiller Chairman, Corporate Governance and Nominating Committee	$55,541	$41,158	$7,146	$103,845
W. M. Diefenderfer III Chairman of the Board *Since February 14, 2007* Chairman, Audit Committee *From January 1 - February 13, 2007*	$54,914	$41,158	$6,928	$103,000
H. S. Haller Lead Trustee	$51,390	$41,158	$7,274	$99,822

From January 1 - February 13, 2007				
M. M. Keler				
Since March 22, 2007	$29,334	$41,158	$2,028	$72,520
D. J. LaRue Chairman, Audit Committee *Since February 14, 2007*	$57,204	$41,158	$2,028	$100,390

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(1) Each person listed served as a trustee of the Company for all of 2007, except as otherwise indicated for Robert J. Amsdell and M. M. Keler. Each of W. M. Diefenderfer, H. S. Haller and D. J. LaRue served in the capacities indicated since or during the time periods indicated.

(2) On May 8, 2007, each independent trustee was granted 3,497 restricted shares, which for each such trustee is the aggregate number of stock awards outstanding at December 31, 2007. The grant date fair value of each award, computed in accordance with Financial Accounting Standard (FAS) 123R, is $63,121. The amounts listed in this column reflect the dollar amount recognized for financial statement reporting purposes in accordance with FAS 123R in the year ended December 31, 2007. Assumptions used in the calculation of these amounts are included in footnote 13 to our audited financial statements for fiscal year ended December 31, 2007, included in our Annual Report on Form 10-K filed with the SEC on February 29, 2008.

(3) The amount listed in this column for Robert J. Amsdell reflects dividends paid to him during the first quarter 2007 on 72,745 restricted shares.

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Trustees Deferred Compensation Plan

In December 2006, our Board of Trustees approved the U-Store-It Trust Trustees Deferred Compensation Plan, and, in that connection, suspended new deferrals under the Deferred Trustees Plan, the former deferred compensation plan for independent trustees. At December 31, 2006, an aggregate of 12,440 deferred shares were allocated to the accounts of plan participants under the former plan.

Pursuant to the new deferred compensation plan, the Board of Trustees designated non-employee trustees as eligible participants. Participants may elect each plan year to defer all or a portion of their compensation and have such amounts credited to accounts until distributed in accordance with the plan and the participants distribution elections. Each distribution account is credited with the returns of the investment options selected by plan participants, which include investment options that are available in the Company s 401(k) plan, or such other investment fund(s) as the Board of Trustees may designate from time to time. At December 31, 2007, an aggregate of approximately 10,492 phantom shares were allocated to the accounts of plan participants, including phantom shares resulting from reinvestment of dividend equivalents.

EXECUTIVE OFFICERS

Set forth below is background information on each of our executive officers, other than Mr. Jernigan, whose background is described above under Election of Trustees Nominees for Election for a Term Expiring at the 2009 Annual Meeting.

Christopher P. Marr, 43, has been Chief Financial Officer of the Company since June 2006 and Treasurer since August 2006. Mr. Marr was Senior Vice President and Chief Financial Officer of Brandywine Realty Trust, a publicly-traded office REIT, from August 2002 to June 2006. Prior to joining Brandywine Realty Trust, Mr. Marr served as Chief Financial Officer of Storage USA, Inc., a publicly-traded self-storage REIT, from 1998 to 2002.

Kathleen A. Weigand, 49, has served as Executive Vice President and Secretary since February 2006 and General Counsel since January 2006. Mrs. Weigand served as Deputy General Counsel and Assistant Secretary of Eaton Corporation, a publicly-traded global manufacturing company, from 2003 to 2005, and as Vice President, Assistant General Counsel and Assistant Secretary of TRW Inc., a publicly-traded space, defense, and automotive supply company, from 1999 to 2003. Mrs. Weigand is a Certified Public Accountant and formerly was an audit manager of KPMG.

Stephen R. Nichols, 56, has served as Senior Vice President, Operations since July 2006. Mr. Nichols served as Vice President, Operations of Extra Space Storage Inc., a publicly-traded self-storage REIT, from July 2005 to July 2006. Mr. Nichols was employed by Storage USA, Inc., as Senior Vice President of Operations, from 1995 until its sale to Extra Space in 2005.

Timothy M. Martin, 37, has served as Senior Vice President and Chief Accounting Officer of the Company since December 2006. He previously was employed by Brandywine Realty Trust from 1997 to December 2006, serving as Vice President, Finance and Treasurer from January 2006 to December 2006, as Brandywine s Principal Financial Officer from May 2006 to December 2006, as Vice President and Chief Accounting Officer from March 2004 to December 2005, and as Director, Financial Analysis from 2001 to March 2004. Prior to joining Brandywine, Mr. Martin served as a member of the audit staff of Arthur Andersen, LLP s Philadelphia office, specializing in real estate.

COMPENSATION COMMITTEE REPORT

The Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement. Based on the Compensation Committee s review of, and discussions with management with respect to, the Compensation Discussion and Analysis, the Compensation Committee recommended to the Board of Trustees that the Compensation Discussion and Analysis be included in this proxy statement for filing with the SEC.

Respectfully submitted,

The Compensation Committee

of the Board of Trustees

Thomas A. Commes (Chairman)

John C. Dannemiller

Harold S. Haller

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COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee determines the compensation for our executive officers, sets corporate goals and objectives with respect to executive compensation, evaluates performance against those goals and objectives, and determines the appropriate level and structure of executive compensation based on its evaluation. In carrying out these duties, the Compensation Committee considers, among other things, analyses from Towers Perrin, its independent compensation consultant. Discussed below are our philosophy with respect to, and our objectives in setting, executive compensation. As a part of this discussion, we also outline the elements of compensation awarded to, earned by, or paid to the named executive officers.

Compensation Philosophy and Objectives

We desire to build and maintain a superior executive management team to forge our business strategy and lead us to profitable growth. We believe success in accomplishing these goals will, in part, depend on the effectiveness of our executive compensation programs, which are designed to compensate and reward executive officers for the achievement of corporate goals and desired business results and for their personal contributions in the execution of our business strategy. Excellence in corporate and individual performance is our primary objective, and tying a significant portion of overall executive compensation to the achievement of our corporate goals is our philosophy. The Compensation Committee believes that the most effective executive compensation programs are designed to reward the achievement of specific annual, long-term and strategic goals that align executives interests with those of the shareholders by rewarding performance above established goals, with the ultimate objective of improving shareholder value.

In setting executive compensation, we endeavor to:

- provide compensation that is sufficient to attract and retain the very best possible executive talent;
- provide a significant portion of total compensation linked to achieving performance goals that we believe will create shareholder value in the short and long-term to ensure that executive officers maintain an ongoing personal stake in the Company; and
- encourage executive officers to achieve superior individual performance.

2007 Executive Compensation Program

The Compensation Committee designed the 2007 executive compensation program for executive officers after consideration of the following business considerations:

- each executive was newly hired and came to the Company with a different background and compensation arrangement;
- each executive was required to participate in a reorganization of the Company and in the hiring and development of a new staff;
- the real estate industry faced very difficult market dynamics; and
- the Company faced significant challenges, including litigation with its founder and a restatement of all prior financial statements.

The Compensation Committee engaged Towers Perrin, an independent compensation consultant, to review the Company s existing compensation and benefits program, analyze competitive market compensation practices and make recommendations on our 2007 executive compensation program to achieve the objectives described above. Representatives of Towers Perrin were present at half of the Committee s meetings and met with the Committee in executive session, where no members of management were present.

The 2007 executive compensation program adopted by the Compensation Committee, targeted overall compensation for the named executive officers at the 75th percentile of companies with a median market capitalization of $1.2 billion across multiple industries the general industry peer group. In determining that the appropriate reference point for pay competitiveness was the 75th percentile of general industry, Towers Perrin compared the 50th and 75th percentile of compensation data compiled from (a) proxy statements from a group of 25 REITs with a median market capitalization of $1.4 billion, (b) survey data from 39 comparably-sized companies with a median market capitalization of $1.2 billion in general industries and (c) proxy statements of our three self-storage peers. This material was reviewed with the Compensation Committee. In light of the top talent recruited from different industries and the challenging environment facing the Company s new management team, with concurrence from Towers Perrin, the Compensation Committee determined that targeting executive compensation at the 75th percentile of general industry was appropriate. The target compensation for the Company s Chief Executive Officer, Mr. Jernigan, was set at the 60th percentile after consideration of his current compensation, internal equities and his short tenure in the position.

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As a part of the Compensation Committee s process in designing a compensation program, it carefully considered the appropriate market reference point for determining pay competitiveness and determined that the comparative group for benchmarking purposes should represent the marketplace in which we are likely to compete for talent. Challenges that we faced in determining a comparative peer group included the short tenure of our named executive officers, none of whom had participated in a full performance year of formal annual and long-term incentives with the Company; market data specific to our self-storage peers being limited to three companies; and compensation for chief executive officers in the REIT industry being somewhat different than other executives as it is common within the REIT industry for the chief executive officer also to be a founder of the company. Given these challenges, the caliber and diverse backgrounds of our named executive officers and our desire to retain a superior executive management team, the Compensation Committee determined that it was appropriate also to benchmark with a peer group of general industry and establish compensation levels at +/- 15% of the 75th percentile of this group. Listed below are the companies that comprise the peer groups reviewed by the Compensation Committee.

General Industry Peer Group Companies

Actuant Corporation

Allete, Inc.

American Axle & Manufacturing

AMERIGROUP Corporation

Aquila, Inc.

ArvinMeritor, Inc.

Big Lots, Inc.

Building Materials Holding Corporation

Cleco Corporation

Cooper Tire & Rubber Company

eFunds Corporation

Ferrellgas Partners, L.P.

Gartner, Inc.

Georgia Gulf Corporation

H.B. Fuller Company

Hercules Incorporated

Hexcel Corporation Holdings, Inc.

IKON Office Solutions, Inc.

Jack in the Box Inc.

Mine Safety Appliances Company

Northwest Natural Gas Company

Papa John s International, Inc.

Par Pharmaceutical Companies, Inc.

Peoples Energy Corporation

Phillips-Van Heusen Corporation

Plexus Corp.

Ralcorp Holdings, Inc.

Revlon International Corporation

The Great Atlantic & Pacific Tea Company, Inc.

The Phoenix Companies, Inc.

The Warnaco Group

Tupperware Brands Corporation

UniSource Energy Corporation

United Stationers Inc.

Washington Group International, Inc.

REIT Peer Group Companies

American Financial Realty Trust

Entertainment Properties Trust

Equity Lifestyle Properties, Inc.

Equity One, Inc.

FelCor Lodging Trust Incorporated

Glimcher Realty Trust

Healthcare Realty Trust, Inc.

Inland Real Estate Corporation

LaSalle Hotel Properties

Lexington Corporate Properties Trust

Mid-America Apartment Communities, Inc.

Mission West Properties, Inc.

National Retail Properties, Inc.

Nationwide Health Properties, Inc.

Pennsylvania Real Estate Investment Trust

PS Business Parks, Inc.

Strategic Hotels & Resorts, Inc.

Sunstone Hotel Investors, Inc.

Tanger Factory Outlet Centers, Inc.

Washington Real Estate Investment Trust

Storage REIT Peer Group Companies

Jackson Hewitt Tax Service Inc.	BioMed Realty Trust, Inc.	
Kindred Healthcare, Inc.	Cousins Properties Incorporated	Extra Space Storage Inc.
Longs Drug Stores Corporation	DiamondRock Hospitality Co.	Public Storage, Inc.
Media General, Inc.	Digital Realty Trust, Inc.	Sovran Self Storage Inc.
	EastGroup Properties, Inc.	

Compensation Components

Shown in the table below are the material components of compensation set in 2007 for executive officers, the program design for each component and the objective of each component. The Compensation Committee began with its decision to target total compensation at the 75th percentile of general industry and then used market data, provided by Towers Perrin, to determine the appropriate percentages of fixed and variable pay. Pay decisions for 2007 were made in the first quarter of the year.

Component	Design	Objective
Salary	n Seventy-fifth percentile general industry levels	n Reflects the caliber and background of talent, as well as new hire / current market rates and the reorganization that the Company faced in 2007
Annual Incentive	n Seventy percent of annual incentive dependent upon achievement of funds from operations goals n Thirty percent of annual incentive dependent upon achievement of individual performance objectives n Payout ranges from 50% to 200% of target award, except that the portion tied to individual performance objectives is limited to a maximum 150% of target payout	n A significant portion of the award based on corporate measures to align the executive management team to common goals and objectives n An incentive that, in part, rewards individual performance of each executive n Creates a variable earning opportunity tied to key performance goals n Funds from operations is a key metric for us in measuring earnings and profitability
Long-Term Incentive	n Annual grant values of long-term awards will be structured as follows: Ø stock options (50%) Ø time-vested restricted shares (25%) Ø performance-vested restricted shares (25%)	n Balances retention and performance awards and provides greater leverage through options n The emphasis on stock options relative to time-vested restricted stock is consistent with general industry practice. The use of absolute and relative total shareholder return in the performance-vested restricted stock is consistent with typical REIT performance share plan designs. n Emphasizes retention and performance and promotes alignment with shareholder interests n Mix of restricted shares and options is a competitive pay practice among REITs and broader U.S. market

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Total Cash Compensation

Base Salary. Base salary is the fixed component of pay for our named executive officers and is intended to compensate for ordinary job duties. Factors considered in determining base salaries included the executive s scope of responsibilities, a market competitive assessment of similar roles at a peer group of general industry companies, and the performance of the individual executive. The base salaries of executive officers, other than the CEO, were set by the Compensation Committee after discussions with the CEO regarding each individual s accomplishments, areas of strength and opportunities for development. The salary of the CEO was set after each trustee completed a performance evaluation of the CEO, the results of which were summarized and reviewed by the Chairman of the Compensation Committee with Committee members and with the CEO. The Compensation Committee set base salaries for executive officers at approximately the 75th percentile of general industry for the reasons described above under 2007 Executive Compensation Program.

Annual Incentive. We believe that the annual incentive is an important element of executive compensation to achieve our objectives of attracting and retaining executive talent, encouraging superior individual performance, and more importantly, achieving our corporate goals and objectives. The Compensation Committee approved a targeted cash annual incentive opportunity for each executive officer if certain performance levels were met. Target annual incentive compensation was based on funds from operations, or FFO, growth per share and on individual goals tailored to each executive officer s job function and oversight responsibilities, weighted 70% and 30%, respectively. FFO, a common measure of profitability for REITs, are calculated using earnings per share determined under generally accepted accounting principles, and adding real estate depreciation and minority interest. The FFO targets recommended by management were viewed by the Committee as challenging goals and were set as follows: threshold, $1.08 per share; target, $1.11 per share; and maximum, $1.14 per share. Individual goals included increases in revenues and occupancy, fully staffing each executive s department, streamlining, automating and implementing new systems; and significantly reducing related party matters at the Company.

The target annual incentive award is a percentage of the 2007 base salary for each executive officer as follows: Mr. Jernigan, 100%; Mr. Marr, 65%; Mrs. Weigand, 65%; Mr. Nichols, 55%; and Mr. Martin, 55%. Performance above and below targeted levels results in a pro-rated award of 50% of target for threshold performance and 200% of target for maximum performance, except that the maximum percentage achievable for individual goals is limited to 150% of target. Payouts are interpolated for performance between threshold, target and maximum levels. The table below lists the payouts that could have been achieved at threshold, target and maximum performance, and the actual annual incentive compensation paid as a result of 2007 performance.

			FFO / Share Growth (70% of Target Opportunity)				Individual Management Objectives (30% of Target Opportunity)			
Name	2007 Annual Base Salary	Target Annual Incentive as % of Salary	Threshold	Target	Maximum	FFO Payout	Threshold	Target	Maximum	Payout in 2008
D. Jernigan	$610,000	100%	$213,500	$427,000	$854,000	$0	$91,500	$183,000	$274,500	$274,500
C. P. Marr	$410,000	65%	$93,275	$186,550	$373,100	$0	$39,975	$79,950	$119,925	$119,925
K. A. Weigand	$330,000	65%	$75,075	$150,150	$300,300	$0	$32,175	$64,350	$96,525	$96,525
S. R. Nichols	$275,000	55%	$52,938	$105,875	$211,750	$0	$22,688	$45,375	$68,063	$68,063
T. M. Martin	$225,000	55%	$43,313	$86,625	$173,250	$0	$18,563	$37,125	$55,688	$55,688

The Company did not achieve threshold performance for FFO. As a result, the annual incentive compensation paid out to each named executive officer comprised only that portion of the annual incentive opportunity relating to individual management objectives. The Compensation Committee awarded the individual portion of the annual incentive compensation to each named executive officer at the maximum payout level (150% of target for the 30% portion related to individual goals) in recognition of the achievement of their individual management objectives and of certain strategic plan objectives, including increasing revenue and occupancy, reorganizing the corporate staffs of the Company, and establishing systems to track and enhance performance. Further, the Compensation Committee recognized completion of the recruitment and integration of the new executive management team and the significant effort made toward the elimination of related party matters. For all

executives, other than the CEO, the CEO recommends individual incentive payment based on the executive s performance against his or her individual goals for the year. The Committee considers these recommendations and makes a final decision on the incentive payment. For the CEO, the Committee considers his performance against the Company s goals.

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Long-Term Incentive. We believe that long-term incentive compensation is an important element in providing competitive compensation and, because such awards have a basis in our common shares, helps to ensure that executive officers maintain an ongoing personal stake in the achievement of superior corporate performance. The Compensation Committee awarded a target grant level for long-term incentive compensation for each executive officer as follows:

D. Jernigan	$ 1,250,000
C. P. Marr	$ 520,000
K. A. Weigand	$ 375,000
S. R. Nichols	$ 375,000
T. M. Martin	$ 247,500

These amounts were established based on a value equal to the 75th percentile of our general industry peer group companies for the reasons discussed under 2007 Executive Compensation Program. Long-term incentive compensation award values were allocated 50% in stock options; 25% in time-vested restricted shares and 25% in performance-vested restricted shares.

The stock options and time-vested restricted shares vest ratably over three years beginning on the first anniversary of the date of grant, and the stock options have a term of 10 years and an exercise price equal to the closing price of the Company s common shares on the date of grant. The performance-vested restricted shares will vest on the last day of the three-year performance period, with the number of shares earned dependent upon the Company s annualized total shareholder return (TSR) over the three-year period beginning on January 1, 2007 and ending December 31, 2009. TSR will be measured against absolute and relative standards of performance, and the two measures will be weighted equally, with half of the shares earned based on absolute TSR and the other half earned based on the Company s TSR relative to the NAREIT Equity Index. The number of shares that could be earned pursuant to performance-vested restricted shares range from 0% to 150% of the target grant levels for each executive officer, with 50% of target for threshold performance and 150% of target for maximum performance. Payouts will be interpolated for performance between threshold, target and maximum levels. The TSR levels were set to ensure payout only in the event the Company outperformed the REIT markets and provided shareholders with attractive returns.

Dividends are paid on time-vested restricted shares prior to vesting, but are not paid on performance-vested restricted shares until they are vested, which is consistent with the competitive practices among REITs and recognizes the competitive orientation of the awards. Unvested shares are subject to forfeiture if the executive s employment terminates prior to the vesting date for any reason other than disability, death or a change in control.

The targets for performance-vested restricted shares were set by the Committee after receipt of management s performance expectations for the Company, and a review of external performance metrics. The table below lists the target number of performance-vested restricted shares granted to each named executive officer, the targets for threshold, target and maximum performance levels and the number of shares that would vest at each level of performance.

Name	Target Award of Performance Vested Restricted Shares	Threshold	Target	Maximum
Absolute TSR		7%	10%	13%
Relative TSR Equal to or Greater Than (compared to NAREIT Equity Index performance)		100 bps	200 bps	300 bps
D. Jernigan	20,790	10,395	20,790	31,185
C. P. Marr	8,649	4,325	8,649	12,974
K. A. Weigand	6,237	3,119	6,237	9,356
S. R. Nichols	6,237	3,119	6,237	9,356
T. M. Martin	4,116	2,058	4,116	6,174

In 2007, both the Company s annualized TSR, including dividends, and its TSR relative to the NAREIT Equity Index were negative. The Company did not achieve threshold performance in 2007.

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2008 Compensation Actions

In January 2008, the Compensation Committee considered executive compensation for the named executive officers for the current fiscal year. Given the 2007 corporate performance of the Company at year end 2007, the Compensation Committee, upon the recommendation of the CEO, determined that no salary increases or increases in the levels of annual and long-term incentive compensation should be approved for the named executive officers, except that the Compensation Committee approved an increase in the long-term incentive target level for Mr. Martin to bring his total compensation package in line with the targeted total compensation level. The Compensation Committee also determined to maintain the same performance targets for long-term incentive compensation as were set for 2007 compensation. Finally, the Compensation Committee approved FFO targets of $52 million to $58 million for 2008 annual incentive compensation targets.

Other Compensation Elements

Employment Agreements. The Compensation Committee considered existing employment agreements with executives and internal pay equity in approving new employment agreements with each of our executives in 2007 that provide for payments upon termination or a change in control. These payment provisions are designed to promote stability and continuity of senior management. Information regarding applicable payments under such employment agreements for the named executive officers is provided under the section headed Potential Payments Upon Termination or Change in Control.

Deferred Compensation Benefits. In December 2006, the Compensation Committee approved the U-Store-It Trust Executive Deferred Compensation Plan, which permits employees with the title of vice president or above, including our executive officers, to defer receipt of all or a portion of their salary and annual incentive and have that deferred compensation credited to accounts until distributed in accordance with the Plan and their elections. Under the Plan, we credit to each participant s account a matching deferred compensation amount that is equal to the difference between the total matching contribution we would have made under our 401(k) plan without regard to the limits imposed by the Internal Revenue Code and the actual matching contribution that we make under the 401(k) plan.

