

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33264

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

Delaware 68-0623433  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
16941 Keegan Avenue, Carson, CA 90746  
(Address of Principal Executive Office) (Zip Code)  
(424) 702-1455  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

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

Large Accelerated Filer ☐ Accelerated Filer ☒  
Non-Accelerated Filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of August 4, 2018, the registrant had 34,984,454 shares of common stock outstanding, \$0.001 par value.

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U.S. AUTO PARTS NETWORK, INC.  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED JUNE 30, 2018  
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<p>Unless the context requires otherwise, as used in this report, the terms “U.S. Auto Parts,” the “Company,” “we,” “us” and “our” refer to U.S. Auto Parts Network, Inc. and its wholly-owned and majority-owned subsidiaries. Unless otherwise stated, all amounts are presented in thousands. In addition, unless the context requires otherwise, references to AutoMD refer to AutoMD, Inc., our former majority-owned subsidiary which was dissolved in March 2017.</p> <p>U.S. Auto Parts®, U.S. Auto Parts Network™, AutoMD Kool-Vue®, JC Whitney®, Carparts.com®, and Evan Fischer®, amongst others, are our United States trademarks. All other trademarks and trade names appearing in this report are the property of their respective owners.</p>	

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

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

## CONSOLIDATED BALANCE SHEETS

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

	June 30, 2018	December 30, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$6,824	\$ 2,850
Short-term investments	5	9
Accounts receivable, net	2,633	2,470
Inventory	54,187	54,231
Other current assets	3,639	2,972
Total current assets	67,288	62,532
Deferred income taxes	20,467	21,476
Property and equipment, net	14,887	15,085
Intangible assets, net	557	651
Other non-current assets	1,545	954
Total assets	\$ 104,744	\$ 100,698
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$34,156	\$ 35,999
Accrued expenses	13,604	7,363
Current portion of capital leases payable	588	579
Customer deposits	596	2,500
Other current liabilities	3,049	2,457
Total current liabilities	51,993	48,898
Capital leases payable, net of current portion	8,869	9,173
Other non-current liabilities	2,314	2,266
Total liabilities	63,176	60,337
Commitments and contingencies		
Stockholders' equity:		
Series A convertible preferred stock, \$0.001 par value; \$1.45 per share liquidation value or aggregate of \$6,017; 4,150 shares authorized; 2,771 shares issued and outstanding at both June 30, 2018 and December 30, 2017	3	3
Common stock, \$0.001 par value; 100,000 shares authorized; 34,973 and 34,666 shares issued and outstanding at June 30, 2018 and December 30, 2017 (of which 2,525 are treasury stock)	37	37
Treasury stock	(7,146 )	(7,146 )
Additional paid-in capital	180,641	179,906
Accumulated other comprehensive income	604	557
Accumulated deficit	(132,571 )	(132,996 )
Total stockholders' equity	41,568	40,361
Total liabilities and stockholders' equity	\$ 104,744	\$ 100,698

See accompanying notes to consolidated financial statements (unaudited).



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

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

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

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

See accompanying notes to consolidated financial statements (unaudited).





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

	Twenty-Six Weeks Ended June 30, 2018	July 1, 2017
Operating activities		
Net income	\$ 250	\$ 27,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	2,993	3,270
Amortization of intangible assets	94	224
Deferred income taxes	920	(25,881 )
Share-based compensation expense	1,137	1,633
Stock awards issued for non-employee director service	7	5
Amortization of deferred financing costs	2	30
Gain from disposition of assets	—	(8 )
Changes in operating assets and liabilities:		
Accounts receivable	(163 )	568
Inventory	44	(1,291 )
Other current assets	(1,270 )	(86 )
Other non-current assets	1	166
Accounts payable and accrued expenses	4,560	7,261
Other current liabilities	(929 )	(764 )
Other non-current liabilities	195	168
Net cash provided by operating activities	7,841	12,470
Investing activities		
Additions to property and equipment	(2,940 )	(2,494 )
Proceeds from sale of property and equipment	—	39
Net cash used in investing activities	(2,940 )	(2,455 )
Financing activities		

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Borrowings from revolving loan payable	3,189		3,645	
Payments made on revolving loan payable	(3,189)	)	(3,645)	)
Proceeds from stock options	—		238	
Minority shareholder redemption	—		(2,485)	)
Payments on capital leases	(293)	)	(278)	)
Treasury stock repurchase	—		(2,272)	)
Statutory tax withholding payment for share-based compensation	(430)	)	(1,644)	)
Payment of liabilities related to financing activities	(100)	)	(100)	)
Preferred stock dividends paid	(80)	)	(169)	)
Net cash used in financing activities	(903)	)	(6,710)	)
Effect of exchange rate changes on cash	(24)	)	(20)	)
Net change in cash and cash equivalents	3,974		3,285	
Cash and cash equivalents, beginning of period	2,850		6,643	
Cash and cash equivalents, end of period	\$ 6,824		\$ 9,928	
Supplemental disclosure of non-cash investing and financing activities:				
Accrued asset purchases	\$ 680		\$ 712	
Supplemental disclosure of cash flow information:				
Cash paid during the period for income taxes	\$ 44		\$ 42	
Cash paid during the period for interest	869		711	

See accompanying notes to consolidated financial statements (unaudited).