Perquisites and Personal Benefits. We do not provide any significant perquisites to our executive officers. In 2006, we discontinued the practice of providing leased or chartered aircraft for personal use to our executive officers, and we eliminated reimbursement for club memberships. During 2007, we provided the use of a Company car and executive medical coverage. While these benefits were not tied to any formal performance criteria, they were intended to serve as part of a competitive total compensation program.

Additional Compensation Principles

Policy on Grants of Equity Awards. The Board of Trustees adopted a Policy Statement on the Grant of Equity Awards to ensure compliance with securities, tax and accounting rules and regulations, and adherence to best corporate governance practices in granting equity-based compensation. This Policy provides that the Board of Trustees has sole authority to approve equity awards to our trustees, and the Compensation Committee has sole authority to approve equity awards to our executive officers. The Policy further provides that the grant date shall be the date of the meeting at which the award is approved by the Board or the Compensation Committee, as the case may be, except that, with respect to new hires, the date of the award shall be the later of the first date of employment of such person or the date approval for the grant is obtained from the Board or the Compensation Committee. All equity awards granted shall be approved at a meeting and not by unanimous written consent. The exercise price of equity awards shall be the closing price for our common shares on the New York Stock Exchange on the date of grant. As a part of this Policy, the Board of Trustees delegated authority to Mr. Jernigan to make one-time grants of equity-based awards to non-executive new hires in an amount not to exceed the equivalent of $100,000, and Mr. Jernigan must make regular reports to the Compensation Committee regarding awards granted pursuant to this authority. We believe this delegation of authority facilitates improved efficiency in recruiting key new non-executive employees.

Share Ownership Guidelines. We maintain share ownership guidelines for our named executive officers as the Compensation Committee believes that executive officers should maintain a material personal financial stake in the Company to promote strong alignment between the interests of management and shareholders. Within a five-year period of his or her appointment, we expect each named executive officer to acquire and maintain ownership in our common shares having a market value equal to the following: five times annual base salary for the Chief Executive Officer; three times annual base salary for the Chief Financial Officer; and two times annual base salary for all other executive officers. The Board of Trustees annually reviews progress toward achieving these ownership levels. Given the recent hiring dates of the senior management team, executive officers have yet to achieve their ownership guideline level. For purposes of the share ownership guidelines, unvested and unearned restricted shares and/or deferred shares and unexercised stock options are not counted.

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Tally Sheets. In considering executive compensation decisions, the Compensation Committee reviews tally sheets prepared for each named executive officer. The tally sheets present the dollar amounts of each component of compensation awarded to the named executive officers, including base salary, annual and long-term incentive, accumulated deferred compensation balances, outstanding equity awards, defined contribution retirement plan, potential payments under each named executive officer s employment agreement, perquisites and other benefits. The overall purpose of the tally sheets is to bring together, in one place, all of the elements of actual and potential future compensation in certain circumstances so that the Compensation Committee may analyze both the individual elements of compensation (including the compensation mix), as well as the aggregate total amount of compensation.

Tax Compliance Policy. The Compensation Committee reviewed the potential consequences for us of Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, which imposes a limit on tax deductions for annual compensation in excess of $1 million paid to any of the named executive officers. To the extent that compensation is required to and does not qualify for deduction under Section 162(m), a larger portion of shareholder distributions may be subject to federal income tax expense as dividend income rather than return of capital, and any such compensation allocated to our taxable REIT subsidiaries whose income is subject to federal income tax would result in an increase in income taxes due to the inability to deduct such compensation. Although we will be mindful of the limits imposed by Section 162(m), even if it is determined that Section 162(m) applies or may apply to certain compensation packages, we nevertheless reserve the right to structure the compensation packages and awards in a manner that may exceed the limitation on deduction imposed by Section 162(m).

Tax and Accounting Implications of Each Form of Compensation.

Salary is expensed when earned and is not deductible over $1 million for covered employees.

Annual incentives are expensed during the year when payout is probable. The portion to be paid on the basis of FFO meets the requirements of Section 162(m) of the Code and is deductible. The portion paid on the basis of individual goals is not deductible over $1 million under Section 162(m) of the Code for covered employees.

Stock options are expensed over the shorter of the vesting period or the service period. The Company s equity incentive plans have been approved by shareholders and awards are deductible under Section 162(m) of the Code.

Performance-vested restricted shares are expensed over the performance and service period when payout is probable. Section 162(m) of the Code may limit the deductibility of the compensation paid pursuant to these awards.

Restricted shares are expensed over the service period. The plan has been approved by shareholders but restricted shares are not deductible over $1 million under Section 162(m) of the Code for covered employees. The restricted shares granted to the named executive officers in 2007 were deductible.

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EXECUTIVE COMPENSATION

The following tables and narrative summarize the compensation for the years ended December 31, 2006 and December 31, 2007, paid to or earned by our Chief Executive Officer, Chief Financial Officer and three other most highly compensated executive officers.

Summary Compensation Table

Name and Principal Position (1)	Year	Salary ($)	Bonus ($)	(2) Stock Awards ($)	(2) Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	(3) All Other Compensation ($)	Total ($)
D. Jernigan	2007	$610,000		$170,715	$388,491	$274,500	$50,813	$1,494,519
	2006	$274,444	$561,000		$134,096		$16,896	$986,436
President and Chief Executive Officer *Since April 24, 2006*								
C. P. Marr	2007	$410,000		$324,966	$130,292	$119,925	$87,660	$1,072,843
	2006	$214,583	$300,000	$161,595	$28,516		$42,452	$747,146
Chief Financial Officer *Since June 5, 2006*								
K. A. Weigand	2007	$330,000		$72,476	$58,047	$96,525	$40,282	$597,330
	2006	$230,556	$200,000	$18,245			$5,082	$453,883
Executive Vice President, General Counsel and Secretary *Since February 22, 2006*								
S. R. Nichols	2007	$275,000		$65,220	$90,447	$68,063	$46,706	$545,436
	2006	$106,875	$40,000	$6,621	$15,445		$10,546	$179,487
Senior Vice President, Operations *Since July 10, 2006*								
T. M. Martin Senior Vice President and Chief Accounting Officer *Since December 11, 2006*	2007	$237,500		$73,802	$38,311	$55,688	$43,268	$448,569

(1) Beneath the position for each officer is the date he or she began service with us in the position indicated.

(2) The amounts listed in the Stock Awards and Option Awards columns reflect the dollar amounts, without any reduction for risk of forfeiture, recognized for financial statement reporting purposes for the years ended December 31, 2006 and December 31, 2007, of restricted shares, performance-vested restricted shares and option awards granted to the named executive officers under the Company s equity incentive plans. Such amounts were calculated in accordance with the provisions of Financial Accounting Standard (FAS) 123R and include amounts of awards granted in and prior to 2007. Assumptions used in the calculation of the amounts reported for 2006 and 2007 are included in footnote 13 to our audited financial statements for the year ended December 31, 2007,

included in our Annual Report on Form 10-K filed with the SEC on February 29, 2008. The value of each of the awards granted to the named executive officers in 2007 is listed in the table captioned Grants of Plan-Based Awards. The value of awards that vested during 2007 is listed in the table captioned Option Exercises and Shares Vested.

(3) The amounts reported in the All Other Compensation column reflect in the year indicated, for each named executive officer, the sum of (a) the aggregate incremental cost to the Company of all perquisites and other personal benefits, including personal use of a Company car and executive medical insurance (except that Mrs. Weigand received a waiver credit in lieu of executive medical insurance); (b) the amounts contributed by the Company to the U-Store-It, L.P. 401(k) Retirement Savings Plan; and (c) the dollar value of dividends on unvested restricted shares. The aggregate incremental cost to us to provide a Company car is based on the actual lease cost incurred for the automobile provided to each of the named executive officers plus expenses for fuel, maintenance and insurance. For purposes of calculating this amount, we disregarded business usage and assumed 100 percent personal usage. The aggregate incremental cost of executive medical insurance is based on the difference between the actual premium we pay for executive medical insurance for the named executive officers and the actual cost we incurred in providing family medical coverage for our general employee population.

Listed in the table below are the dollar values of the amounts reported in this column for 2007.

	Perquisites and Other Personal Benefits		**Additional All Other Compensation**	
Name	**Company Car**	**Executive Medical Insurance**	**Company Match in 401(k) Plan**	**Dividends on Unvested Restricted Shares**
D. Jernigan	$19,049	$10,695	$6,065	$15,003
C. P. Marr	$18,183	$10,695	$922	$57,860
K. A. Weigand	$16,948	$10,000	$2,565	$10,769
S. R. Nichols	$23,732	$10,695	$2,565	$9,713
T. M. Martin	$17,352	$10,695	$1,592	$13,628

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Grants of Plan-Based Awards

The following table and narrative provide information about plan-based awards granted during 2007 to the named executive officers. Each received the four types of plan-based awards described below as a part of the 2007 Executive Compensation Program approved by the Compensation Committee and the independent members of the Board of Trustees. Each of the equity incentive awards was granted under the U-Store-It Trust 2004 Equity Incentive Plan.

Name	Grant Type	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1), (2) Threshold ($)	Target ($)	Max ($)	Estimated Future Payouts Under Equity Incentive Plan Awards (1) Threshold (#)	Target (#)	Max (#)	All Other Stock Awards: Number of Shares of Stock (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	(3) Grant Date Fair Value of Stock and Option Awards ($)
D. Jernigan	Annual		$305,000	$610,000	$1,128,500							
	Performance	3/22/07				10,395	20,790	31,185				$243,243
	Restricted	3/22/07							17,245			$344,383
	Options	3/22/07								303,265	$19.97	$746,032
C. P. Marr	Annual		$133,250	$266,500	$493,025							
	Performance	3/22/07				4,325	8,649	12,974				$101,193
	Restricted	3/22/07							7,174			$143,265
	Options	3/22/07								126,158	$19.97	$310,349
K. A. Weigand	Annual		$107,250	$214,500	$396,825							
	Performance	3/22/07				3,119	6,237	9,356				$72,973
	Restricted	3/22/07							5,174			$103,325
	Options	3/22/07								90,979	$19.97	$223,808
S. R. Nichols	Annual		$75,625	$151,250	$279,813							
	Performance	3/22/07				3,119	6,237	9,356				$72,973
	Restricted	3/22/07							5,174			$103,325
	Options	3/22/07								90,979	$19.97	$223,808
T.M. Martin	Annual		$61,875	$123,750	$228,938							
	Performance	3/22/07				2,058	4,116	6,174				$48,157
	Restricted	3/22/07							3,415			$68,198
	Options	3/22/07								60,046	$19.97	$147,713

(1) The Threshold column represents the minimum amount payable when threshold performance is met. The Target column represents the amount payable if the specified performance targets are reached. The Maximum column represents the maximum payment possible.

(2) Listed in these columns are the amounts that could have been paid at each stated level of performance for the annual incentive compensation under the 2007 executive compensation program. See the table captioned Summary Compensation Table for the actual amounts paid to each named executive officer for the 2007 annual incentive compensation.

(3) This column shows the grant date fair value of the equity awards granted in accordance with FAS 123R, but excludes any forfeiture assumptions related to service-based vesting conditions, as prescribed by the rules of the SEC. The grant date fair value listed for performance-vested restricted shares is based on

the target number of shares awarded.

Annual Incentive Compensation Annual incentive compensation awards are paid in cash and are based on the achievement at December 31, 2007 of pre-established goals for FFO growth per share and individual management objectives, weighted at 70% and 30%, respectively. The performance goals for FFO were set as follows: threshold, $1.08 per share; target, $1.11 per share; and maximum, $1.14 per share. No payment was made for the FFO component as the threshold amount was not achieved.

Performance-Vested Restricted Shares The performance period for the restricted shares granted is January 1, 2007 through December 31, 2009. These awards will vest at the end of the performance period, with the number of shares earned dependent upon the Company s annualized total shareholder return (TSR) over the three-year period. TSR will be measured against absolute and relative standards of performance, and the two measures will be weighted equally, with half of the shares earned based on absolute TSR and the other half earned based on the Company s TSR relative to the NAREIT Equity Index. The performance goals for absolute TSR were set as follows: threshold, 7%; target, 10%; and maximum, 13%. The performance goals for relative TSR were set as follows: threshold, => 100 bps; target, => 200 bps; and maximum, => 300 bps. The named executive officers will not receive dividends on the performance-vested restricted shares until the shares are earned.

Restricted Shares These awards vest ratably over a three-year period, one-third per year on the first three anniversaries of the grant date, provided that the named executive officer then continues employment with the Company. The named executive officers are entitled to vote these restricted shares and to receive dividends on them at the same rate as paid to all other shareholders.

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Options The nonqualified options have a ten-year term and entitle the named executive officer to purchase the number of common shares of the Company specified. The right to purchase the common shares vests ratably over a three-year period, one-third per year on the first three anniversaries of the grant date, provided that the named executive officer then continues employment with the Company.

For further information on the awards granted during 2007, refer to the section headed Compensation Discussion and Analysis. The right of each named executive officer to the equity incentive awards listed in the table captioned Grants of Plan-Based Awards shall become fully vested in the event of termination of employment under certain circumstances pursuant to the terms of employment agreements that we have with them. For information on the material terms of each named executive officer s employment agreement or for a further discussion of the circumstances upon which vesting of awards is accelerated, see the discussion under the section headed Potential Payments Upon Termination or Change in Control.

Outstanding Equity Awards at December 31, 2007

The following table reports outstanding equity awards held by the named executive officers at December 31, 2007. The right of each named executive officer to the equity awards listed in this table shall become fully vested in the event of termination of employment in certain circumstances. For a further discussion of the circumstances upon which vesting of awards is accelerated, see the discussion under the section headed Potential Payments Upon Termination or Change in Control.

		Option Awards				Stock Awards				
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Grant Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested ($)
D. Jernigan	3/22/2007(1)		303,265	$19.97	3/21/2017	3/22/2007(3)	17,245	$157,274	10,395	$94,802
	4/19/2006(2)	100,000	400,000	$18.08	4/18/2016					
C. P. Marr	3/22/2007(1)		126,158	$19.97	3/21/2017	3/22/2007(3)	7,174	$65,427	4,325	$39,444
	6/5/2006(2)	30,000	120,000	$17.04	6/4/2016	6/5/2006(4)	36,180	$329,962		
K. A. Weigand	3/22/2007(1)		90,979	$19.97	3/21/2017	3/22/2007(3)	5,174	$47,187	3,119	$28,445
						2/21/2006(5)			2,336	$21,304
S. R. Nichols	3/22/2007(1)		90,979	$19.97	7/9/2016	3/22/2007(3)	5,174	$47,187	3,119	$28,445
	7/10/2006(2)	15,000	60,000	$18.70	3/21/2017	7/10/2006(2)	2,995	$27,314		
T. M. Martin	3/22/2007(1)		60,046	$19.97	3/21/2017	3/22/2007(3)	3,415	$31,145	2,058	$18,769
						12/11/2006(2)	7,349	$67,023		

(1) The award vests ratably over a three-year period, one-third per year on the first three anniversaries of the grant date, provided that the named executive officer then continues employment with the Company.

(2) The award vests ratably over a five-year period, one-fifth per year on the first five anniversaries of the grant date, provided that the named executive officer then continues employment with the Company.

(3) The award in the Number of Shares or Units of Stock That Have Not Vested column vests ratably over a three-year period, one-third per year on the first three anniversaries of the grant date, provided that the named executive officer then continues employment with the Company. The award in the Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested column vests on December 31, 2009, with the number of shares earned dependent upon the Company s annualized total shareholder return (TSR) over the three-year period. TSR will be measured against absolute and relative standards of performance, and the two measures will be weighted equally, with half of the shares earned based on absolute TSR and the other half earned based on the Company s TSR relative to the NAREIT Equity Index. The number of shares listed, and the payout value for the named executive officer, are based on achievement of threshold performance.

(4) The award vests in installments on the first five anniversaries of the grant date as follows: thirty-one and one-half percent on June 5, 2007, twenty-five and one-half percent on June 5, 2008, eighteen and six-tenths percent on June 5, 2009, seventeen and nine-tenths percent on June 5, 2010, and six and one-half percent on June 5, 2011.

(5)

119.8	132.9		168.9			
E-commerce Orders (thousands)	2,010		1,939		2,427	
Online Marketplace Orders (thousands)	1,049		741		649	
Total Online Orders (thousands)	3,059		2,680		3,076	
E-commerce Average Order Value	$ 111		$ 112		$ 114	
Online Marketplace Average Order Value	$ 66		$ 67		$ 77	
Total Online Average Order Value	$ 96		$ 99		$ 106	
Revenue Capture [1]	85.0	%	83.3	%	83.9	%
Conversion [1]	1.7	%	1.5	%	1.4	%

[1] Excludes online marketplaces and media properties (e.g. AutoMD).

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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 2014, our unique visitors decreased by 9.9% compared to the fiscal year 2013. We expect the total number of unique visitors in 2015 to marginally improve, as we believe we have addressed the challenges we experienced from changes search engines have made to the formulas, or algorithms, that they use to optimize their search results, as described in further detail under "—Executive Summary" below.

Total Number of Orders: We monitor the total number of orders as an indicator of future revenue trends. During the fiscal year 2014, the total number of orders was up by 14.1% compared to the fiscal year 2013, with e-commerce and online marketplace orders improving by 4.1% and 41.6%, respectively. We believe that e-commerce orders improved through an improved customer experience and pricing strategies. We believe that the increase in online marketplace orders was primarily due to competitive pricing strategies. We expect the total number of orders in 2015 to marginally improve over our results for 2014. We recognize revenue associated with an order when the products have been delivered, consistent with our revenue recognition policy.

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 2014, our average order value decreased by 3.0% compared to the fiscal year 2013. We expect this trend to continue in 2015 primarily due to increased
competition, as described in further detail under "Executive Summary" below. We seek to increase the average order value as a means of increasing net sales. Average order values vary depending upon a number of factors, including the components of our product offering, the order volume in certain online sales channels, macro-economic conditions, and the competition online.

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 2014, our revenue capture increased by 1.7% to 85.0% compared to 83.3% in fiscal year 2013. The increase in revenue capture was due to lower credit card declines and improved product fulfillment in 2014 compared to 2013. We expect our revenue capture level to improve in 2015 as we continue to improve our customers' purchase experience.

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 2014, our conversion improved by 0.2% to 1.7% compared to 1.5% in fiscal year 2013.

Executive Summary

For fiscal year 2014, the Company generated net sales of $283,508, compared with $254,753 for fiscal year 2013, representing an increase of 11.3%. Net loss for fiscal year 2014 was $6,879, or $0.21 per share. This compares to a net loss of $15,634, or $0.48 per share, for fiscal year 2013. We generated net income before interest expense, net, income tax provision, depreciation and amortization expense and amortization of intangible assets, plus share-based compensation expense, impairment loss and restructuring costs ("Adjusted EBITDA") of $7,903 in fiscal year 2014 compared to $6,000 in fiscal year 2013. Adjusted EBITDA, which is not a Generally Accepted Accounting Principle measure, is presented because such measure is used by rating agencies, securities analysts, investors and other parties in evaluating the Company. It should not be considered, however, as an alternative to operating income, as an

indicator of the Company's operating performance, or as an alternative to cash flows as measures 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 increased in fiscal year 2014 compared to the same period in 2013 primarily due to growth in our online sales. Our online sales, which include our e-commerce, online marketplace sales channels and online advertising, contributed 90.7% of total revenues, and our offline sales, which consist of our Kool-Vue™ and wholesale operations, contributed 9.3% of total revenues. Our online sales for fiscal year 2014 increased by $27,764, or 12.1%, to $257,160 compared to $229,396 in

fiscal year 2013 primarily due to a 14.1% increase in the total number of orders. Our offline sales increased by $992, or 3.9%, to $26,349 compared to the same period last year. Quarterly revenue increased year-over-year in each quarter of 2014. Prior to the first quarter of fiscal 2014, year-over-year quarterly revenue declined for six consecutive quarters beginning in the third quarter of 2012. The highest decline occurred during the first quarter of 2013 (25.2%) as compared to the first quarter of 2012, and the least in the fourth quarter of 2013 compared to the fourth quarter of 2012 (5.0%). The table below presents quarterly revenues (in thousands) and the change in quarterly year-over-year revenues. All quarters presented below represent thirteen week periods with the exception of the quarter ended January 3, 2015, which is a fourteen week period.

Year over year quarterly sales trend

Quarter ended	Net Sales	Quarter ended	Net sales	% change	
Sept. 29, 2012	$73,014	Oct 1, 2011	$78,593	(7.1	)%
Dec 29, 2012	$62,848	Dec 31, 2011	$77,233	(18.6	)%
Mar 30, 2013	$65,405	Mar 31, 2012	$87,436	(25.2	)%
Jun 29, 2013	$67,889	Jun 30, 2012	$80,719	(15.9	)%
Sept. 28, 2013	$61,724	Sep 29, 2012	$73,014	(15.5	)%
Dec 28, 2013	$59,735	Dec 29, 2012	$62,848	(5.0	)%
Mar 29, 2014	$68,028	Mar 30, 2013	$65,405	4.0	%
Jun 28, 2014	$76,947	Jun 29, 2013	$67,889	13.3	%
Sep 27, 2014	$67,965	Sept. 28, 2013	$61,724	10.1	%
Jan 3, 2015	$70,568	Dec 28, 2013	$59,735	18.1	%

Like most e-commerce retailers, our success depends on our ability to attract online consumers to our websites and convert them into customers in a cost-effective manner. Historically, marketing through search engines provided the most efficient opportunity to reach millions of on-line auto part buyers. We are included in search results through paid search listings, where we purchase specific search terms that will result in the inclusion of our listing, and algorithmic searches that depend upon the searchable content on our websites. Algorithmic listings cannot be purchased and instead are determined and displayed solely by a set of formulas utilized by the search engine. We have had a history of success with our search engine marketing techniques, which gave our different websites preferred positions in search results. But search engines, like Google, revise their algorithms from time to time in an attempt to optimize their search results. Since 2011, Google has released changes to Google's search results ranking algorithm aimed to lower the rank of certain sites and return other sites near the top of the search results based upon the quality of the particular site as determined by Google. Google made additional updates throughout fiscal year 2012 and 2013. We were negatively impacted by the changes in methodology for how Google displayed or selected our different websites for customer search results. This reduced our unique visitor count which adversely affected our financial results. Our unique visitor count decreased by 13.1 million, or 9.9%, for fiscal 2014 to 119.8 million unique visitors compared to 132.9 million unique visitors for fiscal 2013. In 2012 and 2013 we believe we were affected by search engine algorithm changes due to the use of our product catalog across multiple websites. To address this issue we consolidated to a significantly smaller number of websites to ensure unique catalog content. The consolidation resulted in fewer visitors in both 2013 and 2014 as websites continued to close. However, because of the consolidation and improvements in catalog content, orders increased in 2014. As we are significantly dependent upon search engines for our website traffic, if we are unable to attract unique visitors, our business and results of operations will be harmed.

Barriers to entry in the automotive aftermarket industry are low, and current and new competitors can launch websites at a relatively low cost. Due to a number of factors, including the rise of online marketplaces, it is easier for a traditional offline supplier to begin selling online and compete with us. These larger suppliers have access to merchandise at lower costs, enabling them to sell products at lower prices while maintaining adequate gross margins. Our financial results were negatively impacted by the increased level of competition. Our average order value went down marginally by $4, or 3.0%, for fiscal year 2014 to $95 compared to $99 in fiscal year 2013 as a result of increased pricing competition. Our current and potential customers may decide to purchase directly from our

suppliers. Continuing increased competition from our suppliers that have access to products at lower prices than us could result in reduced sales, lower operating margins, reduced profitability, loss of market share and diminished brand recognition. In addition, some of our competitors have used and may continue to use aggressive pricing tactics. We expect that competition will further intensify in the future as Internet use and online commerce continue to grow worldwide. We took a number of steps during 2014 to attempt to reduce the selling prices of our products while increasing margins, which are discussed below.

Total expenses, which primarily consisted of cost of sales and operating costs, increased in fiscal year 2014 compared to the same period in 2013. Components of our cost of sales and operating costs are described in further detail under — "Basis of Presentation" below.

Headcount decreased in fiscal year 2014 compared to fiscal year 2013. Our employees at the end of fiscal year 2014 decreased by about 4.7% to 983 compared to 1,032 at the end of fiscal year 2013. Our employees in the Philippines decreased to 704 at the end of fiscal year 2014 compared to 714 at the end of fiscal year 2013. In the first half of 2014, as part of our initiatives to reduce labor costs and improve operating efficiencies in response to the challenges in the marketplace and general market conditions, we reduced our workforce by 77 employees (for additional details, refer to "Note 12-Restructuring Costs" of the Notes to Consolidated Financial Statements, included in Part I, Item 1 of this report). Partially offsetting the decrease in headcount related to restructuring, we hired 28 employees, mostly to support the additional inventory volume at our two remaining warehouses. While we have and continue to undertake several initiatives to continue to increase revenues, improve gross margin and reduce the losses in 2015, if the downward trend in our gross margin and net loss continue in 2015, we may be required to further reduce our labor costs. Excluding impairment charges and higher depreciation and amortization in fiscal year 2013, operating expenses increased primarily due to higher fulfillment charges and marketing spend related to higher sales volume. As a percent of revenue, operating expenses were favorable in fiscal 2014 compared to fiscal 2013 except for fulfillment expense.
In 2014, we made positive strides towards achieving our strategic goals and in 2015 we will continue to pursue these strategies to continue our positive sales growth and improve gross profit while reducing operating costs as percent of sales:

- We expect to continue positive e-commerce growth by providing unique catalog content and providing better content on our websites thereby improving our ranking on the search results. In addition, we intend improve mobile enabled websites to take advantage of shifting consumer behaviors. We expect this to increase unique visitors to our website and help us grow our revenues. We expect revenue trends to remain positive in 2015.
- 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) selling more highly customized accessories by partnering with manufacturers to build custom shopping experiences; (3) increasing order size across our sites through improved recommendation engines; and (4) completing the roll out of high quality images and videos with emphasis on accessory product lines. In addition, we intend to build mobile enabled websites to take advantage of shifting consumer behaviors. These efforts may increase the conversion rate of our visitors to customers, total number of orders and average order value, repeat purchases and contribute to our revenue growth.
- We continue to work to becoming one of the best low price options in the market. We will lower our prices by increasing foreign sourced private label products as they are generally less expensive and we believe provide better value for the consumer. We expect this to improve the conversion rate for our visitors to our website, grow our revenues and improve our margins. We also plan to transition away from lower margin stock ship branded products and expand our private label mix, which provides higher margins.
- Increase product selection by being the first to market with new SKUs. We currently have over 45,000 private label SKUs and 1.6 million branded SKUs in our product selection. We will seek to add new categories and expand our existing specialty categories. We expect this to increase the total number of orders and contribute to our revenue growth. Additionally, we plan to continue to maintain our inventory in stock position throughout the year to ensure improved service levels and customer experience.
- Be the consumer advocate for auto repair through AutoMD.com. We will continue to devote resources to AutoMD.com and its system development. We expect this to improve our brand recognition and contribute to our revenue growth.
- Continue to implement cost saving measures.

Overall, we expect revenue growth and reduced net losses in 2015 compared to 2014, due to the initiatives we have implemented. However, if the revenue growth and reduced net losses we experienced in fiscal year 2014 do not continue in 2015 and are more negative than we expect, it 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. Refer to the "Liquidity and Capital Resources" section below for additional details. 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 continue for longer

than we expect because our strategies to return to 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.

As we redesign our approach to attracting customers through search engines, we hope to offset much of the decline in visitors to our e-commerce sites by continuing to pursue revenue opportunities in third-party online marketplaces, a number of which are growing significantly each year. Auto parts buyers are finding third-party online marketplaces to be a very attractive environment, for many reasons, the top four being: (1) the security of their personal information; (2) the ability to easily compare product offerings from multiple sellers; (3) transparency (consumers can leave positive or negative feedback about their experience); and (4) favorable pricing. Successful selling in these third-party online marketplaces depends on product innovation, and strong relationships with suppliers, both of which we believe to be our core competencies.

Adjusted EBITDA, which is not a Generally Accepted Accounting Principle measure, is presented because such measure is used by rating agencies, securities analysts, investors and other parties in evaluating the Company. It should not be considered, however, as an alternative to operating income, as an indicator of the Company's operating performance, or as an alternative to cash flows as measures 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. The table below reconciles net loss to Adjusted EBITDA for the periods presented (in thousands):

	Fifty-Three Weeks Ended January 3, 2015	Fifty-Two Weeks Ended December 28, 2013	Fifty-Two Weeks Ended December 29, 2012
Consolidated			
Net loss	$(7,086)	$(15,634)	$(35,978)
Interest expense, net	1,101	972	774
Income tax provision (benefit)	138	43	(937)
Amortization of intangibles	422	381	1,189
Depreciation and amortization	8,923	12,175	15,204
EBITDA	3,498	(2,063)	(19,748)
Impairment loss on goodwill	—	—	18,854
Impairment loss on property and equipment	—	4,832	1,960
Impairment loss on intangible assets	—	1,245	5,613
Share-based compensation	2,371	1,263	1,673
Loss on debt extinguishment	—	—	360
Legal costs related to intellectual property rights	—	—	67
Inventory write-down related to Carson closure [2]	897	—	—
Restructuring costs [1]	1,137	723	640
Adjusted EBITDA	7,903	6,000	9,419
Add: AutoMD net loss	2,151	1,990	2,322
Less: AutoMD depreciation and amortization	(1,693)	(1,588)	(1,056)
Adjusted EBITDA attributable to Base USAP	$8,361	$6,402	$10,685

(1) We incurred restructuring costs related to our initiatives to reduce labor costs and improve operating efficiencies in response to the challenges in the marketplace and general market conditions. Refer to "Note 12 – Restructuring Costs" of our Notes to Consolidated Financial Statements for additional details.

(2) As a result of the closure of the Carson warehouse, the Company expects that the remaining warehouses may reach capacity constraints when inventory levels peak in late winter/early spring. To mitigate this risk, the Company has reduced the sales price of certain inventory and incurred lower of cost or market adjustments in an effort to reduce inventory levels. Additional charges were incurred related to inventory that was not deemed economical to transfer to the remaining warehouses. Refer to "Note 12 – Restructuring Costs" of our Notes to Consolidated Financial Statements for additional details.

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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, which includes mobile based sales, and online marketplaces, including 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 auction websites, where we sell through auctions as well as through storefronts that we maintain on third-party owned websites. We sell 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 the distribution of our Kool-Vue™ mirror line to auto parts distributors nationwide. We also serve consumers by operating a retail outlet store in LaSalle, Illinois.

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 ASC 350 Intangibles – Goodwill and Other, and long-lived assets, including intangible assets subject to amortization, in accordance with ASC 360 Property, Plant and Equipment.

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.

Segment Data

The Company operates in two reportable segments identified as Base USAP, which is the core auto parts business, and AutoMD, an online automotive repair source of which the Company is a majority stockholder. Segment

information is prepared on the same basis that our chief executive officer, who is our chief operating decision maker, manages the segments, evaluates financial results, and makes key operating decisions. Management evaluates the performance of its operating segments based on net sales, gross profit and loss from operations. The accounting policies of the operating segments are the same as those described in "Note 1 - Summary of Significant Accounting Policies" of our Notes to Consolidated Financial Statements. Operating income represents earnings before other income, interest expense and income taxes. The identifiable assets by segment disclosed in this note are those assets specifically identifiable within each segment.

Summarized segment information for our continuing operations from the two reportable segments for the periods presented is as follows (in thousands):

	Base USAP	AutoMD	Consolidated
Fiscal year ended January 3, 2015			
Net sales	$283,211	$297	$283,508
Gross profit	78,153	297	78,450
Operating costs (1)	81,887	2,475	84,362
Loss from operations	(3,734)	(2,178)	(5,912)
Capital expenditures	4,237	1,319	5,556
Depreciation and amortization	7,230	1,693	8,923
Total assets, net of accumulated depreciation	$74,414	$8,493	$82,907
Fiscal year ended December 28, 2013			
Net sales	254,422	331	254,753
Gross profit	73,802	331	74,133
Operating costs (1)	86,579	2,321	88,900
Loss from operations	(12,777)	(1,990)	(14,767)
Capital expenditures	6,297	2,028	8,325
Depreciation and amortization	10,676	1,499	12,175
Total assets, net of accumulated depreciation	67,039	2,143	69,182
Fiscal year ended December 29, 2012			
Net sales	$303,667	$350	$304,017
Gross profit	91,288	350	91,638
Operating costs (1)	125,048	2,380	127,428
Loss from operations	(33,760)	(2,030)	(35,790)
Capital expenditures	8,547	1,608	10,155
Depreciation and amortization	13,475	1,729	15,204
Total assets, net of accumulated depreciation	86,818	2,059	88,877

(1) Operating costs for AutoMD primarily consist of depreciation on fixed assets and personnel costs.

Results of 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					
	January 3, 2015		December 28, 2013		December 29, 2012	
Net sales	100.0	%	100.0	%	100.0	%
Cost of sales	72.3		70.9		69.9	
Gross profit	27.7		29.1		30.1	
Operating expenses:						
Marketing	14.8		16.1		16.9	
General and administrative	5.9		6.9		6.5	
Fulfillment	7.2		7.3		7.3	
Technology	1.7		2.0		2.1	
Amortization of intangible assets	0.1		0.2		0.4	
Impairment loss on goodwill	—		—		6.2	
Impairment loss on property and equipment	—		1.9		0.6	
Impairment loss on intangible assets	—		0.5		1.9	
Total operating expenses	29.7		34.9		41.9	
Loss from operations	(2.0	)	(5.8	)	(11.8	)
Other income (expense):						
Other income, net	—		0.1		—	
Interest expense	(0.4	)	(0.4	)	(0.2	)
Loss on debt extinguishment	—		—		(0.1	)
Total other expense	(0.4	)	(0.3	)	(0.3	)
Loss before income taxes	(2.4	)	(6.1	)	(12.1	)
Income tax (benefit) provision	—		—		(0.3	)
Net loss	(2.4	)%	(6.1	)%	(11.8	)%

Fifty-Three Weeks Ended January 3, 2015 Compared to the Fifty-Two Weeks Ended December 28, 2013

Net Sales and Gross Margin

	Fiscal Year Ended						
	January 3, 2015		December 28, 2013		$ Change	% Change	
	(in thousands)						
Net sales	$283,508		$254,753		$28,755	11.3	%
Cost of sales	205,058		180,620		24,438	13.5	%
Gross profit	$78,450		$74,133		$4,317	5.8	%
Gross margin	27.7	%	29.1	%		(1.4	)%

Net sales increased $28,755, or 11.3%, for fiscal year 2014 compared to fiscal year 2013. Our net sales consisted of online sales, which included mobile based online sales, representing 90.7% of the total for fiscal year 2014 (compared to 90.0% in fiscal year 2013), and offline sales, representing 9.3% of the total for fiscal year 2014 (compared to 10.0% in fiscal year 2013). The net sales increase was due to an increase of $27,764, or 12.1%, in online sales and a $992, or 3.9%, increase in offline sales. Online sales increased primarily due to a 14.1% increase in number of orders.

Gross profit increased $4,317, or 5.8%, in fiscal year 2014 compared to fiscal year 2013. Gross margin decreased 1.4% to 27.7% in fiscal year 2014 compared to 29.1% in fiscal year 2013. Gross margin primarily decreased in fiscal year 2014 compared to fiscal year 2013 due to reduced margins from online sales. Our gross margins were negatively impacted by the factors described in further detail under “Executive Summary” above.

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Marketing Expense

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
Marketing expense	$42,008	$41,045	$963	2.3 %
Percent of net sales	14.8 %	16.1 %		(1.3)%

Total marketing expense increased $963, or 2.3%, for fiscal year 2014 compared to fiscal year 2013 but declined as a percent of sales by 130 basis points due to more efficient marketing spend in fiscal year 2014. Online advertising expense, which includes catalog costs, was $18,485, or 7.2%, of online sales for fiscal year 2014, compared to $16,619, or 7.2%, of online sales for fiscal year 2013. Online advertising expense increased primarily due to increased online e-commerce advertising and non-catalog advertising costs of $1,608. Marketing expense, excluding online advertising, was $23,523, or 8.3%, of net sales for fiscal year 2014, compared to $24,426, or 9.6%, of net sales for fiscal year 2013. Marketing expenses, excluding online advertising, decreased primarily due to lower product management wages and depreciation and amortization expense.

General and Administrative Expense

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
General and administrative expense	$16,701	$17,567	$(866)	(4.9)%
Percent of net sales	5.9 %	6.9 %		(1.0)%

General and administrative expense decreased $866, or 4.9%, for fiscal year 2014 compared to fiscal year 2013. The decrease for fiscal year 2014 as compared to fiscal year 2013 was primarily due to lower wages and overhead. The decrease in general and administrative expense was partially offset by greater merchant processing fees resulting from increased online sales during 2014.

Fulfillment Expense

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
Fulfillment expense	$20,368	$18,702	$1,666	8.9 %
Percent of net sales	7.2 %	7.3 %		(0.1)

Fulfillment expense increased $1,666, or 8.9%, for fiscal year 2014 compared to fiscal year 2013 and declined as a percent of sales due to improving sales volume during 2014, which led to increased shipping costs and warehouse wages. Additionally, we incurred severance costs of $414 and labor related and other restructuring charges of approximately $145 associated with the closure of our Carson warehouse in 2014. The increase in fulfillment expense was partially offset by lower depreciation and amortization expense because of certain assets that were fully depreciated after the third quarter of 2013.

Technology Expense

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
Technology expense	$4,863	$5,128	$(265)	(5.2)%
Percent of net sales	1.7%	2.0%		(0.3)%

Technology expense decreased $265, or 5.2%, for fiscal year 2014 compared to fiscal year 2013. The decrease was primarily due to lower telephone costs and computer support costs incurred in fiscal year 2014 compared to the fiscal year 2013.

Amortization of Intangible Assets

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
Amortization of intangible assets	$422	$381	$41	10.8%
Percent of net sales	0.1%	0.2%		(0.1)%

Amortization of intangibles increased by $41, or 10.8%, for fiscal year 2014 compared to fiscal year 2013. The increase was primarily due to the purchase of intangible assets during fiscal 2014.

Impairment Loss on Property and Equipment

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
Impairment loss on property and equipment	$—	$4,832	$(4,832)	(100.0)%
Percent of net sales	—%	1.9%		(1.9)%

Impairment loss on property and equipment consists of a non-cash impairment charge during fiscal year 2013 for the excess of the carrying value over the fair value of internally developed software of $4,832. During fiscal 2014 there were no impairment losses on property and equipment. See further detail in “Note 1- Summary of Significant Accounting Policies and Nature of Operations”, “Note 3 – Fair Value Measurements” and “Note 4- Property and Equipment, Net” of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report and under “Critical Accounting Policies and Estimates” section below.

Impairment Loss on Intangible Assets

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
Impairment loss on intangible assets	$—	$1,245	$(1,245)	(100.0)%
Percent of net sales	—%	0.5%		(0.5)%

Impairment loss on intangible assets consists of a non-cash impairment charge during fiscal 2013 related to certain intangible assets in the amount of $1,245. During fiscal 2014 there were no impairment losses on intangible assets. See further detail in 1- Summary of Significant Accounting Policies and Nature of Operations”, “Note 3 – Fair Value Measurements” and “Note 5- Intangible Assets, net” of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report and under “Critical Accounting Policies and Estimates” section below.

Total Other Expense, Net

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
Other expense, net	$(1,036)	$(824)	$212	25.7%
Percent of net sales	0.4%	0.3%		0.1

Total other expense, net increased $212, or 25.7%, for fiscal year 2014 compared to fiscal year 2013. Total other expense increased during fiscal year 2014 compared to fiscal year 2013 primarily due to increased interest expense. (See further detail in “Note 6 – Borrowings” of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report).

Income Tax Provision

	Fiscal Year Ended			
	January 3, 2015	December 28, 2013	$ Change	% Change
	(in thousands)			
Income tax provision	$138	$43	$95	220.9%
Percent of net sales	—%	—%		—%

We have a full valuation allowance against our net deferred income tax assets. In fiscal year 2014 and fiscal 2013, we recorded an addition of $2,366 and $6,621, respectively, to our income valuation allowance. Income tax expense in 2014 and 2013 relate primarily to deferred taxes related to earnings of our Philippines subsidiary (see below).

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

	Fiscal Year Ended	
	January 3, 2015	December 28, 2013
Income tax at U.S. federal statutory rate	$(2,362)	$(5,301)
Share-based compensation	33	43
State income tax, net of federal tax effect	(143)	(1,348)
Foreign tax	117	70
Other	127	(42)
Change in valuation allowance	2,366	6,621
Effective income tax provision	$138	$43

The Company’s effective tax rate was impacted by income taxes incurred in foreign jurisdictions. The favorable impact of foreign taxes for fiscal year 2013 is due in large part to a tax holiday in the Philippines, which was effective through September 2013. The Company does not expect to receive any future tax holidays. Accordingly, the Philippines tax liability has been computed assuming no tax holiday on the post expiration earnings. The impact of this tax holiday decreased foreign taxes by $39 for fiscal year 2013. The benefit of the tax holiday on net loss per share was immaterial for the related years.

Prior to 2012, the Company treated earnings of the foreign subsidiaries as permanently invested in that jurisdiction. As a result, no additional income tax withholding was provided on the possible future repatriation of these earnings to the parent company in prior years. During fiscal year 2012, based on current year operating and future cash flow needs the Company decided that it could no longer represent that these funds would be indefinitely reinvested in the foreign jurisdictions but that such funds may be needed for general corporate purposes. As a result, the Company recorded future withholding taxes which would be due if the funds are required to be repatriated. The Company intends to

continue to pursue all reasonable means to increase its investment in the foreign jurisdictions as dictated by future growth in general business activities or as allowed by the foreign jurisdictions to avoid incurring the income tax withholding expense.

As of January 3, 2015, the Company had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters. At January 3, 2015, federal and state net operating loss ("NOL") carryforwards were $57,552 and

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$73,610, respectively. Federal NOL carryforwards of $2,690 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. Additionally, the tax benefit of $41 of the federal and state NOL carryforwards which was created by the exercise of stock options will be credited to additional paid-in-capital once recognized. Federal NOL carryforwards begin to expire in 2029, while state NOL carryforwards begin to expire in 2015.
As a result of the October 8, 2014 sale transaction, AutoMD will no longer be included in the consolidated state and federal tax filings of the Company. For the fiscal year ended January 3, 2015, the effective tax rate for AutoMD was (0.2)%. AutoMD's effective tax rate differs from the U.S. federal statutory rate primarily as a result of the recording of a $195 valuation allowance against the Company's net deferred tax assets. At January 3, 2015, AutoMD had NOLs of approximately $2,582 for federal tax purposes that begin to expire in 2031. These amounts are included in the consolidated figures presented above. AutoMD state NOLs were not material as of January 3, 2015.
Fifty-Two Weeks Ended December 28, 2013 Compared to the Fifty-Two Weeks Ended December 29, 2012
Net Sales and Gross Margin

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Net sales	$254,753	$304,017	$(49,264)	(16.2)%
Cost of sales	180,620	212,379	(31,759)	(15.0)%
Gross profit	$74,133	$91,638	$(17,505)	(19.1)%
Gross margin	29.1%	30.1%		(1.0)%

Net sales decreased $49,264, or 16.2%, for fiscal year 2013 compared to fiscal year 2012. Our net sales consisted of online sales, representing 90.0% of the total for fiscal year 2013 (compared to 91.8% in fiscal year 2012), and offline sales, representing 10.0% of the total for fiscal year 2013 (compared to 8.2% in fiscal year 2012). The net sales decrease was due to a decline of $49,705, or 17.8%, in online sales, partially offset by a $440, or 2.0%, increase in offline sales. Included in the net sales decrease of 16.2% in fiscal year 2013 is a decrease in net sales channels, excluding websites we retired in 2013, of 8.5%. Online sales decreased primarily due to a 21% reduction in unique visitors, a 20% reduction in total number of orders and a decline in average order value by 2%. The overall decrease in unique visitors was due to a reduction in customer traffic as a result of changes search engines made the algorithms that search engines use to optimize their search results.
Gross profit decreased $17,505, or 19.1%, in fiscal year 2013 compared to fiscal year 2012. Gross margin rate decreased 1.0% to 29.1% in fiscal year 2013 compared to 30.1% in fiscal year 2012. Gross margin decreased in fiscal year 2013 compared to fiscal year 2012 due to reduced margins from online sales partially offset by higher margins on offline sales.
Marketing Expense

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Marketing expense	$41,045	$51,416	$(10,371)	(20.2)%
Percent of net sales	16.1%	16.9%		(0.8)%

Total marketing expense decreased $10,371, or 20.2%, for fiscal year 2013 compared to fiscal year 2012. Online advertising expense, which includes catalog costs, was $16,619, or 7.2%, of online sales for fiscal year 2013, compared to $21,067, or 7.5%, of online sales for fiscal year 2012. Online advertising expense decreased primarily due to reduced online e-commerce advertising and non-catalog advertising costs of $4,448. Marketing expense, excluding online advertising, was $24,425, or 9.6%, of net sales for fiscal year 2013, compared to $30,348, or 10.0%, of net sales for fiscal year 2012. Marketing expenses, excluding online advertising, decreased primarily due to lower

call center wages, marketing overhead, depreciation and amortization expense and stock-based compensation.

General and Administrative Expense

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
General and administrative expense	$17,567	$19,857	$(2,290)	(11.5)%
Percent of net sales	6.9%	6.5%		0.4%

General and administrative expense decreased $2,290, or 11.5%, for fiscal year 2013 compared to fiscal year 2012. The decrease for fiscal year 2013 as compared to fiscal year 2012 was primarily due to reduced merchant processing fees resulting from lower online sales and lower overhead.

Fulfillment Expense

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Fulfillment expense	$18,702	$22,265	$(3,563)	(16.0)%
Percent of net sales	7.3%	7.3%		—%

Fulfillment expense decreased $3,563, or 16.0%, for fiscal year 2013 compared to fiscal year 2012. The decrease was primarily due to lower shipments and revenues, lower depreciation and amortization expense because of certain assets that were fully depreciated after the third quarter of 2012 and lower warehouse wages and salaries. Also, severance charges were lower in fiscal year 2013 compared to the prior fiscal year.

Technology Expense

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Technology expense	$5,128	$6,274	$(1,146)	(18.3)%
Percent of net sales	2.0%	2.1%		(0.1)%

Technology expense decreased $1,146, or 18.3%, for fiscal year 2013 compared to fiscal year 2012. Technology expense as a percentage of net sales remained consistent compared to the prior year. The decrease was primarily due to lower telephone expenses incurred in fiscal year 2013 compared to fiscal year 2012.

Amortization of Intangible Assets

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Amortization of intangible assets	$381	$1,189	$(808)	(68.0)%
Percent of net sales	0.1%	0.4%		(0.2)%

Amortization of intangible assets decreased by $808, or 68.0%, for fiscal year 2013 compared to fiscal year 2012. The decrease was primarily due to certain intangible assets that were impaired in the fourth quarter of 2012. We recorded impairment losses on intangible assets subject to amortization of $1,189, which reduced the net carrying amount of those intangible assets to zero in the fourth quarter of 2012.

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Impairment Loss on Goodwill

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Impairment loss on goodwill	$—	$18,854	$(18,854)	(100.0)%
Percent of net sales	—%	6.2%		(6.2)%

Impairment loss on goodwill consists of a non-cash impairment charge during the fourth quarter of 2012 for the excess of the carrying value over the implied fair value of goodwill in the amount of $18,854. See further detail in "Note 1- Summary of Significant Accounting Policies and Nature of Operations" , "Note 3 – Fair Value Measurements" and "Note 5- Intangible Assets, net" of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report and under "Critical Accounting Policies and Estimates" section below.

Impairment Loss on Property and Equipment

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Impairment loss on property and equipment	$4,832	$1,960	$2,872	146.5%
Percent of net sales	1.9%	0.6%		1.3%

Impairment loss on property and equipment consists of non-cash impairment charge during fiscal year 2013 for the excess of the carrying value over the fair value of internally developed software of $4,832. Impairment loss on property and equipment consists of a non-cash impairment charge during fiscal year 2012 for the excess of the carrying value over the fair value of a building and internally developed website and software development costs of $1,000 and $960, respectively. See further detail in "Note 1- Summary of Significant Accounting Policies and Nature of Operations" , "Note 3 – Fair Value Measurements" and "Note 4- Property and Equipment, Net" of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report and under "Critical Accounting Policies and Estimates" section below.

Impairment Loss on Intangible Assets

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Impairment loss on intangible assets	$1,245	$5,613	$(4,368)	(77.8)%
Percent of net sales	0.5%	1.9%		(1.4)%

Impairment loss on intangible assets consists of a non-cash impairment charge during fiscal year 2013 related to product design intellectual property and certain domain and trade names of $1,245. Impairment loss on intangible assets consists of non-cash impairment charge during 2012 related to certain intangible assets in the amount of $5,613. See further detail in 1- Summary of Significant Accounting Policies and Nature of Operations", "Note 3 – Fair Value Measurements" and "Note 5- Intangible Assets, net" of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this report and under "Critical Accounting Policies and Estimates" section below.

Total Other Expense, Net

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Other expense, net	$824	$1,125	$(301)	(26.8)%
Percent of net sales	0.3%	0.3%		—%

Total other expense, net decreased $301, or 26.8%, for fiscal year 2013 compared to fiscal year 2012. Total other expense decreased during fiscal year 2013 compared to fiscal year 2012 primarily due to loss on debt extinguishment of $360 during the second quarter of 2012, partially offset by higher interest expense. (See further detail in " Note 6 – Borrowings" of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report).

Income Tax Benefit

	Fiscal Year Ended			
	December 28, 2013	December 29, 2012	$ Change	% Change
	(in thousands)			
Income tax provision (benefit)	$43	$(937)	$980	(104.6)%
Percent of net sales	—%	(0.3)%		0.3%

The Company has a full valuation allowance against its net deferred income tax assets. In fiscal year 2013 and fiscal 2012, the Company recorded an addition of $6,621 and $14,080, respectively, to its valuation allowance. Income tax expense in 2013 related primarily to deferred taxes related to the earnings of its Philippines subsidiary. In 2012, the effective income tax benefit stems primarily from the reversal of the net deferred income tax liability resulting from the write down of goodwill and other intangible assets, and the impact of the Philippine tax holiday, partially offset by the accrual of withholding taxes related to potential repatriation of earnings in the Philippines. The Company's Philippine tax holiday was effective through September 2013.
As of December 28, 2013, the Company had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters.

Liquidity and Capital Resources
Sources of Liquidity
During the fifty-three weeks ended January 3, 2015, we primarily funded our operations with cash and cash equivalents generated from operations as well as through borrowing under our credit facility. We had cash and cash equivalents of $7,653 as of January 3, 2015, representing a $6,835 increase from $818 of cash and cash equivalents as of December 28, 2013. The cash increase was primarily due to the $7,000 AutoMD cash investment from third party investors reducing the Company's ownership interest to 64.1%. Based on our current operating plan, we believe that our existing cash and cash equivalents, investments, cash flows from operations and debt financing will be sufficient to finance our operational cash needs through at least the next twelve months (see "Debt and Available Borrowing Resources" below).

As of January 3, 2015, our credit facility provided for a revolving commitment of up to $40,000 subject to a borrowing base derived from certain of our receivables, inventory and property and equipment (see "Debt and Available Borrowing Resources" below).
In August 2014, we filed a shelf registration statement covering the offer and sale of up to $100,000 of common stock with the SEC. The shelf registration was declared effective by the SEC on August 20, 2014. The terms of any offering under our shelf registration statement will be determined at the time of the offering and disclosed in a prospectus supplement filed with the SEC. The shelf registration expires on August 20, 2017. Refer to "Note 7 – Stockholders'

Equity and Share-Based Compensation " of our Notes to Consolidated Financial Statements included in Part I, Item 1 of this report for additional details.

On October 8, 2014, AutoMD entered into a common stock purchase agreement to sell seven million shares of AutoMD common stock at a purchase price of $1.00 per share to third party investors reducing the Company's ownership interest in AutoMD to 64.1%. The proceeds from the sale of AutoMD common stock will be used to fund the operating activities of AutoMD.

Working Capital

As of January 3, 2015 and December 28, 2013, our working capital was $14,645 and $9,761, respectively. Our revolving loan does not require principal payments, however it is classified as current due to certain U.S. GAAP requirements (see "Debt and Available Borrowing Resources" below for further details). The historical seasonality in our business during the year can cause cash and cash equivalents, inventory and accounts payable to fluctuate, resulting in changes in our working capital.

Cash Flows

The following table summarizes the key cash flow metrics from our consolidated statements of cash flows for fiscal year 2014, 2013 and 2012, respectively (in thousands):

	Fiscal Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Net cash (used in) provided by operating activities	$1,243	$867	$(400)
Net cash used in investing activities	(5,730)	(8,339)	(7,178)
Net cash (used in) provided by financing activities	11,311	7,219	(1,736)
Effect of exchange rate changes on cash	11	41	9
Net increase (decrease) in cash and cash equivalents	$6,835	$(212)	$(9,305)

Operating Activities

Cash provided by operating activities is primarily comprised of net loss, adjusted for non-cash activities such as depreciation and amortization expense, amortization of intangible assets, impairment losses and share-based compensation expense. These non-cash adjustments represent charges reflected in net loss 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 loss adjusted for non-cash adjustments to operating activities was $4,689 (adjusted for non-cash charges primarily consisting of depreciation and amortization expense of $8,923) for the period ended January 3, 2015 compared to $4,398 (adjusted for non-cash charges primarily consisting of impairment losses of $6,077 and depreciation and amortization expense of $12,175) for the period ended December 28, 2013.

Net loss adjusted for non-cash adjustments to operating activities was $4,398 (adjusted for non-cash charges primarily consisting of impairment losses of $6,077 and depreciation and amortization expense of $12,175) for the period ended December 28, 2013 compared to $8,161 (adjusted for non-cash charges primarily consisting of impairment losses of $26,427 and depreciation and amortization expense of $15,204) for the period ended December 29, 2012. 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 $3,804 at January 3, 2015 from $5,029 at December 28, 2013, resulting in a decrease in operating assets and reflecting a cash inflow of $1,225 for the fiscal year ended January 3, 2015. Accounts receivable decreased primarily due to the closure of the Carson warehouse and the related accounts receivable associated with offline sales processed through the Carson warehouse. Accounts receivable decreased to $5,029 at December 28, 2013 from $7,431 at December 29, 2012, resulting in a decrease in operating assets and reflecting a cash inflow of $2,403 for the fiscal year ended December 28, 2013. Accounts receivable decreased primarily due to lower revenues.
- Inventory increased to $48,362 at January 3, 2015 from $36,986 at December 28, 2013, resulting in an increase in operating assets and reflecting a cash outflow of $11,376 for the fiscal year ended January 3, 2015. Inventory decreased to $36,986 at December 28, 2013 from $42,727 at December 29, 2012, resulting in a decrease in operating assets and reflecting a cash inflow of $5,740 for the fiscal year ended December 28, 2013.

- Accounts payable and accrued expenses increased to $33,109 at January 3, 2015 compared to $25,628 at December 28, 2013 resulting in an increase in operating liabilities and reflecting a cash inflow of $7,481 for

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the fiscal year ended January 3, 2015. Accounts payable and accrued expenses increased primarily due to the increase in accounts payable of $5,693, a $733 increase in accrued marketing and a $602 increase in payroll related accruals. Accounts payable and accrued expenses decreased to $25,628 at December 28, 2013 compared to $38,510 at December 29, 2012 resulting in a decrease in operating liabilities and reflecting a cash outflow of $11,833 for the fiscal year ended December 28, 2013 and unpaid accruals for asset purchases and property acquired under capital leases of $1,067. Accounts payable and accrued expenses decreased primarily due to the decrease in accounts payable of $8,356.

- Other current liabilities decreased to $3,505 at January 3, 2015 compared to $3,682 at December 28, 2013, resulting in a decrease in operating liabilities and reflecting a cash outflow of $177 for the fiscal year ended January 3, 2015. Other current liabilities decreased due to decreases in deferred rent, deferred revenues and customer deposits. Other current liabilities decreased to $3,682 at December 28, 2013 compared to $4,738 at December 29, 2012, resulting in a decrease in operating liabilities and reflecting a cash outflow of $1,056 for the fiscal year ended December 28, 2013. Other current liabilities decreased due to decreases in sales returns deferred revenues and customer deposits.

Investing Activities

For the fiscal years ended January 3, 2015 and December 28, 2013, net cash used in investing activities was primarily the result of increases in property and equipment ($5,556 and $8,325, 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. We expect our capital expenditures to be flat or slightly higher in fiscal 2015 compared to fiscal 2014.

For the fiscal year ended December 29, 2012, net cash used in investing activities was primarily the result of increases in property and equipment of $10,155, partially offset from net proceeds received from the sales of our investments of $3,171. Property and equipment is primarily internally developed software.

Financing Activities

For the fiscal year ended January 3, 2015, net cash provided by financing activities was primarily due to gross proceeds of $7,000 received from the sale of 35.9% of AutoMD's outstanding common stock and the net draws made on debt, totaling $4,248. For the fiscal year ended December 28, 2013, net cash provided by financing activities was primarily due to gross proceeds received from the issuance of Series A Preferred of $6,017 and common stock of $2,235, and proceeds from the sale leaseback of our LaSalle, Illinois facility for $9,584, partially offset by the net payments made on debt, totaling $9,447 (see further discussion in “Debt and Available Borrowing Resources” below).

For the fiscal year ended December 29, 2012, net cash used in financing activities was primarily the result of payments made on debt, totaling $28,384, which included the payoff of our previous term loan balance of $17,875 and payments on our new revolving loan of $10,509, partially offset by the proceeds received from our revolving loan of $26,731.

Debt and Available Borrowing Resources

Total debt (primarily comprised of a revolving loan payable of $11,022, discussed further below, and capital leases of $9,539) was $20,561 as of January 3, 2015, compared to $16,545 (primarily comprised of a revolving loan payable of $6,774, discussed further below, and capital leases of $9,771) as of December 28, 2013.

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 $25,000, which is subject to a borrowing base derived from certain receivables, inventory and property and equipment. Upon satisfaction of certain conditions, the Company has the right to increase the revolving commitment to up to $40,000. The Company, to date, has not requested any such increases. The credit facility matures on April 26, 2017.

On August 4, 2014, the Company, certain of its domestic subsidiaries and JPMorgan entered into a Fourth Amended Credit Agreement amending the Credit Agreement to, among other things, amend certain definitions to allow for additional add-backs to adjusted EBITDA for fiscal quarters ended June 28, 2014 and September 27, 2014.

On October 8, 2014, the Company, certain of its domestic subsidiaries and JPMorgan entered into a Fifth Amendment to Credit Agreement and First Amendment to Pledge and Security Agreement, 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, JPMorgan increased its revolving commitment from $20,000 to $25,000, which is subject to a borrowing base derived from certain receivables, inventory, property and pledged cash. In addition, the Company's ability to

perform certain contingent obligations set forth in the documents executed in connection with the Purchase Agreement is dependent on the Company satisfying certain contractual and financial tests, including, without limitation, (i) with respect to the purchase of two million shares of AutoMD common stock described above, the Company having excess availability to borrow under the Credit Agreement of at least $4 million and the satisfaction of a minimum fixed charge coverage ratio of 1.25:1.0, (ii) with respect to the reimbursement of certain intellectual property litigation expenses incurred by AutoMD, which the Company could be required to do for a period of three years, the Company having excess availability to borrow under the credit agreement of at least $4 million, and (iii) with respect to the Company electing to purchase AutoMD common stock in connection with certain transfers not permitted under an investor rights agreement entered into by the Company or AutoMD electing to exercise its option to repurchase shares of its common stock under specific circumstances as contemplated by such investor rights agreement, the Company having excess availability to borrow under the credit agreement of at least $6 million and the satisfaction of a minimum fixed charge coverage ratio of 1.25:1.0. In addition, certain definitions were amended to allow for additional add-backs to adjusted EBITDA for fiscal quarters ended September 27, 2014 and January 3, 2015.
The Company entered into a sixth amendment to the credit facility effective January 2, 2015. Pursuant to the Amendment, the following amendments to the Credit Agreement were made, among others:

- The net orderly liquidation value inventory advance rate was increased from 85% to 90%.
- 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 was reduced to less than $2,000 from less than $4,000 for the period commencing on any day that excess availability is less than $2,000 and continuing until excess availability has been greater than or equal to $2,000 for 45 consecutive days.
- The period during which the Company is subject to a fixed charge coverage ratio begins after June 30, 2016 and the applicable testing period would begin for a 5 month period ending May 31, 2016 or fiscal year 2016 rather than a trailing twelve month period. The full trailing twelve month testing period would begin with the twelve month period ending December 31, 2016.
- Certain negative covenants applicable to the Company and AutoMD, Inc. ("AutoMD"), a subsidiary of the Company, related to certain contractual and financial tests to permit the Company and AutoMD to consummate certain obligations set forth in the agreements entered into by the Company and AutoMD on October 8, 2014 (the "Financing Documents") in connection with the sale of AutoMD common stock to certain investors (the "AutoMD Financing") have been revised where the availability requirements are no longer applicable until after June 30, 2016 and further revised reducing the availability requirement to $2,000 before and after giving effect to the consummation of such obligations. A summary of the Financing Documents and the AutoMD Financing were disclosed by the Company in a Current Report on Form 8-K filed with the Securities and Exchange Commission on October 9, 2014.
- The trigger, requiring the Company to provide certain reports under the Credit Agreement, relating to excess availability under the revolving commitment under the Credit Agreement, has been reduced to less than $4,000 from less than $6,000 and continuing until excess availability has been greater than or equal to $4,000 for 45 consecutive days.

Loans drawn under the Credit Facility bear interest, at the Company's option, at a per annum rate equal to either (a) one month LIBOR plus an applicable margin of 2.25%, or (b) an "alternate base rate" plus an applicable margin of 0.25%. Subsequent to June 30, 2016, each applicable margin as set forth in the prior sentence is subject to reduction by up to 0.50% per annum based upon the Company's fixed charge coverage ratio. At January 3, 2015, the Company's LIBOR based interest rate was 2.44% (on $11,000 principal) and the Company's prime based rate was 3.50% (on $22 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 facility, 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 $4,000 at any time, as defined, and will continue until, during the preceding 45 consecutive days, no event of default existed and excess availability has been greater than $4,000 at

all times. The Company's excess availability was $8,329 at January 3, 2015. Also as of March 12, 2015, our excess availability was $7,189 and our outstanding revolving loan balance was $12,698. As of the date hereof, the cash dominion period has not been in effect; accordingly no principal payments are currently due.

Certain of the Company's 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 with payment of a premium equal to the aggregate revolving commitments multiplied by 0.5% if such termination of the commitments occurs prior to January 2, 2016. If prepayment occurs after January 2, 2016 no premium is required. 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 period during which the Company is subject to a fixed charge coverage ratio begins after June 30, 2016 and the applicable testing period would begin for a five month period ending May 31, 2016 or fiscal year 2016 rather than a trailing twelve month period. The full trailing twelve month testing period would begin with the twelve month period ending December 31, 2016. During the period when the Company is not subject to a fixed charge coverage ratio an “Availability Block” (as defined under the Credit Agreement) of $2,000 will be in effect, and thereafter the “Availability Block” will be eliminated. Beginning July 1, 2016, in the event that “excess availability” (as defined under the Credit Agreement) is less than $2,000, the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0. 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 January 3, 2015, 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 additional 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.

As of January 3, 2015, the Company had total capital leases payable of $9,539. The present value of the net minimum payments on capital leases as of January 3, 2015 is as follows:

Total minimum lease payments	$18,520	
Less amount representing interest	(8,981	)
Present value of net minimum lease payments	9,539	
Current portion of capital leases payable	269	
Capital leases payable, net of current portion	$9,270	

See additional information in “Note 6 – 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 additional assets and seek additional debt or equity financing in the future. We may need to issue additional common stock under our shelf registration, discussed above. 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 we are not able to raise adequate additional financing or proceeds from additional 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.

Contractual Obligations

The following table sets forth our contractual cash obligations and commercial commitments as of January 3, 2015:

	Payment Due By Period (in thousands)				
Contractual Obligations:	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Principal payments on revolving loan payable (1)	$11,022	$—	$11,022	$—	$—
Interest payments on revolving loan payable (2)	628	271	357		—
Operating lease obligations (3)	2,065	1,279	786	—	—
Capital lease obligations (4)	18,520	1,009	1,877	1,843	13,791

(1) Amounts represent the expected principal cash payments relating to our debt and do not include any fair value adjustments or discounts and premiums. Our outstanding debt is comprised of a revolving loan which currently has no principal payment requirements, and matures in April 2017. The principal outstanding balance at January 3, 2015 is presumed to be the amount due in April 2017. See additional information in "Liquidity and Capital Resources – Debt and Available Borrowing Resources" above.

(2) Amounts represent the expected interest cash payments relating to our revolving loan balance at January 3, 2015. The principal outstanding balance and the interest rates prevalent at January 3, 2015 were used to calculate the expected future interest payments.

(3) Commitments under operating leases relate primarily to our leases on our principal facility in Carson, California, our distribution centers in Chesapeake, Virginia and La Salle, Illinois, and our call center in the Philippines.

(4) Commitments under capital leases include the lease for our LaSalle distribution facility and equipment lease agreements which include interest.

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 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

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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 four revenue recognition criteria are met: persuasive evidence of an arrangement exists, both title and risk of loss or damage have transferred, the selling price is fixed or determinable, and collectability is reasonably assured. The Company retains the risk of loss or damage during transit, therefore, revenue from product sales is recognized at the delivery date to 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 evaluate the criteria of ASC 605-45 Revenue Recognition Principal Agent Considerations in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when the Company is the primary party obligated in a transaction, the Company is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at gross.

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

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.

Fair Value Measurements. We account for fair value measurements in accordance with ASC Topic 820 Fair Value Measurements and Disclosures ("ASC 820"), which defines fair value, provides a framework for measuring fair value and provides the disclosure requirements for fair value measurements. ASC 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 - defined as observable inputs such as quoted prices in active markets; Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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 2014. 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 market 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.
Long-Lived Assets and Intangibles. We acquire tangible and intangible assets in the normal course of business. We evaluate the recoverability of the carrying amount of these long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable in accordance with ASC Topic 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 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. We continually use 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. The reasonableness of our judgments could significantly affect the carrying value of our long-lived assets. As of January 3, 2015, the Company identified adverse events related to the Company's financial performance, including a downward trend in gross margin, and continued operating losses, which indicated property and equipment and intangibles subject to amortization may not be recoverable. The Company performed impairment testing under the provisions of ASC 360 and after performing step 1, the Company determined property and equipment was not impaired as of January 3, 2015. For fiscal year 2013, we recorded impairment charges on property and equipment and intangibles subject to amortization of $4,832 and $1,245, respectively. For fiscal year 2012, we recorded impairment charges on property and equipment and intangibles subject to amortization of $1,960 and $5,613, respectively. Any further reduction in the fair value of long-lived assets will result in additional impairment charges.
Goodwill and Indefinite-Lived Intangibles. We account for goodwill under the guidance set forth in ASC Topic 350-Intangibles – Goodwill and Other (“ASC 350”), which specifies that goodwill and indefinite-lived intangibles should not be amortized. We have historically evaluated goodwill and indefinite-lived intangibles for impairment on an annual basis or more frequently if events or circumstances occur that would indicate a reduction in fair value. The goodwill impairment test is a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount including goodwill. We estimate the fair value of the reporting unit based on the income approach, which utilizes discounted future cash flows. Assumptions critical to the fair value estimates under the discounted cash flow model include discount rates, cash flow projections, projected long-term growth rates and the determination of terminal values. The market approach is used as a test of reasonableness to corroborate the income approach. The market approach utilized market multiples of invested capital from publicly traded companies in similar lines of business. The market multiples from invested capital include revenues, total assets, book equity plus debt and EBITDA. In fiscal year 2012, we recorded impairment charges on goodwill of $18,854 and impairment charges on other indefinite-lived intangibles of $3,894. Subsequent to those write-downs, the carrying value of goodwill and indefinite-lived intangibles was zero.

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 carry forwards, 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 carryback or 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;
- Taxable income in prior carryback years; and
- 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. However, because a substantial portion of those cumulative losses relate to impairment of intangible assets and goodwill, those three-year cumulative results are adjusted for the effect of these items. 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. Due to our combined cumulative three-year adjusted loss position, it was determined that it was not more likely than not that we would realize our net deferred tax assets. As of December 29, 2012, the valuation allowance was $36,915, after recording an additional valuation allowance of $14,080 in fiscal year 2012. As of December 28, 2013, the valuation allowance was $43,509, after recording an additional valuation allowance of $6,621 in fiscal year 2013. As of January 3, 2015, the valuation allowance was $45,867, after recording an additional valuation allowance of $2,358 in fiscal year 2014.
If, in the future, we generate taxable income on a sustained basis in jurisdictions where we have recorded full valuation allowances, our conclusion regarding the need for full valuation allowances in these tax jurisdictions could change, resulting in the reversal of some or all of the valuation allowances. If our operations generate taxable income prior to reaching profitability on a sustained basis, we would reverse a portion of the valuation allowance related to the corresponding realized tax benefit for that period, without changing our conclusions on the need for a full valuation allowance against the remaining net deferred tax assets.
As of January 3, 2015, federal and state NOL carryforwards were $57,552 and $73,610, respectively. Federal NOL carryforwards of $2,690 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. Additionally, the tax benefit of $41 of the federal and state NOL carryforwards which was created by the exercise of stock options will be credited to additional paid-in-capital once recognized. Federal NOL carryforwards expire in 2029, while state NOL carryforwards begin to expire in 2015 The state NOL carryforwards expire in the respective tax years as follows (in thousands):

2015 - 2022	$40,553
2023 - 2032	33,057
	$73,610

As a result of the October 8, 2014 sale transaction, AutoMD will no longer be included in the consolidated state and federal tax filings of the Company. For the fiscal year ended January 3, 2015, the effective tax rate for AutoMD was (0.2)%. AutoMD's effective tax rate differs from the U.S. federal statutory rate primarily as a result of the recording of a $195 valuation allowance against the Company's net deferred tax assets. As of January 3, 2015, AutoMD had net operating loss carryforwards (NOLs) of approximately $2,582 for federal tax purposes that begin to expire in 2031. These amounts are included in the consolidated figures presented above. AutoMD state NOLs were not material as of January 3, 2015.

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 of being 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. As of January 3, 2015, we 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.

We are subject to U.S. federal income tax as well as income tax of foreign and state tax jurisdictions. During fiscal 2010, the Company was audited by the Internal Revenue Service for the year ended December 31, 2008. The audit was concluded with no change. The tax years 2010-2013 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 2011-2013 remain open. The Company does not anticipate a significant change to the amount of unrecognized tax benefits within the next twelve months.

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. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures significantly differ from those estimates. The Company considers many factors when estimating expected forfeitures, including employee class, economic environment, and historical experience.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk. Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial commodity market prices and rates. We are exposed to market risk primarily in the area of changes in U.S. interest rates and conditions in the credit markets. We also have some exposure related to foreign currency fluctuations. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We do not have any derivative financial instruments as of January 3, 2015. We attempt to increase the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities and mutual funds that hold debt securities.

Interest Rate Risk. Our investment securities generally consist of mutual funds. As of January 3, 2015, our investments were comprised of $62 of investments in mutual funds that primarily hold debt securities.

As of January 3, 2015, we had a balance of $11,022 outstanding under a revolving loan under our credit facility. The interest rate on this loan is computed based on a LIBOR and Prime loan rate, adjusted by features specified in our loan agreement. At our debt level as of January 3, 2015, a 100 basis point increase in interest rates would not materially affect our earnings and cash flows. If, however, we are unable to meet the covenants in our loan agreement, we would be required to renegotiate the terms of credit under the loan agreement, including the interest rate. There can be no assurance that any renegotiated terms of credit would not materially impact our earnings. At January 3, 2015, our LIBOR based interest rate was 2.44% per annum (on $11,000 principal) and our Prime based rate was 3.50% per annum (on $22 principal). Refer to additional discussion in Item 7, under the caption "Liquidity and Capital Resources – Debt and Available Borrowing Resources" and in "Note 6 – Borrowings" of the Notes to Consolidated Financial

Statements, included in Part IV, Item 15 of this report.
Foreign Currency Risk. Our purchases of auto parts from our Asian suppliers are denominated in U.S. dollars; however, a change in the foreign currency exchange rates could impact our product costs over time. Our financial reporting currency is the U.S. dollar and changes in exchange rates significantly affect our reported results and consolidated trends. For example, if the U.S. dollar weakens year-over-year relative to currencies in our international locations, our consolidated gross profit and operating expenses will be higher than if currencies had remained constant. Likewise, if the U.S. dollar strengthens year-over-year relative to currencies in our international locations, our consolidated gross profit and operating expenses will be lower than if currencies had remained constant. Our operating expenses in the Philippines are generally paid in Philippine Pesos, and as the exchange rate fluctuates, it adversely or favorably impacts our operating results. In light of the above, a fluctuation of 10% in the Peso/U.S. dollar exchange rate would have approximately a $410 impact on our Philippine operating expenses for the

fifty-three weeks ended January 3, 2015. During fiscal 2014 we hedged a portion of our forecasted foreign currency exposure associated with operating expenses incurred in the Philippines. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. As of January 3, 2015, we had no hedges in place. We are evaluating our options on how to manage this risk and considering various methods to mitigate such risk. Our Canadian website sales are denominated in Canadian dollars; however, fluctuations in exchange rates from these operations are only expected to have a nominal impact on our operating results due to the relatively small number of sales generated in Canada. We believe it is important to evaluate our operating results and growth rates before and after the effect of currency changes.

ITEM 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 January 3, 2015 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 January 3, 2015, 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, and were operating at the reasonable assurance level as of January 3, 2015.

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 January 3, 2015 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 ("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 2014.
(b) Identification of Executive Officers and Certain Significant Employees. The information under the caption "Executive Compensation and Other Information—Executive Officers," 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 2014.
(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 2014.
(d) Code of Ethics. The information under the caption "Corporate Governance – Code of Ethics and Business Conduct," 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 2014.
(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 2014.

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 2014.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
The information under the captions "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 2014.

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 2014.

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 2014.

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 Deloitte & Touche LLP, independent registered public accounting firm	F- 1
Consolidated Balance Sheets as of January 3, 2015 and December 28, 2013	F- 2
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Consolidated Statements of Stockholders' Equity for each of the three years in the period ended January 3, 2015	F- 4
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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*	Acquisition Agreement dated May 19, 2006 by and among U.S. Auto Parts Network, Inc. and Partsbin, Inc., on the one hand, and The Partsbin.com, Inc., All OEM Parts, Inc., Power Host, Inc., Auto Parts Web Solutions, Inc., Web Chat Solutions, Inc., Everything Internet, LLC, Richard E. Pine, Lowell E. Mann, Brian Tinari and Todd Daugherty, on the other hand
2.2	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)
4.1*	Specimen common stock certificate

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 forms of agreements

Exhibit No.	Description
10.6†*	Catalog License and Parts Purchase Agreement dated November 20, 2006 by and between U.S. Auto Parts Network, Inc. and WORLDPAC, Inc.
10.7+	Form of Indemnification Agreement for Officers and Directors (incorporated by reference to Exhibit 10.33 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2010)
10.8*	Deeds of Assignment and Declarations of Trust executed September 2006 regarding MBS Tek Corporation stock transfer.
10.9	Form of Suppliers' Agreement entered into between U.S. Auto Parts Network, Inc. and certain of its U.S. based suppliers and primary drop-ship vendors (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2007)
10.10	Employment Agreement dated February 14, 2014 between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 10.39 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2014)
10.11	Non-Qualified Stock Option Agreement dated October 15, 2007 between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.12	Non-Qualified Stock Option Agreement dated October 15, 2007 (performance grant) between U.S. Auto Parts Network, Inc. and Shane Evangelist (incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.13	2007 New Employee Incentive Plan (incorporated by reference to Exhibit 99.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2007)
10.14	Employment Agreement dated February 14, 2014, between the Company and Aaron Coleman (incorporated by reference to Exhibit 10.44 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2014)
10.15	Non-Qualified Stock Option Agreement, dated May 15, 2008, by and between the Company and Shane Evangelist (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 15, 2008)
10.16	Commercial Lease Agreement dated December 16, 2008 by and between U.S. Auto Parts Network, Inc. and Ashley Indian River, LLC (incorporated by reference to Exhibit 10.66 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 26, 2009)
10.17	Contract of lease dated January 7, 2010 by and between U.S. Autoparts Network Philippines Corporation and Robinsons Land Corporation (incorporated by reference to Exhibit 10.56 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2010)
10.18	

	Agreement of Sublease dated September 22, 2011 by and between the Company and Timec Company Inc. ((incorporated by reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q filed with the Securities Exchange and Commission on November 9, 2011)
10.19+	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)
10.20	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)
10.21	First Amended Credit Agreement, effective as of March 12, 2013, by and between U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.78 to the Annual Report on Form 10-K for the fiscal year ended December 29, 2012 filed with the Securities Exchange Commission on March 25, 2013)
10.22	Second Amended Credit Agreement, effective as of March 25, 2013, by and between U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to exhibit 10.79 to the Current Report on Form 8-k filed with the Securities and Exchange Commission on March 25, 2013)
10.23	Purchase and Sale Agreement dated April 17, 2013 by and among Whitney Automotive Group, Inc. and STORE Capital Acquisitions, LLC (incorporated by reference to the Current Report on Form 8-K filed on April 23, 2013)

Exhibit No.	Description
10.24	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)
10.25	Employment Agreement dated February 14, 2014 between the Company and Bryan P. Stevenson. (incorporated by reference to Exhibit 10.82 to the Current Report on Form 8-k filed with the Securities and Exchange Commission on February 18, 2014)
10.26	Form of Stock Unit Award Agreement (incorporated by reference to exhibit 10.835 to the Current Report on Form 8-k filed with the Securities and Exchange Commission on February 18, 2014)
10.27	Form of Stock Unit Award Agreement (incorporated by reference to exhibit 10.84 to the Current Report on Form 8-k filed with the Securities and Exchange Commission on February 18, 2014)
10.28	Third Amendment to Credit Agreement dated as of August 2, 2013 by and between U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to the Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2013)
10.29	Fourth Amendment to Credit Agreement dated August 4, 2014 by and between U.S. Auto Parts Network, Inc., certain of its wholly-owned domestic subsidiaries and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 5, 2014)
10.30	Common Stock Purchase Agreement, dated October 8, 2014, by and among AutoMD, Inc., U.S. Auto Parts Network, Inc., Muzzy-Lyon Auto Parts, Inc., Manheim Investments, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)
10.31	Investor Rights Agreement, dated October 8, 2014, by and among AutoMD, Inc., U.S. Auto Parts Network, Inc., Muzzy-Lyon Auto Parts, Inc., Manheim Investments, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)
10.32	Voting Agreement, dated October 8, 2014, by and among AutoMD, Inc., U.S. Auto Parts Network, Inc., Muzzy-Lyon Auto Parts, Inc., Manheim Investments, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)
10.33	Right of First Refusal and Co-Sale Agreement, dated October 8, 2014, by and among AutoMD, Inc., U.S. Auto Parts Network, Inc., Muzzy-Lyon Auto Parts, Inc., Manheim Investments, Inc., Oak Investment Partners XI, L.P. and the Sol Khazani Living Trust (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)

10.34	Fifth Amendment to Credit Agreement and First Amendment to Pledge and Security Agreement, dated October 8, 2014, by and among U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A (incorporated by reference to the Current Report on Form 8-K filed on October 9, 2014)
10.35	Sixth Amendment to Credit Agreement and First Amendment to Pledge and Security Agreement, dated January 2, 2015, by and among U.S. Auto Parts Network, Inc., certain of its domestic subsidiaries and JPMorgan Chase Bank, N.A (incorporated by reference to the Current Report on Form 8-K filed on January 5, 2015)
10.36	Board Candidate Agreement dated March 20, 2014 between the Company and Timothy Maguire and Maguire Asset Management LLC (incorporated by reference to the Current Report on Form 8-K filed on March 23, 2014)
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

Exhibit No.	Description
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

† U.S. Auto Parts Network, Inc. has been granted confidential treatment with respect to certain portions of this exhibit (indicated by asterisks), which have been separately filed with the Securities and Exchange Commission.

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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 19, 2015

U.S. AUTO PARTS NETWORK, INC.

By: /s/ Shane Evangelist
Shane Evangelist
Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned officers and directors of U.S. Auto Parts Network, Inc., do hereby constitute and appoint Shane Evangelist and Mike Yoshida, 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/ Shane Evangelist Shane Evangelist	Chief Executive Officer and Director (principal executive officer)	March 19, 2015
/s/ Mike Yoshida Mike Yoshida	Chief Financial Officer (principal financial and accounting officer)	March 19, 2015
/s/ Robert J. Majteles Robert J. Majteles	Chairman of the Board	March 19, 2015
/s/ Joshua L. Berman Joshua L. Berman	Director	March 19, 2015
/s/ Fredric W. Harman Fredric W. Harman	Director	March 19, 2015
/s/ Jay K. Greyson Jay K. Greyson	Director	March 19, 2015
/s/ Sol Khazani Sol Khazani	Director	March 19, 2015
/s/ Warren B. Phelps III Warren B. Phelps III	Director	March 19, 2015
/s/ Barbara Palmer	Director	March 19, 2015

Barbara Palmer

/s/ Bradley E. Wilson Bradley E. Wilson	Director	March 19, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of U.S. Auto Parts Network, Inc. and subsidiaries (the "Company") as of January 3, 2015 and December 28, 2013, and the related consolidated statements of operations and comprehensive operations, stockholders' equity, and cash flows for each of the three years in the period ended January 3, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of U.S. Auto Parts Network, Inc. and subsidiaries as of January 3, 2015 and December 28, 2013 and the results of their operations and their cash flows for each of the three years in the period ended January 3, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, CA
March 19, 2015

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

	January 3, 2015	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$7,653	$818
Short-term investments	62	47
Accounts receivable, net of allowances of $41 and $213 at January 3, 2015 and December 28, 2013, respectively	3,804	5,029
Inventory	48,362	36,986
Other current assets	2,669	3,234
Total current assets	62,550	46,114
Property and equipment, net	16,966	19,663
Intangible assets, net	1,707	1,601
Other non-current assets	1,684	1,804
Total assets	$82,907	$69,182
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$25,362	$19,669
Accrued expenses	7,747	5,959
Revolving loan payable	11,022	6,774
Current portion of capital leases payable	269	269
Other current liabilities	3,505	3,682
Total current liabilities	47,905	36,353
Capital leases payable, net of current portion	9,270	9,502
Deferred income taxes	1,618	335
Other non-current liabilities	1,891	2,126
Total liabilities	60,684	48,316
Commitments and contingencies		
Stockholders' equity:		
Series A convertible preferred stock, $0.001 par value; $1.45 per share liquidation value or aggregate of $6,017; 4,150 shares authorized; 4,150 and 4,150 shares issued and outstanding at January 3, 2015 and December 28, 2013, respectively	4	4
Common stock, $0.001 par value; 100,000 shares authorized; 33,624 and 33,352 shares issued and outstanding at January 3, 2015 and December 28, 2013, respectively	33	33
Additional paid-in-capital	174,369	168,693
Common stock dividend distributable on Series A convertible preferred stock	—	60
Accumulated other comprehensive income	360	446
Accumulated deficit	(155,489)	(148,370)
Total stockholders' equity	19,277	20,866
Noncontrolling interest	2,946	—
Total equity	22,223	20,866
Total liabilities and equity	$82,907	$69,182

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		
	January 3, 2015	December 28, 2013	December 29, 2012
Net sales	$283,508	$254,753	$304,017
Cost of sales [(1)]	205,058	180,620	212,379
Gross profit	78,450	74,133	91,638
Operating expenses:			
Marketing	42,008	41,045	51,416
General and administrative	16,701	17,567	19,857
Fulfillment	20,368	18,702	22,265
Technology	4,863	5,128	6,274
Amortization of intangible assets	422	381	1,189
Impairment loss on goodwill	—	—	18,854
Impairment loss on property and equipment	—	4,832	1,960
Impairment loss on intangible assets	—	1,245	5,613
Total operating expenses	84,362	88,900	127,428
Loss from operations	(5,912)	(14,767)	(35,790)
Other income (expense):			
Other income, net	65	148	20
Interest expense	(1,101)	(972)	(785)
Loss on debt extinguishment	—	—	(360)
Total other expense, net	(1,036)	(824)	(1,125)
Loss before income taxes	(6,948)	(15,591)	(36,915)
Income tax (benefit) provision	138	43	(937)
Net loss including noncontrolling interests	(7,086)	(15,634)	(35,978)
Net loss attributable to noncontrolling interests	(207)	—	—
Net loss attributable to U.S. Auto Parts	(6,879)	(15,634)	(35,978)
Other comprehensive income attributable to U.S. Auto Parts, net of tax:			
Foreign currency translation adjustments	20	55	31
Actuarial loss on defined benefit plan	(106)	—	—
Unrealized gains on investments	—	7	26
Total other comprehensive income (loss) attributable to U.S. Auto Parts	(86)	62	57
Comprehensive loss attributable to U.S. Auto Parts	$(6,965)	$(15,572)	$(35,921)
Basic and diluted net loss per share	$(0.21)	$(0.48)	$(1.17)
Shares used in computation of basic and diluted net loss per share	33,489	32,697	30,818

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

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock								
	Shares	Amount	Shares	Amount	Additional Paid-in-Capital	Preferred Stock Dividend Distributable	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interest	Total
Balance, January 1, 2012	—	—	30,626	$ 31	$ 157,140	—	$ 327	66,300	$ 60,924	—	60,924
Net loss			—	—	—		—	(35,978)	(35,978)	—	(35,978)
Issuance of shares in connection with stock option exercises	—	—	489	—	636	—	—	—	636	—	636
Issuance of stock awards	—	—	13	—	53	—	—	—	53	—	53
Share-based compensation	—	—	—	—	1,952	—	—	—	1,952	—	1,952
Unrealized gain on investments, net of tax	—	—	—	—	—	—	26	—	26	—	26
Effect of changes in foreign currencies	—	—	—	—	—	—	31	—	31	—	31
Balance, December 29, 2012	—	—	31,128	31	159,781	—	384	(132,552)	27,644	—	27,644
Net loss	—	—	—	—	—	—	—	(15,634)	(15,634)	—	(15,634)
Issuance of shares in connection with Series A Preferred Stock, net of issuance costs	4,150	4	—	—	5,166	—	—	—	5,170	—	5,170
Issuance of shares in connection with common stock offering, net of issuance costs	—	—	2,050	2	1,989	—	—	—	1,991	—	1,991
Issuance of common stock in connection with preferred stock dividends	—	—	50	—	60	—	—	—	60	—	60

Issuance of shares in connection with stock option exercises	—	—	101	—	183	—	—	—	183	—	183
Issuance of shares in connection with BOD fees	—	—	23	—	31	—		—	31	—	31
Share-based compensation	—	—	—	—	1,483	—	—	—	1,483	—	1,483
Common stock dividend distributable on Series A Preferred Stock	—	—	—	—	—	60	—	(120)	(60)	—	(60)
Cash dividends on preferred stock	—	—	—	—	—	—	—	(64)	(64)	—	(64)
Unrealized gain on investments, net of tax	—	—	—	—	—	—	7	—	7	—	7
Effect of changes in foreign currencies	—	—	—	—	—	—	55	—	55	—	55
Balance, December 28, 2013	4,150	4	33,352	33	168,693	60	446	(148,370)	20,866	—	20,866
Issuance of shares of Auto MD common stock	—	—	—	—	2,512	—	—	—	2,512	3,153	5,665
Net loss	—	—	—	—	—	—	—	(6,879)	(6,879)	(207)	(7,086)
Issuance of common stock in connection with preferred stock dividends	—	—	107	—	300	(300)	—	—	—	—	—
Issuance of shares in connection with stock option exercises	—	—	144	—	295	—	—	—	295	—	295
Issuance of shares in connection with restricted stock units vesting	—	—	21	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	2,569	—	—	—	2,569	—	2,569

Common stock dividend distributable on Series A Preferred Stock	—	—	—	—	—	240		(240)	—	—	—
Actuarial loss on defined benefit plan	—	—	—	—	—	—	(106)	—	(106)	—	(106)
Unrealized gain on investments, net of tax	—	—	—	—	—	—	—	—	—	—	—
Effect of changes in foreign currencies	—	—	—	—	—	—	20	—	20	—	20
Balance, January 3, 2015	4,150	$ 4	33,624	$ 34	$ 174,369	$ —	$ 360	$ (155,489)	$ 19,277	$ 2,946	$ 22,223

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		
	January 3, 2015	December 28, 2013	December 29, 2012
Operating activities			
Net loss including noncontrolling interests	$(7,086)	$(15,634)	$(35,978)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization expense	8,923	12,175	15,204
Amortization of intangible assets	422	381	1,189
Deferred income taxes	74	59	(875)
Share-based compensation expense	2,371	1,263	1,673
Stock awards issued for non-employee director service	—	31	53
Impairment loss on goodwill	—	—	18,854
Impairment loss on property and equipment	—	4,832	1,960
Impairment loss on intangible assets	—	1,245	5,613
Amortization of deferred financing costs	81	81	94
Loss on debt extinguishment	—	—	360
Loss (gain) from disposition of assets	(96)	(35)	14
Changes in operating assets and liabilities:			
Accounts receivable	1,105	2,403	491
Inventory	(11,412)	5,740	9,520
Other current assets	471	954	(618)
Other non-current assets	(39)	(213)	(281)
Accounts payable and accrued expenses	6,992	(11,833)	(14,912)
Other current liabilities	(302)	(1,054)	(2,964)
Other non-current liabilities	(261)	472	203
Net cash provided by (used in) operating activities	1,243	867	(400)
Investing activities			
Additions to property and equipment	(5,556)	(8,325)	(10,155)
Proceeds from sale of property and equipment	27	47	14
Cash paid for intangibles	(200)	—	(34)
Proceeds from sale of marketable securities and investments	745	52	3,171
Purchases of marketable securities and investments	(746)	(7)	(8)
Purchases of company-owned life insurance	—	(106)	(166)
Net cash used in investing activities	(5,730)	(8,339)	(7,178)
Financing activities			
Proceeds from revolving loan payable	19,506	19,561	26,731
Payments made on revolving loan payable	(15,258)	(29,008)	(10,509)
Proceeds from sale-leaseback transaction	—	9,584	—
Payments made on long-term debt	—	—	(17,875)
Payment of debt extinguishment costs	—	—	(175)
Payments of debt financing costs	—	—	(407)
Proceeds from issuance of Series A convertible preferred stock	—	6,017	—
Payment of issuance costs from Series A convertible preferred stock	—	(847)	—
Proceeds from issuance of common stock	—	2,235	—
Payment of issuance costs from common stock	—	(244)	—

Proceeds from sale of equity in subsidiary	7,000	—	—
Payments on capital leases	(232)	(198)	(137)
Proceeds from exercise of stock options	295	183	636
Other	—	(64)	—
Net cash provided by (used in) financing activities	11,311	7,219	(1,736)
Effect of exchange rate changes on cash	11	41	9
Net change in cash and cash equivalents	6,835	(212)	(9,305)
Cash and cash equivalents, beginning of period	818	1,030	10,335
Cash and cash equivalents, end of period	$7,653	$818	$1,030
Supplemental disclosure of non-cash investing and financing activities:			
Accrued asset purchases	$1,232	$736	$1,803
Property acquired under capital lease	—	322	104
Unrealized gain on investments	—	7	26
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes	$60	$43	$—
Cash paid during the period for interest	1,029	884	495

See accompanying notes to consolidated financial statements.

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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 distributor of aftermarket auto parts and accessories and was established in 1995. The Company entered the e-commerce sector by launching its first website in 2000 and currently derives the majority of its revenues from online sales channels. The Company sells its products to individual consumers through a network of websites and online marketplaces. Through AutoMD.com, the Company educates consumers on maintenance and service of their vehicles. The site provides auto information, with tools for diagnosing car troubles, locating repair shops and do-it-yourself ("DIY") repair guides. Our flagship websites are located at www.autopartswarehouse.com, www.carparts.com, www.jcwhitney.com and www.AutoMD.com and our corporate website is located at www.usautoparts.net. References to the "Company," "we," "us," or "our" refer to U.S. Auto Parts Network, Inc. and its consolidated subsidiaries.
The Company's products consist of body parts, hard parts, performance parts and accessories. The body parts category is primarily comprised of parts for the exterior of an automobile. Our parts in this category are typically replacement parts for original body parts that have been damaged as a result of a collision or through general wear and tear. The majority of these products are sold through our websites. In addition, we sell an extensive line of mirror products, including our own private-label brand called Kool-Vue™, which are marketed and sold as aftermarket replacement parts and as upgrades to existing parts. The hard parts category is comprised of engine components and other mechanical and electrical parts. These parts serve as replacement parts for existing engine parts and are generally used by professionals and do-it-yourselfers for engine and mechanical maintenance and repair. We offer performance versions of many parts sold in each of the above categories. Performance parts and accessories generally consist of parts that enhance the performance of the automobile, upgrade existing functionality of a specific part or improve the physical appearance or comfort of the automobile.
The Company is a Delaware C corporation and is headquartered in Carson, California. The Company also has employees located in Kansas, Virginia, Tennessee, Texas, Wyoming and Illinois, as well as in 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 year ended January 3, 2015 (fiscal year 2014) is a 53 week period and the fiscal years ended December 28, 2013 (fiscal year 2013) and December 29, 2012 (fiscal year 2012) are 52 week periods.
Principles of Consolidation
The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its subsidiaries in which it has a controlling interest. On October 8, 2014, AutoMD, Inc. ("AutoMD") sold seven million shares of its common stock to third-party investors, reducing the Company's ownership interest in AutoMD to 64.1%. The 35.9% of AutoMD controlled by third-party investors is being reported as a noncontrolling interest. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. All inter-company transactions between and among the Company and its consolidated subsidiaries have been eliminated in consolidation.
Basis of Presentation
During fiscal year 2014, the Company's revenues increased 11.3% from fiscal Year 2013 after having decreased in fiscal year 2013 by 16.2% from fiscal year 2012. In Fiscal Year 2014, the Company incurred a net loss of $6,879, after incurring net losses of $15,634 and $35,978 in Fiscal Years 2013 and 2012, respectively. Based on our current operating plan, we believe that our existing cash, cash equivalents, investments, cash flows from operations and available debt financing will be sufficient to finance our operational cash needs through at least the next twelve months. When compared to fiscal year 2014, we expect our revenues to increase and our net loss to be lower in fiscal year 2015. Should the Company's operating results not meet expectations in 2015, 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 the net loss is larger or continues for longer than we expect because our strategies to return to 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.

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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 investments, valuation of inventory, valuation of deferred tax assets and liabilities, valuation of intangible assets including goodwill 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.

Statement of Cash Flows

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

Financial instruments that are not measured at fair value include accounts receivable, accounts payable and debt. Refer to "Note 3 – Fair Value Measurements" for additional fair value information. If the Company's revolving loan payable (see "Note 6 – 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 at January 3, 2015 and December 28, 2013 due to their short-term maturities. Marketable securities and investments are carried at fair value, as discussed below. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of our revolving loan payable, classified as current liability in our consolidated balance sheet, approximates its carrying amount because the interest rate is variable.

Accounts Receivable and Concentration of Credit Risk

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

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

Investments

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

Other-Than-Temporary Impairment

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

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Inventory

Inventories consist of finished goods available-for-sale and are stated at the lower of cost or market value, determined using the first-in first-out ("FIFO") method. The Company purchases inventory from suppliers both domestically and internationally, and routinely enters into supply agreements with U.S.–based suppliers and its primary drop-ship vendors. The Company believes that its products are generally available from more than one supplier and seeks to maintain multiple sources for its products, both internationally and domestically. The Company primarily purchases products in bulk quantities to take advantage of quantity discounts and to ensure inventory availability. Inventory is reported at the lower of cost or market, adjusted for slow moving, obsolete or scrap product. Inventory at January 3, 2015 and December 28, 2013 was $48,362 and $36,986, respectively, which included items in-transit to our warehouses, in the amount of $12,155 and $6,750, respectively.

Website and Software Development Costs

The Company capitalizes certain costs associated with website and software developed for internal use according to ASC 350-50 Intangibles – Goodwill and Other – Website Development Costs and ASC 350-40 Intangibles – Goodwill and Other – Internal-Use Software, when both the preliminary project design and testing stage are completed and management has authorized further funding for the project, which it deems probable of completion and to be used for the function intended. Capitalized costs include amounts directly related to website and software development such as payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the internal-use software project. Capitalization of such costs ceases when the project is substantially complete and ready for its intended use. These amounts are amortized on a straight-line basis over two to three years once the software is placed into service. The Company capitalized website and software development costs of $5,651 and $8,150 during fiscal year 2014 and 2013, respectively. At January 3, 2015 and December 28, 2013, our internally developed website and software costs amounted to $40,757 and $50,250, respectively, and the related accumulated amortization and impairment amounted to $36,060 and $44,211, respectively. During fiscal year 2013 and 2012, the Company recognized an impairment loss on websites and software development costs of $4,832 and $3,868, respectively. No impairment was recognized during fiscal year 2014.

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. As of January 3, 2015, 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 year 2014. During the second quarter of 2013, the Company recognized an impairment loss on property and equipment and intangible assets subject to amortization of $4,832 and $1,245, respectively. During the fourth quarter of 2012, the Company recognized an impairment loss on property and equipment and intangible assets subject to amortization of $1,960 and $1,745, respectively. Future impairment losses could result if the fair value of the Company's long lived assets continues to decline. Refer to "Note 3 – Fair Value Measurements" "Note 4 – Property and Equipment, Net" and "Note 5 – Intangible Assets, net" for further details.

Goodwill and Indefinite-Lived Intangibles.

The Company accounts for goodwill under the guidance set forth in ASC Topic 350- Intangibles – Goodwill and Other ("ASC 350"), which specifies that goodwill and indefinite-lived intangibles should not be amortized. The Company has historically evaluated goodwill and indefinite-lived intangibles for impairment on an annual basis or more frequently if events or circumstances occur that would indicate a reduction in fair value. The goodwill impairment test is a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount

including goodwill. The Company estimates the fair value of the reporting unit based on the income approach, which utilizes discounted future cash flows. Assumptions critical to the fair value estimates under the discounted cash flow model include discount rates, cash flow projections, projected long-term growth rates and the determination of terminal values. The market approach is used as a test of reasonableness to corroborate the income approach. The market approach utilized market multiples of invested capital from publicly traded companies in similar lines of business. The market multiples from invested capital include revenues, total assets, book equity plus debt and EBITDA.

During the fourth quarter of 2012, the Company identified adverse events related to the Company's overall financial performance, including the continued downward trend in the Company's revenues and negative cash flows from operations,
and a sustained decline in the Company's share price, that would more likely than not reduce the fair value of our reporting units below their carrying amounts. The excess of carrying value over fair value for our reporting unit as of October 31, 2012, the annual testing date, was approximately $21,843. If the carrying amount exceeds the estimated fair value, then the second step of the impairment test is performed to measure the amount of any impairment loss and the impairment losses will be recognized in operating results. Therefore, the Company performed the second step of the goodwill impairment test to measure the amount of impairment loss. The second step compares the implied fair value of goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. Based on its analysis, the Company recognized an impairment loss on goodwill of $18,854, which represented its carrying value as of October 31, 2012. For indefinite lived intangible assets, the Company utilized the royalty savings method to determine the fair value of the trade name intangible assets using a discounted rate of 15.0% and royalty rate of 0.1% for fiscal year 2012. During the fourth quarter of 2012, we recorded an impairment loss on indefinite lived intangible assets totaling $3,868. As a result of the impairment losses taken in fiscal year 2012, the Company did not have any goodwill or indefinite-lived intangibles on its balance sheet in fiscal year 2013. In addition, all the remaining indefinite lived intangibles were reclassified as definite lived intangibles and subject to amortization. Refer to "Note 3- Fair Value Measurements" and "Note 5 – Intangible Assets, net" for additional details.

Deferred Catalog Expenses

Deferred catalog expenses consist of third-party direct costs including primarily creative design, paper, printing, postage and mailing costs for all Company direct response catalogs. Such costs are capitalized as deferred catalog expenses and are amortized over their expected future benefit period. Each catalog is fully amortized within nine months. Deferred catalog expenses are included in other current assets and amounted to $441 and $485 at January 3, 2015 and December 28, 2013, respectively.

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: persuasive evidence of an arrangement exists, both title and risk of loss or damage have transferred, delivery has occurred, the selling price is fixed or determinable, and collectability is reasonably assured. The Company retains the risk of loss or damage during transit, therefore, revenue from product sales is recognized at the delivery date to customers. 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 2014, 2013 and 2012, the advertising revenue represented approximately 1%, of our total revenue.

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

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

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

Sales discounts are recorded in the period in which the related sale is recognized. Sales return allowances are estimated based on historical amounts and are recorded upon recognizing the related sales. Credits are issued to customers for returned products. Credits for returned products amounted to $24,903, $24,618, and $30,420 for fiscal year 2014, 2013 and 2012, respectively.

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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-Three Weeks Ended January 3, 2015				
Allowance for sales returns	$893	$24,907	$(24,903)	$897
Allowance for doubtful accounts	213	64	(236)	41
Fifty-Two Weeks Ended December 28, 2013				
Allowance for sales returns	$1,364	$24,147	$(24,618)	$893
Allowance for doubtful accounts	221	181	(189)	213
Fifty-Two Weeks Ended December 29, 2012				
Allowance for sales returns	$1,726	$30,058	$(30,420)	$1,364
Allowance for doubtful accounts	183	247	(209)	221

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 2014, 2013 and 2012 was $40,428, $34,182, and $39,702, respectively. Depreciation and amortization expenses are excluded from cost of sales and included in marketing, general and administrative and fulfillment expenses as noted below.
Warranty Costs
The Company or the vendors supplying its products provide the Company's customers limited warranties on certain products that range from 30 days to lifetime. In most cases, the Company's vendors are the party primarily responsible for warranty claims. Standard product warranties sold separately by the Company are recorded as deferred revenue and recognized ratably over the life of the warranty, ranging from one to five years. The Company also offers extended warranties that are imbedded in the price of selected private label products we sell. The product brands that include the extended warranty coverage are offered at three different service levels: (a) a five year unlimited product replacement, (b) a five year one-time product replacement, and (c) a three year one-time product replacement. Warranty costs relating to merchandise sold under warranty not covered by vendors are estimated and recorded as warranty obligations at the time of sale based on each product's historical return rate and historical warranty cost. The standard and extended warranty obligations are recorded as warranty liabilities and included in other current liabilities in the consolidated balance sheets. For the fiscal year 2014 and 2013, the activity in our aggregate warranty liabilities was as follows (in thousands):

	January 3, 2015	December 28, 2013
Warranty liabilities, beginning of period	$296	$282
Adjustments to preexisting warranty liabilities	(123)	(58)
Additions to warranty liabilities	119	165
Reductions to warranty liabilities	(74)	(93)
Warranty liabilities, end of period	$218	$296

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 2014, 2013 and 2012, the Company recognized advertising costs of $18,485, $16,619 and $21,068, respectively. Marketing costs also include

depreciation and amortization expense and share-based compensation expense.

General and Administrative Expense

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

Fulfillment Expense

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

Technology Expense

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

Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC 718 Compensation – Stock Compensation ("ASC 718"). All share-based payment awards 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 that meets certain requirements, and is recognized over the vesting period of three to four years. The Company currently uses the Black-Scholes option pricing model to estimate the fair value of share-based payment awards for such stock options, which is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends.

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

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

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

Other Income, net

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

Interest Expense

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

Income Taxes

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

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. As of January 3, 2015, the Company had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters. The Company's policy is to record interest and penalties as income tax expense.

Taxes Collected from Customers and Remitted to Governmental Authorities

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

Leases

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

Foreign Currency Translation

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

Comprehensive Income

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

Segment Data

The Company operates in two reportable operating segments. The criteria we use to identify operating segments are primarily the nature of the products we sell or services we provide and the consolidated operating results that are regularly reviewed by our chief operating decision maker to assess performance and make operating decisions. We identified two reportable operating segments, Base USAP, which is the core auto parts business, and AutoMD, an online automotive repair source, in accordance with ASC 280 Segment Reporting ("ASC 280").

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-9, "Revenue from Contracts with Customers," ("ASU 2014-9") which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years beginning after December 15, 2016. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-9 will have on the consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has the effect of the standard on ongoing financial reporting been determined.

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements (or within one year after the date on which the financial statements are available to be issued, when applicable). Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. The Company is evaluating the impact the adoption of ASU 2014-15 will have on its consolidated financial statements.

Note 2 – Investments

As of January 3, 2015, the Company held the following securities and investments, recorded at fair value:

	Amortized Cost	Unrealized Gains	Losses	Fair Value
Mutual funds [(1)]	$62	$—	$—	$62

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

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

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

Proceeds from the sale of available-for-sale securities are disclosed separately in the accompanying consolidated statements of cash flow. For fiscal years 2014 and 2013, the Company recognized a realized loss of $1 from the sale of mutual funds.

Note 3 – Fair Value Measurements

Fair value is defined as an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Provisions of ASC 820 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;

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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 January 3, 2015 and December 28, 2013, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included the Company's financial instruments, including cash and cash equivalents and investments. The following table represents our fair value hierarchy and the valuation techniques used for financial assets measured at fair value on a recurring basis:

	January 3, 2015				
	Total	Level 1	Level 2	Level 3	Valuation Techniques
Assets:					
Cash and cash equivalents [1]	$7,653	$7,653	$—	$—	(a)
Investments – mutual funds [2]	62	62	—	—	(a)
	$7,715	$7,715	$—	$—	

	December 28, 2013				
	Total	Level 1	Level 2	Level 3	Valuation Techniques
Assets:					
Cash and cash equivalents [1]	$818	$818	$—	$—	(a)
Investments – mutual funds [2]	47	47	—	—	(a)
	$865	$865	$—	$—	

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

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

During fiscal year 2014 and 2013, there were no transfers into or out of Level 1 and Level 2 assets.

Non-Financial Assets Valued on a Non-Recurring Basis

The Company's long-lived assets, including intangible assets subject to amortization, are measured at fair value on a non-recurring basis. These assets are measured at cost but are written-down to fair value, if necessary, as a result of impairment. As of January 3, 2015, the Company identified adverse events related to the Company's financial performance, including a downward trend in gross margin, and continued operating losses, which indicated certain property and equipment may not be recoverable. The Company performed impairment testing under the provisions of ASC 360 and after performing step 1, the Company determined property and equipment was not impaired as of January 3, 2015, as such, they were not measured at fair value. If such non-financial assets had been measured at fair value, they would be categorized in Level 3 of the fair value hierarchy, as the Company would be required to develop its own assumptions and analysis to determine if such non-financial assets were impaired.

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During the second quarter of 2013, the Company identified adverse events related to the Company's overall financial performance, including the continued downward trend in the Company's revenues and gross margin, and a sustained decline in the Company's share price, that would more likely than not reduce the fair value of the Company's long-lived assets below their carrying amount. The Company performed its impairment testing of long-lived assets, including intangible assets subject to amortization, in accordance with ASC 360. The Company recorded impairment losses on property and equipment and intangible assets of $4,832 and $1,245, respectively. 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.

During the fourth quarter of 2012, the total impairment loss was $26,427. The Company recorded impairment losses on property and equipment, goodwill and intangible assets of $1,960, $18,854 and $5,613, respectively. 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.

Refer to "Note 1 – Summary of Significant Accounting Policies and Nature of Operations," "Note 4 – Property and Equipment, Net" and "Note 5 – Intangible Assets, Net" for additional details.

Note 4 – Property and Equipment, Net

The Company's fixed assets are stated at cost less accumulated depreciation, amortization and impairment. Depreciation and amortization expense are provided for in amounts sufficient to relate the cost of depreciable and amortizable assets to operations over their estimated service lives. Depreciation and amortization expense for fiscal year 2014, 2013 and 2012 was $8,923, $12,175 and $15,204, respectively. For fiscal years 2014 and 2013, the balance includes amortization expense of $475 and $317, respectively, for capital leased assets related to the LaSalle, Illinois facility (see sale-leaseback discussion below for details). 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.

The Company accounts for the impairment of property and equipment in accordance with ASC 360. As of January 3, 2015, the Company identified adverse events related to the Company's financial performance, including a downward trend in gross margin, and continued operating losses, which indicated certain property and equipment may not be recoverable. The Company performed impairment testing under the provisions of ASC 360 and after performing step 1, the Company determined property and equipment was not impaired as of January 3, 2015. During the second quarter of 2013, the Company identified adverse events related to the Company's overall financial performance, including accelerating downward trend in the Company's revenues and gross margin, which indicated that the carrying amount of certain property and equipment may not be recoverable. Given the indicators of impairment, the Company utilized the royalty savings method rather than cost method in determining the fair values, using a discount rate of 14.5% and royalty rate of 1.0%. Based on its analysis, the Company recognized an impairment loss on internally developed software of $4,832. Any future decline in the fair value of an asset group could result in future impairments. During the fourth quarter of 2012, the Company recognized an impairment loss on building and internally developed website and software development costs of $1,000 and $960, respectively. The Company estimated the fair value of the building at La Salle, Illinois at the expected selling price to Store Capital Acquisitions, LLC. The Company used the royalty savings method rather than cost method in determining the fair values of the internally developed websites and software, using a discount rate of 15% and royalty rate of 2.5%. Any future decline in the fair value of an asset group could result in future impairments. All impairment losses in fiscal years 2013 and 2012 are included in the Base USAP reportable segment.

Refer to "Note 1 – Summary of Significant Accounting Policies and Nature of Operations" and "Note 3 – Fair Value Measurements" for additional details.

Property and equipment consisted of the following at January 3, 2015 and December 28, 2013:

	January 3, 2015	December 28, 2013
Land	$630	$630
Building	8,877	8,877
Machinery and equipment	9,799	12,163
Computer software (purchased and developed) and equipment	45,170	55,383
Vehicles	136	264
Leasehold improvements	1,761	1,767
Furniture and fixtures	1,036	1,057
Construction in process	1,904	2,066
	69,313	82,207
Less accumulated depreciation, amortization and impairment	(52,347)	(62,544)
Property and equipment, net	$16,966	$19,663

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 (net of $77 in legal fees) 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. As of January 3, 2015, the gross carrying value, the accumulated depreciation and the net carrying value of all capital leased assets included in property and equipment were $9,643, $907 and $8,736, respectively. As of December 28, 2013, the gross carrying value, the accumulated depreciation and the net carrying value of all capital leased assets included in property and equipment were $9,771, $518 and $9,253, respectively.

Construction in process primarily relates to the Company's internally developed software (refer to caption "Website and Software Development Costs" in "Note 1 – Summary of Significant Accounting Policies and Nature of Operations").

Certain of the Company's net property and equipment were located in the Philippines as of January 3, 2015 and December 28, 2013, in the amount of $244 and $508, respectively.

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

	Years
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

Facility subject to capital lease	20

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

Note 5 – Intangible Assets, Net

Intangible assets consisted of the following at January 3, 2015 and December 28, 2013:

	Useful Life	January 3, 2015			December 28, 2013		
		Gross Carrying Amount	Accumulated Amort. and Impairment	Net Carrying Amount	Gross Carrying Amount	Accum. Amort. and Impairment	Net Carrying Amount
Intangible assets subject to amortization:							
Product design intellectual property [(1)]	4 years	2,750	(2,102)	648	2,750	(1,842)	908
Patent license agreements	3 - 5 years	537	(94)	443			
Domain and trade names	10 years	1,199	(583)	616	1,199	(506)	693
Total		$4,486	$(2,779)	$1,707	$3,949	$(2,348)	$1,601

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

Intangible assets subject to amortization are amortized on a straight-line basis. Amortization expense relating to intangibles totaled $422, $381 and $1,189 for fiscal year 2014, 2013 and 2012, respectively.

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

2015	$458
2016	458
2017	321
2018	162
2019	77
Thereafter	231
Total	$1,707

Note 6 – 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 $25,000, which is subject to a borrowing base derived from certain receivables, inventory and property and equipment. Upon satisfaction of certain conditions, the Company has the right to increase the revolving commitment to up to $40,000. The Company, to date, has not requested such increases. The credit facility matures on April 26, 2017. At January 3, 2015, our outstanding revolving loan balance was $11,022. 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.

The Company entered into a sixth amendment to the credit facility effective January 2, 2015. Pursuant to the Amendment, the following amendments to the Credit Agreement were made, among others:

- The net orderly liquidation value inventory advance rate was increased from 85% to 90%.

- 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 was reduced to less than $2,000 from less than $4,000 for the period commencing on any day that excess availability is less than $2,000 and continuing until excess availability has been greater than or equal to $2,000 for 45 consecutive days.

- The period during which the Company is subject to a fixed charge coverage ratio begins after June 30, 2016 and the applicable testing period would begin for a 5 month period ending May 31, 2016 or fiscal year 2016 rather than a trailing twelve month period. The full trailing twelve month testing period would begin with the twelve month period ending December 31, 2016.
- Certain negative covenants applicable to the Company and AutoMD, a subsidiary of the Company, related to certain contractual and financial tests to permit the Company and AutoMD to consummate certain obligations set forth in the agreements entered into by the Company and AutoMD on October 8, 2014 (the "Financing Documents") in connection with the sale of AutoMD common stock to certain investors (the "AutoMD Financing") have been revised where the availability requirements are no longer applicable until after June 30, 2016 and further revised reducing the availability requirement to $2,000 before and after giving effect to the consummation of such obligations.
- The trigger, requiring the Company to provide certain reports under the Credit Agreement, relating to excess availability under the revolving commitment under the Credit Agreement, has been reduced to less than $4,000 from less than $6,000 and continuing until excess availability has been greater than or equal to $4,000 for 45 consecutive days.

Loans drawn under the credit facility bear interest, at the Company's option, at a per annum rate equal to either (a) one month LIBOR plus an applicable margin of 2.25%, or (b) an "alternate base rate" plus an applicable margin of 0.25%. Subsequent to June 30, 2016, each applicable margin as set forth in the prior sentence is subject to reduction by up to 0.50% per annum based upon the Company's fixed charge coverage ratio. At January 3, 2015, the Company's LIBOR based interest rate was 2.44% (on $11,000 principal) and the Company's prime based rate was 3.50% (on $22 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 $4,000 at any time, as defined, and will continue until, during the preceding 45 consecutive days, no event of default existed and excess availability has been greater than $4,000 at all times. The Company's excess availability was $8,329 at January 3, 2015.
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 with payment of a premium equal to the aggregate revolving commitments multiplied by 0.5% if such termination of the commitments occurs prior to January 2, 2016. If prepayment occurs after January 2, 2016 no premium is required. 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 period during which the Company is subject to a fixed charge coverage ratio begins after June 30, 2016 and the applicable testing period would begin for a five month period ending May 31, 2016 or fiscal year 2016 rather than a trailing twelve month period. The full trailing twelve month testing period would begin with the twelve month period ending December 31, 2016. During the period when the Company is not subject to a fixed charge coverage ratio an

"Availability Block" (as defined under the Credit Agreement) of $2,000 will be in effect, and thereafter the "Availability Block" will be eliminated. Beginning July 1, 2016, in the event that "excess availability" (as defined under the Credit Agreement) is less than $2,000, the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0. 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

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indictments or convictions of any Loan Party. As of January 3, 2015, the Company was in compliance with all covenants under the Credit Agreement.

As of January 3, 2015, the Company had total capital leases payable of $$9,539. The present value of the net minimum payments on capital leases as of January 3, 2015 is as follows:

Total minimum lease payments	$18,520
Less amount representing interest	(8,981)
Present value of net minimum lease payments	9,539
Current portion of capital leases payable	(269)
Capital leases payable, net of current portion	$9,270

Note 7 – Stockholders' Equity and Share-Based Compensation

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). Non-controlling interests include the minority equity holders' proportionate share of the equity of AutoMD.

Ownership interests in subsidiaries held by parties other than the Company are presented as non-controlling interests within stockholders' equity, separately from the equity held by the Company. Revenues, expenses, net loss and other comprehensive income are reported in the consolidated financial statements at the consolidated amounts, which includes amounts attributable to both the Company's interest and the non-controlling interests in AutoMD. Net loss and other comprehensive income is then attributed to the Company's interest and the non-controlling interests. Net loss to non-controlling interests is deducted from net loss in the consolidated statements of comprehensive operations to determine net loss attributable to the Company's common stockholders.

The table below presents the changes in the Company's ownership interest in AutoMD on the Company's equity:

	Fiscal Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Net loss attributable to U.S. Auto Parts stockholders'	$(6,879)	$(15,634)	$(35,978)
Transfers (to) from the noncontrolling interest:			
Increase in U.S. Auto Parts paid-in-capital from sale of AutoMD common stock	2,512	—	—
Changes from net loss attributable to U.S. Auto Parts stockholders' and transfers to noncontrolling interest	$(4,367)	$(15,634)	$(35,978)

Common Stock

The Company has 100,000 shares of common stock authorized. We have never paid cash dividends on our common stock. The following issuances of common stock were made during the fiscal year ended January 3, 2015:

- The Company issued 144 shares of common stock from option exercises under its various share-based compensation plans.
- The Company issued 21 shares of common stock from restricted stock units that vested during the period.
- 107 shares of common stock were issued as stock dividends on the Series A Preferred.

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. The shares that would be issued if the contingently convertible Series A Preferred were converted are excluded from the calculation of diluted earnings per share due to the Company's net loss position for the fiscal year ended January 3, 2015 (refer to "Note 8 – Net Loss Per Share" for anti-dilutive securities).

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

Dividends on the Series A Preferred are payable quarterly at a rate of $0.058 per share per annum in cash, in shares of common stock or in any combination of cash and common stock as determined by the Company's Board of Directors. Certain conditions are required to be satisfied in order for the Company to pay dividends on the Series A Preferred in shares of common stock, including (i) the common stock being registered pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934, as amended, (ii) the common stock being issued having been approved for listing on a trading market and (iii) the common stock being issued either being covered by an effective registration statement or being freely tradable without restriction under Rule 144 (subject to certain exceptions). The Series A Preferred shall each be entitled to one vote per share for each share of common stock issuable upon conversion thereof (excluding from any such calculation any dividends accrued on such shares) and shall vote together with the holders of common stock as a single class on any matter on which the holders of common stock are entitled to vote. In addition, the Company must obtain the consent of holders of at least a majority of the then outstanding Series A Preferred in connection with (a) any amendment, alteration or repeal of any provision of the certificate of incorporation or bylaws of the Company as to adversely affect the preferences, rights or voting power of the Series A Preferred, or (b) the creation, authorization or issuance of any additional Series A Preferred or any other class or series of capital stock of the Company ranking senior to or on parity with the Series A Preferred or any security convertible into, or exchangeable or exercisable for Series A Preferred or any other class or series of capital stock of the Company ranking senior to or on parity with the Series A Preferred. Concurrent with the Company's issuance of Series A Preferred, the Company, certain of its domestic subsidiaries and JPMorgan entered into a Second Amended Credit Agreement to allow the Company to pay cash dividends on the Series A Preferred in an aggregate amount of up to $400 per year and pay cash in lieu of issuing fractional shares upon conversion of or in payment of dividends on the Series A Preferred (refer to "Note 6 – Borrowings" of our Notes to Consolidated Financial Statements for additional details). The Company issued 24 shares in payment of dividends on the dividend payment date of December 31, 2013 related to the dividend distributable on the Series A Preferred of $60 accrued on December 28, 2013. For the fiscal year ended January 3, 2015, the Company recorded dividends of $240. The Company issued 83 shares of common stock in payment of the fiscal 2014 dividends. There were no accrued dividends outstanding as of January 3, 2015.

Share-Based Compensation Plan Information

The Company adopted the 2007 Omnibus Incentive Plan (the "2007 Omnibus Plan") in January 2007, which became effective on February 8, 2007, the effective date of the registration statement filed in connection with the Company's initial public offering. Under the 2007 Omnibus Plan, the Company was previously authorized to issue 2,400 shares of

common stock, under various instruments to eligible employees and non-employees of the Company, plus an automatic annual increase on the first day of each of the Company's fiscal years beginning on January 1, 2008 and ending on January 1, 2017 equal to (i) the lesser of (A) 1,500 shares of common stock or (B) five percent (5)% of the number of shares of common stock outstanding on the last day of the immediately preceding fiscal year or (ii) such lesser number of shares of common stock as determined by the Company's Board of Directors. Options granted under the 2007 Omnibus Plan generally expire no later than ten years from the date of grant and generally vest over a period of four years. The exercise price of all option grants must be equal to 100% of the fair market value on the date of grant. The 2007 Omnibus Plan also provides for automatic grant of options to purchase common stock and common stock awards to non-employee directors. As of January 3, 2015, 1,515 shares were available for future grants under the 2007 Omnibus Plan. Since the restricted stock units ("RSUs") were granted under the 2007 Omnibus

Plan, such RSUs granted have been deducted from the overall pool of equity instruments available under the 2007 Omnibus Plan. For further detail, see Restricted Stock Unit discussion below.
The Company adopted the 2007 New Employee Incentive Plan (the "2007 New Employee Plan") in October 2007. Under the 2007 New Employee Plan, the Company is authorized to issue 2,000 shares of common stock under various instruments solely to new employees. Options granted under the 2007 New Employee Plan generally expire no later than ten years from the date of grant and generally vest over a period of four years. The exercise price of all option grants must not be less than 100% of the fair market value on the date of grant. As of January 3, 2015, 1,552 shares were available for future grants under the 2007 New Employee Plan.

The Company adopted the U.S. Auto Parts Network, Inc. 2006 Equity Incentive Plan (the "2006 Plan") in March 2006. All stock options to purchase common stock granted to employees in 2006 were granted under the 2006 Plan and had exercise prices equal to the fair value of the underlying stock, as determined by the Company's Board of Directors on the applicable option grant date. After fiscal year 2008, no shares have been available for future grants under the 2006 Plan.
The following table summarizes the Company's stock option activity for the fiscal year ended January 3, 2015, and details regarding the options outstanding and exercisable at January 3, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value[(1)]
Options outstanding, December 28, 2013	5,320	$2.97	6.77	
Granted	840	$2.32		
Exercised	(142)	$2.06		
Cancelled:				
Forfeited	(511)	$1.70		
Expired	(226)	$6.61		
Options outstanding, January 3, 2015	5,281	$2.85	6.10	$ 1,867
Vested and expected to vest at January 3, 2015	4,884	$2.93	5.87	$ 1,686
Options exercisable, January 3, 2015	3,466	$3.30	4.68	$ 1,004

(1) These amounts represent the difference between the exercise price and the closing price of U.S. Auto Parts Network, Inc. common stock on January 3, 2015 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 2014, 2013 and 2012 was $1.34, $1.22 and $2.53, 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 2014, 2013 and 2012, the total intrinsic value of the exercised options was $153, $61 and $1,244, respectively. The Company had $1,601 of unrecognized share-based compensation expense related to stock options outstanding as of January 3, 2015, which expense is expected to be recognized over a weighted-average period of 2.66 years.
Restricted Stock Units
During 2014 we granted an aggregate of 1,015 RSUs to certain employees of the Company. The RSUs were granted under the 2007 Omnibus Plan, and reduced the pool of equity instruments available under that plan.
Of the 1,015 RSU's, 738 are time-based, which vest upon the completion of a pre-defined period of employment, ranging from one- to- two years. The remaining 277 RSUs are performance-based RSUs, the number of which that vest, if any, will be determined upon the achievement of certain pre-defined financial goals in fiscal year 2014. 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 February 14, 2014, April 3, 2014, and August 1, 2014, the date of each grant, was $2.03, $2.93, and $3.17 per share, respectively. Compensation expense is recognized on a straight-line basis over the requisite service period of one-to-two years. Compensation expense for performance-based awards is measured based on the amount of shares ultimately expected to vest, estimated at each reporting date based on management's expectations regarding the relevant

performance criteria. As of January 3, 2015, the performance criteria had been met on 171 RSUs and 106 performance RSUs were forfeited.
For the fiscal year ended January 3, 2015, we recorded compensation expense of $1,345. As of January 3, 2015, there was unrecognized compensation expense of $757 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 0.9 years.
Stock Option Exchange Program
On July 9, 2013, the Company's stockholders approved a proposed stock option exchange program for the exchange of certain outstanding stock options held by eligible employees for new options to purchase fewer shares. On August 12, 2013, the Company commenced an offering to eligible employees to voluntarily exchange certain vested and unvested stock options with exercise prices above $4.00 per share at an exchange ratio of 3.5 to 1 to be granted following the expiration of the tender offer with exercise prices equal to the fair market value of one share of the Company's common stock on the day the new options were issued. Stock options to purchase an aggregate of 3,733 shares with exercise prices ranging from $4.01 to $11.68 were eligible for tender at the commencement of the program. The Company's non-employee directors were not eligible to participate in the program. The terms and conditions of the new options are subject to an entirely new four year vesting schedule where 25% will vest on the first anniversary, and the remaining 75% will vest monthly over the following 36 months. All new options have a ten year contractual term. The offer period for the stock option exchange ended on September 9, 2013.
On September 10, 2013, the Company accepted for exchange 3,475 eligible options to purchase common stock, with a weighted average exercise price of $6.65 for 45 eligible employees, and issued 993 unvested options to purchase shares of the Company's common stock with an exercise price of $0.9866, the closing price of the Company's common stock on that day. Using the Black-Scholes option pricing model, the Company determined that the fair value of the surrendered stock options on a grant-by-grant basis was lower than the fair value of the new stock options, as of the date of the exchange, resulting in incremental fair value of $422. The incremental fair value as a result of the stock option exchange and the remaining compensation expense associated with the surrendered stock options will be recorded as compensation expense over the four year vesting period of the new options.
The fair value of the surrendered stock options and the new stock options was estimated on the date of the exchange using the Black-Scholes option pricing model with the following assumptions:

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

Warrants
On May 5, 2009, the Company issued warrants to purchase up to 30 shares of common stock at an exercise price of $2.14 per share. On April 27, 2010, the Company issued additional warrants to purchase up to 20 shares of common stock at an exercise price of $8.32 per share. Both issuances of warrants terminate seven years after their grant date. The warrants were issued in connection with the financial advisory services provided by a consultant to the Company. No warrants were exercised as of fiscal year 2014. As of January 3, 2015, warrants to purchase 50 shares of common stock were outstanding and exercisable. The aggregate intrinsic value of outstanding and exercisable warrants was $2 as of January 3, 2015, which was calculated as the difference between the exercise price of underlying awards and the closing price of the Company's common stock for warrants that were in-the-money. Total warrants share-based compensation expense recognized during the fiscal years ended January 3, 2015, December 28, 2013 and December 29, 2012 was $0, $0 and $16, respectively. The Company had no unrecognized share-based compensation expense related to warrants outstanding as of January 3, 2015.
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		
	January 3, 2015	December 28, 2013	December 29, 2012
Expected life	5.30 - 5.37 years	5.21 – 5.73 years	5.73 years
Risk-free interest rate	2% - 2%	1% – 2%	1%
Expected volatility	62% - 68%	67% – 73%	71% – 74%
Expected dividend yield	—%	—%	—%

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

	Fiscal Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Marketing expense	$540	$285	$505
General and administrative expense	1,476	805	1,119
Fulfillment expense [1]	220	102	(38)
Technology expense	135	71	87
Total share-based compensation expense	$2,371	$1,263	$1,673

(1) For the fifty-two weeks ended December 29, 2012, the negative balance was due to an adjustment of $279 related to performance stock options where the performance goal was not met or it was not probable to be met at the end of the requisite service period.

The share-based compensation expense is net of amounts capitalized to internally-developed software of $196, $220 and $252 during the fiscal year 2014, 2013 and 2012, respectively. No tax benefit was recognized for fiscal year 2014, 2013 and 2012 due to the valuation allowance position.

Under ASC 718, forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures significantly differ from those estimates. The Company’s estimated forfeiture rates are calculated based on actual historical forfeitures experienced under our equity plans. The Company's forfeiture rates were 16%-34% for fiscal years 2014, 2013 and 2012.

Note 8 – Net Loss Per Share

Net loss per share has been computed in accordance with ASC 260 Earnings per Share. The following table sets forth the computation of basic and diluted net loss per share:

	Fiscal Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Net loss per share:			
Numerator:			
Net loss attributable to U.S. Auto Parts	$(6,879)	$(15,634)	$(35,978)
Dividends on Series A Convertible Preferred Stock	(240)	(184)	—
Net loss available to common shares	$(7,119)	$(15,818)	$(35,978)
Denominator:			
Weighted-average common shares outstanding (basic and diluted)	33,489	32,697	30,818
Basic and diluted net loss per share	$(0.21)	$(0.48)	$(1.17)

The weighted-average 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:

	Fiscal Year		
	January 3, 2015	December 28, 2013	December 29, 2012
Common stock warrants	50	50	50
Series A Convertible Preferred Stock	4,150	3,145	—
Options to purchase common stock	5,467	6,584	7,642
Restricted Stock Units	796	—	—
Total	10,463	9,779	7,692

Note 9 – Income Taxes

The components of loss before income tax provision consist of the following:

	Fiscal Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Domestic operations	$(7,424)	$(16,155)	$(37,469)
Foreign operations	476	564	554
Total loss before income taxes	$(6,948)	$(15,591)	$(36,915)

Income tax (benefit) provision for fiscal year 2014, 2013 and 2012 consists of the following:

	Fiscal Year Ended		
	January 3, 2015	December 28, 2013	December 29, 2012
Current:			
Federal tax	$—	$—	$—
State tax	(15)	20	14
Foreign tax	78	(37)	(76)
Total current taxes	63	(17)	(62)
Deferred:			
Federal tax	(2,232)	(5,260)	(12,612)
State tax	(125)	(1,353)	(2,618)
Foreign tax	74	60	275
Total deferred taxes	(2,283)	(6,553)	(14,955)
Valuation allowance	2,358	6,613	14,080
Income tax (benefit) provision	$138	$43	$(937)

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

	January 3, 2015	December 28, 2013	December 29, 2012
Income tax at U.S. federal statutory rate	$(2,362)	$(5,301)	$(12,551)
Share-based compensation	33	43	38
State income tax, net of federal tax effect	(143)	(1,348)	(2,528)
Foreign tax	117	70	(27)
Other	127	(42)	51
Change in valuation allowance	2,366	6,621	14,080
Effective tax (benefit) provision	$138	$43	$(937)

For fiscal year 2014, 2013 and 2012, the effective tax rate for the Company was (2.0)%, (0.3)% and 2.5%, respectively. The Company's effective tax rate for fiscal years presented differs from the U.S. federal rate primarily as a result of the recording valuation allowances against the Company's deferred tax assets.
Deferred tax assets and deferred tax liabilities consisted of the following:

	January 3, 2015	December 28, 2013
Deferred tax assets:		
Inventory and inventory related allowance	$1,334	$1,075
Share-based compensation	5,248	4,545
Amortization	11,805	13,704
Sales and bad debt allowances	472	583
Vacation accrual	264	374
Book over tax amortization	10	377
Net operating loss and AMT credit carry-forwards	26,186	23,114
Other	807	388
Total deferred tax assets	46,126	44,160
Valuation Allowance	(45,867)	(43,509)
Net deferred tax assets	259	651
Deferred tax liabilities:		
Investment in subsidiary	1,335	—
Tax over book depreciation	79	784
Foreign tax withholdings	409	—
Prepaid catalog expenses	180	202
Total deferred tax liabilities	2,003	986
Net deferred tax liabilities	$(1,744)	$(335)

At January 3, 2015, federal and state net operating loss ("NOL") carryforwards were $57,552 and $73,610, respectively. Federal NOL carryforwards of $2,690 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. Additionally, the tax benefit of $41 of the federal and state NOL carryforwards which was created by the exercise of stock options will be credited to additional paid-in-capital once recognized. Federal NOL carryforwards begin to expire in 2029, while state NOL carryforwards begin to expire in 2015. The state NOL carryforwards expire in the respective tax years as follows:

2015-2022	$40,553
2023-2032	33,057
Total	$73,610

On October 8, 2014, AutoMD sold seven million shares of its common stock to third-party investors, reducing the Company's ownership interest in AutoMD to 64.1%. AutoMD will no longer be included in the consolidated state and federal

tax filings of the Company. As a result of the investment a deferred tax liability of $1,335 was created which reduced the increase in additional paid-in-capital which was created as a result of the investment. For the fiscal year ended January 3, 2015, the effective tax rate for AutoMD was (0.2)%. AutoMD's effective tax rate differs from the U.S. federal statutory rate primarily as a result of the recording of a $195 valuation allowance against the Company's net deferred tax assets. At January 3, 2015, AutoMD had net operating loss carryforwards (NOLs) of approximately $2,582 for federal tax purposes that begin to expire in 2031. AutoMD state NOLs were not material as of January 3, 2015.

The valuation allowance for deferred tax assets recorded during fiscal year 2014 and 2013 is based on a more likely than not threshold. The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. We considered the following possible sources of taxable income when assessing the realization of deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax-planning strategies.

Under the provisions of ASC 740, “Income Taxes”, 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. Based on this evaluation, as of January 3, 2015, a valuation allowance of $45,867 has been recorded against our deferred tax assets. If, in the future, we generate taxable income on a sustained basis in jurisdictions where we have recorded full valuation allowances, our conclusion regarding the need for full valuation allowances in these tax jurisdictions could change, resulting in the reversal of some or all of the valuation allowances. If our operations generate taxable income prior to reaching profitability on a sustained basis, we would reverse a portion of the valuation allowance related to the corresponding realized tax benefit for that period, without changing our conclusions on the need for a full valuation allowance against the remaining net deferred tax assets.

Included in accrued expenses are income taxes payable of $33 and $26 for the fiscal year 2014 and 2013 respectively, consisting primarily of foreign taxes.

Note 10 – Commitments and Contingencies

Facilities Leases

The Company’s corporate headquarters is located in Carson, California. The Company’s corporate headquarters has an initial lease term of five years through October 2016, and optional renewals through January 2020. The Company also leases warehouse space in Chesapeake, Virginia under an agreement scheduled to expire in June 2016. The Company’s Philippines subsidiary leases office space under a sixty-three month agreement through May 2015, renewable for an additional sixty months through April 2020. As of the date hereof, the Company has not committed to any facilities lease renewals.

Facility rent expense for fiscal year ended 2014, 2013 and 2012 was $1,895, $2,150 and $2,388, respectively. The Company’s facility rent expense was inclusive of amounts charged from a related party of $378 during the fiscal year 2014 and $374 for both fiscal years 2013 and 2012.

On September 22, 2011, the Company entered into a sublease agreement for the leasing of approximately 25,000 square feet of commercial office space located in Carson, California. The Sublease has an initial term of 60 months (“Initial Term”), and commenced on November 1, 2011, effective the 42nd month of the Initial Term, we have the ability to terminate the Sublease in exchange for the payment of a termination fee and we have the option to renew through January 2020.

In January 2010, the Company’s Philippines subsidiary entered into a new lease agreement that accommodates the Company’s Philippines workforce into one office building. Under the terms of the lease agreement, effective March 1, 2010, the monthly rent will be approximately $25, and is subject to 5% annual escalation beginning on the 3rd year of

the lease term and renewable for a sixty month term upon mutual agreement of both parties.
In December 2008, the Company entered into a five-year operating lease for warehouse space in Chesapeake, Virginia, which commenced in January 2009 and was initially scheduled to expire in December 2013. In July 2011, we signed a five-

year extension to June 30, 2016, which also added approximately 87,000 square feet of space. The monthly base rent commitment was $60 as of January 3, 2015.

As described in detail under “Note 4 – Property and Equipment Net”, on April 17, 2013, the Company entered into a sale lease-back agreement with STORE Master Funding III, LLC (“STORE”) whereby we leased back our facility located in LaSalle, Illinois for our continued use as an office, retail and warehouse facility for storage, sale and distribution of automotive parts, accessories and related items for 20 years commencing upon the execution of the lease and terminating on April 30, 2033. The related assets for the sale lease-back land and building is represented by the amount included in leased facility in the summary above. The Company’s initial base annual rent is $853 for the first year (“Base Rent Amount”), after which the rental amount will increase annually on May 1 by the lesser of 1.5% or 1.25 times the change in the Consumer Price Index as published by the U.S. Department of Labor’s Bureau of Labor Statistics, except that in no event will the adjusted annual rental amount fall below the Base Rent Amount. We were not required to pay any security deposit. Under the terms of the lease, we are required to pay all taxes associated with the lease, pay for any required maintenance on the property, maintain certain levels of insurance and indemnify STORE for losses incurred that are related to our use or occupancy of the property. The lease was accounted for as a capital lease and the $376 excess of the net proceeds over the net carrying amount of the property is amortized in interest expense on a straight-line basis over the lease term of 20 years. As of January 3, 2015, the net carrying value of all capital leased assets included in property and equipment was $8,736.

Minimum lease commitments under non-cancelable operating leases as of January 3, 2015 are as follows:

2015	$1,279
2016	786
2017	—
2018	—
2019	—
Thereafter	—
Total minimum lease commitments	$2,065

Capital lease commitments as of January 3, 2015 were as follows:

	Capital Lease Commitments	Less: Interest Payments	Principal Obligations
2015	$1,009	$740	$269
2016	968	725	243
2017	909	709	200
2018	915	692	223
2019	928	674	254
2020 onwards	13,791	5,441	8,350
Total	$18,520	$8,981	$9,539

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.

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 11 – 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 $256, $266 and $324 for fiscal year 2014, 2013 and 2012, 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 Company-owned life insurance policies with the Company (employer) as the owner and beneficiary, in order to preserve the tax-deferred savings advantages of a non-qualified plan. The plan assets are the cash surrender value of the Company-owned life insurance policies and not associated with the deferred compensation liability. 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. In September 2010, the Company established and transferred its ownership to a rabbi trust to hold the Company-owned life insurance policies. As of January 3, 2015, the assets and associated liabilities of the Deferred Compensation Plan were $854 and $749, respectively, and were $876 and $838, respectively, as of December 28, 2013 and are included in other non-current assets, other current liabilities and other non-current liabilities in our consolidated balance sheets. For fiscal year 2014, the change in the associated liabilities include the employee contributions of $127, the Company contributions of $32 and earnings of $43, offset by distributions of $291. For fiscal year 2013, the associated liabilities primarily include the employee contributions of $126 and the Company contributions of $38 and earnings of $104, offset by distributions of $82. For fiscal year 2014, included in other income, the Company recorded a net loss of $22 for the change in the cash surrender value of the Company-owned life insurance policies. For fiscal year 2013, included in other income, the Company recorded a net gain of $73 for the change in the cash surrender value of the Company-owned life insurance policies.

Note 12 – Restructuring Costs

Fiscal 2014

On June 25, 2014, the Company committed to a plan to permanently close its distribution facility located in Carson, California (the "Carson Distribution Facility") effective July 25, 2014. The Company consolidated the Carson Distribution Facility's distribution and warehousing operations into the Company's existing distribution facilities located in LaSalle, Illinois and Chesapeake, Virginia. This consolidation was part of the Company's continued efforts for simplification and improved efficiencies. The closure of the Carson Distribution Facility resulted in a head count reduction of approximately 77 employees.

The following table summarizes the charges related to the restructure recognized during the fiscal year ended January 3, 2015:

Employee severance	$526
Accounts receivable allowance	73
Relocation costs (employee and equipment)	127
Inventory transfers	411
Total restructuring costs	$1,137

Substantially all of the unsold inventory in the Carson Distribution Facility on the date of closure was moved to the remaining two warehouses. Costs related to inventory transfers were recorded to cost of sales. A charge for $130 was taken for inventory that was not deemed economical to transfer. Additionally, due to expected future capacity

constraints, the Company reduced the sales price of certain inventory resulting in a charge of $767. The aggregate charge of $897 was recorded to cost of sales. The severance charges and relocation costs were included in fulfillment expense. Severance charges were reduced by $26 in the fourth quarter of 2014 as certain employees were able to find employment before they became eligible for severance benefits. As of January 3, 2015, there was no severance payable.

Fiscal 2013

In the first half of 2013, we laid off 13 employees in the United States and 163 employees in the Philippines reducing our workforce by a total of 176 employees in the first quarter of 2013 and 15 employees in the second quarter of 2013. For the fiscal year ended December 28, 2013, the severance charges of approximately $723 were recorded in marketing expense, general and administrative expense, fulfillment expense and technology expense for $394, $109, $58 and $162, respectively. As of December 28, 2013, there was no severance payable and there were no adjustments made to severance payable during the fiscal year ended December 28, 2013.

Fiscal 2012

In August 2012, we closed our call center in LaSalle, Illinois and reduced our workforce by 71 people resulting in severance charges of approximately $640 recorded in marketing expense, fulfillment expense and technology expense of $396, $228 and $16, respectively.

All restructuring costs incurred in fiscal years 2014, 2013 and 2012 are included in the Base USAP reportable segment.

Note 13 – Related-Party Transactions

The Company leased its Carson warehouse from Nia Chloe, LLC (“Nia Chloe”), a member of which, Sol Khazani, is one of our board of directors. Lease payments and expenses associated with this related party arrangement totaled $378 for fiscal year 2014 and $374 each for fiscal years 2013 and 2012. The lease expired during fiscal 2014 and was not renewed.

On October 8, 2014, Oak Investment Partners XI, L.P. ("Oak") and the Sol Khazani Living Trust ("Trust") purchased 1,500,000 and 500,000 shares of AutoMD common stock, respectively, at a purchase price of $1.00 per share. Fredric W. Harman and Sol Khazani, each a current director of the Company, are affiliated with Oak and the Trust, respectively.

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 14 – 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				Quarter Ended			
	March 29, 2014	June 28, 2014 (1)	Sep. 27, 2014 (2)	Jan. 3, 2015 (3)	March 30, 2013 (4)	June 29, 2013 (5)	Sep. 28, 2013	Dec. 28, 2013
Consolidated Statement of Income Data:								
Net sales	$68,028	$76,947	$67,965	$70,568	$65,405	$67,889	$61,724	$59,735
Gross profit	20,701	20,420	18,414	18,915	19,738	19,013	17,907	17,475
Income (loss) from operations	495	(1,939)	(2,216)	(2,252)	(3,142)	(9,342)	(1,246)	(1,037)
Income (loss) before income taxes	233	(2,159)	(2,479)	(2,543)	(3,322)	(9,498)	(1,398)	(1,373)
Net income (loss)	201	(2,180)	(2,494)	(2,613)	(3,343)	(9,567)	(1,399)	(1,325)
Net loss attributable to noncontrolling interests	—	—	—	(207)	—	—	—	—
Net loss attributable to U.S. Auto Parts	$201	$(2,180)	$(2,494)	$(2,406)	$(3,343)	$(9,567)	$(1,399)	$(1,325)
Basic and diluted net income (loss) per share as reported and adjusted	$0.00	$(0.07)	$(0.08)	$(0.07)	$(0.11)	$(0.29)	$(0.04)	$(0.04)
Shares used in computation of basic net income (loss) per share as reported and adjusted	33,384	33,460	33,532	33,573	31,141	33,119	33,218	33,308
Shares used in computation of diluted net income (loss) per share as reported and adjusted	34,158	33,460	33,532	33,573	31,141	33,119	33,218	33,308

(1) Included restructuring charges of $625.
(2) Included restructuring charges of $410.
(3) Included restructuring charges of $102.
(4) Included restructuring charges of $498.
(5) Included impairment loss on property and equipment and intangible assets of $4,832 and $1,245, respectively, and restructuring charges of $225.

Note 15 – Segment Information
As described in Note 1 above, the Company operates in two reportable segments identified as Base USAP, which is the core auto parts business, and AutoMD, an online automotive repair source of which the Company is a majority stockholder. Segment information is prepared on the same basis that our chief executive officer, who is our chief operating decision maker, manages the segments, evaluates financial results, and makes key operating decisions. Management evaluates the performance of its operating segments based on net sales, gross profit and loss from operations. The accounting policies of the operating segments are the same as those described in Note 1. Operating income represents earnings before other income, interest expense and income taxes. The identifiable assets by

segment disclosed in this note are those assets specifically identifiable within each segment.
Summarized segment information for our continuing operations from the two reportable segments for the periods presented is as follows (in thousands):

	Base USAP	AutoMD	Consolidated
Fiscal year ended January 3, 2015			
Net sales	$283,211	$297	$283,508
Gross profit	78,153	297	78,450
Operating costs (1)	81,887	2,475	84,362
Loss from operations	(3,734)	(2,178)	(5,912)
Capital expenditures	4,237	1,319	5,556
Depreciation and amortization	7,230	1,693	8,923
Total assets, net of accumulated depreciation	74,414	8,493	82,907
Fiscal year ended December 28, 2013			
Net sales	$254,422	$331	$254,753
Gross profit	73,802	331	74,133
Operating costs (1)	86,579	2,321	88,900
Loss from operations	(12,777)	(1,990)	(14,767)
Capital expenditures	6,297	2,028	8,325
Depreciation and amortization	10,676	1,499	12,175
Total assets, net of accumulated depreciation	67,039	2,143	69,182
Fiscal year ended December 29, 2012			
Net sales	$303,667	$350	$304,017
Gross profit	91,288	350	91,638
Operating costs (1)	125,048	2,380	127,428
Loss from operations	(33,760)	(2,030)	(35,790)
Capital expenditures	8,547	1,608	10,155
Depreciation and amortization	13,475	1,729	15,204
Total assets, net of accumulated depreciation	86,818	2,059	88,877

(1) Operating costs for AutoMD primarily consist of depreciation on fixed assets and personnel costs.

Note 16 – AutoMD

On October 8, 2014, AutoMD entered into a Common Stock Purchase Agreement ("Purchase Agreement") to sell an aggregate of seven million shares of AutoMD common stock at a purchase price of $1.00 per share to third-party investors and investors that are affiliated with two of our board members. The Company retained 64.1% of AutoMD's outstanding common stock, and will continue to consolidate AutoMD.

In connection with the sale of the shares of AutoMD, the Company recorded an increase to additional paid-in-capital of $2,534. This amount is equal to the increase in the Company's interest in the net assets of AutoMD, resulting from this sale of common shares ($3,847), less the related deferred tax liability of $1,313. Refer to "Note 9- Income Taxes" for additional details.

In connection with the sale of the shares, the non-controlling shareholders received certain demand and piggyback registration rights. Additionally, pursuant to the terms of the Purchase Agreement, the Company may be required to purchase two million shares of AutoMD common stock at a purchase price of $1.00 per share, with such purchase to be triggered, if applicable, if as of October 8, 2015and October 8, 2016, AutoMD does not meet a required minimum number of approved auto repair shops submitting a quotation on AutoMD's website (Registered Repair Shops) , or separately if at anytime during the two years following the closing date AutoMD fails to meet specified minimum cash balances and minimum numbers of Registered Repair shops. The Purchase Agreement also limits the use of the $7 million in proceeds from the sale of AutoMD common stock to only general operating purposes of AutoMD. The Company cannot use or borrow any of the proceeds without the approval of AutoMD's Board of Directors.

In addition to the Purchase Agreement, AutoMD entered into an Investor Rights Agreement. In addition to certain demand and piggyback registration rights, the agreement includes restrictions on transfers or dilutive transactions involving AutoMD common stock. Prior to October 8, 2017, the Company shall not transfer shares of AutoMD owned by U.S. Auto Parts or enter

into any transaction or arrangement (including, without limitation, any sale, gift, merger or consolidation) that would result in U.S. Auto Parts owning, at any time, less than 50% of the shares of capital stock of the Company without the prior written consent of shareholders. In the event of a proposed transfer or dilutive transaction for which any shareholder does not provide its written consent, in the alternative, upon not less than 30 days prior written notice to such non-consenting party, the Company may elect, at its sole option, to purchase all shares of the AutoMD common stock then owned by any non-consenting shareholder at a purchase price equal to $1.00 per share (as adjusted for any stock combinations, splits, recapitalizations, etc.) plus an annual rate of 10% thereon, compounded annually.

Note 17 – Subsequent Events

On January 5, 2015, the Company and JPMorgan Chase Bank, N.A. ("JPMorgan") entered into a Sixth Amendment to Credit Agreement and Second Amendment to Pledge and Security Agreement (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. By its terms, the Amendment is retroactively effective to January 2, 2015. Pursuant to the Amendment, the following amendments to the Credit Agreement were made, among others:

- The net orderly liquidation value inventory advance rate was increased from 85% to 90%.
- 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 was reduced to less than $2,000 from less than $4,000 for the period commencing on any day that excess availability is less than $2,000 and continuing until excess availability has been greater than or equal to $2,000 for 45 consecutive days.
- The period during which the Company is subject to a fixed charge coverage ratio begins after June 30, 2016 and the applicable testing period would begin for a 5 month period ending May 31, 2016 or fiscal year 2016 rather than a trailing twelve month period. The full trailing twelve month testing period would begin with the twelve month period ending December 31, 2016.
- Certain negative covenants applicable to the Company and AutoMD, a subsidiary of the Company, related to certain contractual and financial tests to permit the Company and AutoMD to consummate certain obligations set forth in the agreements entered into by the Company and AutoMD on October 8, 2014 (the "Financing Documents") in connection with the sale of AutoMD common stock to certain investors (the "AutoMD Financing") have been revised where the availability requirements are no longer applicable until after June 30, 2016 and further revised reducing the availability requirement to $2,000 before and after giving effect to the consummation of such obligations.
- The trigger, requiring the Company to provide certain reports under the Credit Agreement, relating to excess availability under the revolving commitment under the Credit Agreement, has been reduced to less than $4,000 from less than $6,000 and continuing until excess availability has been greater than or equal to $4,000 for 45 consecutive days.