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

(In Thousands, Except Per Share Data)

Note 1 – Basis of Presentation and Description of Company

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

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

The Company is a Delaware C corporation and is headquartered in Carson, California. The Company has employees located in both the United States and the Philippines.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to U.S. Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company as of June 30, 2018 and the consolidated results of operations and cash flows for the thirteen and twenty-six weeks ended June 30, 2018 and July 1, 2017. The Company’s results for the interim periods are not necessarily indicative of the results that may be expected for any other interim period, or for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 30, 2017, which was filed with the SEC on March 14, 2018 and all our other periodic filings, including Current Reports on Form 8-K, filed with the SEC after the end of our 2017 fiscal year, and throughout the date of this report.

During the thirteen and twenty-six weeks ended June 30, 2018, the Company had a net loss of \$485 and net income of \$250, respectively, compared to net income of \$26,918 and \$27,175 during the thirteen and twenty-six weeks ended July 1, 2017, respectively. Based on our current operating plan, we believe that our existing cash, cash equivalents, investments, cash flows from operations and available debt financing will be sufficient to finance our operational cash needs through at least the next twelve months.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606), which was further updated in March, April, May and December 2016. The guidance in this update supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition”. Under the new guidance, an entity should recognize

revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. We adopted this ASU on December 31, 2017 through the modified retrospective method, with

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

#### Note 2 –Intangible Assets, Net

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

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

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

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

2018	\$ 142
2019	100
2020	100
2021	100
2022	62
Thereafter	53
Total	\$ 557

#### Note 3 – Borrowings

The Company maintains an asset-based revolving credit facility ("Credit Facility") that provides for, among other things, a revolving commitment in an aggregate principal amount of up to \$30,000, which is subject to a borrowing base derived from certain receivables, inventory, and property and equipment. At June 30, 2018, our outstanding revolving loan balance was \$0. The guaranteed total letters of credit balance at June 30, 2018 was \$14,045, of which \$10,350 was utilized and included in accounts payable in our consolidated balance sheet.

Loans drawn under the Credit Facility bear interest, at the Company's option, at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.25%, or (b) an "alternate prime base rate" subject to an increase or reduction by up to 0.25% per annum based on the Company's fixed charge coverage ratio. At June 30, 2018, the Company's LIBOR based interest rate was 3.38% (on \$0 principal) and the Company's prime based rate was 4.75% (on \$0 principal). A commitment fee, based upon undrawn availability under the Credit Facility bearing interest at a rate of 0.25% per annum, is payable monthly. Under the terms of the credit agreement with JP Morgan Chase Bank (the "Credit Agreement"), cash receipts are deposited into a lock-box, which are at the Company's discretion unless the "cash dominion period" is in effect, during which cash receipts will be used to reduce amounts owing under the Credit Agreement. The cash dominion period is triggered in an event of default or if excess availability is less than the \$3,600 for three business days (on a cumulative basis) and will continue until, during the

preceding 60 consecutive days, no event of default existed and excess availability has been greater than \$3,600 at all times (with such trigger subject to adjustment based on the Company's revolving commitment). In addition, in the event that "excess availability," as defined under the Credit Agreement, is less than \$2,400, the Company shall be required to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 (with the trigger subject to adjustment based on the Company's revolving commitment). The Company's excess availability was \$11,229 at June 30, 2018. As of the date hereof, the cash dominion period has not been in effect; accordingly, no principal payments are due. The Credit Agreement requires us to obtain a prior written consent from JPMorgan Chase Bank when we determine to pay any dividends on or make any distribution with respect to our common stock. The credit facility matures on April 26, 2020.

#### Note 4 – Stockholders' Equity and Share-Based Compensation

##### Options and Restricted Stock Units

The Company had the following common stock option activity during the twenty-six weeks ended June 30, 2018:

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

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

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

During the twenty-six weeks ended June 30, 2018, 357 RSU's that vested were time-based and 131 were performance-based. For the RSUs awarded, the number of shares issued on the date of vest is net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. For those employees who elect not to receive shares net of the minimum statutory withholding requirements, the appropriate taxes are paid directly by the employee. During the twenty-six weeks ended June 30, 2018, we withheld 184 shares to satisfy \$430 of employees' tax obligations. Although shares withheld are not issued, they are treated as a common stock repurchase in our consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting.

For the thirteen and twenty-six weeks ended June 30, 2018, we recorded compensation expense related to stock options and RSU's of \$156 and \$1,158, respectively. For the thirteen and twenty-six weeks ended July 1, 2017 we recorded compensation expense related to stock options and RSU's of \$555 and \$1,668, respectively. As of June 30, 2018, there was unrecognized compensation expense related to stock options and RSU's of \$4,471.

#### Non-Controlling Interest

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



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

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

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

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

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

### Note 6 – Income Taxes

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

For the thirteen and twenty-six weeks ended June 30, 2018 the effective tax rate for the Company's continuing operations was 922.0% and 79.8%, respectively. The effective tax rate for the thirteen and twenty-six weeks ended June 30, 2018 differed from the U.S. federal statutory rate primarily due to state income taxes, income of our Philippines subsidiary that is subject to different effective tax rates, and share-based compensation that is either not deductible for tax purposes or for which the tax deductible amount is different than the financial reporting amount. For the thirteen and twenty-six weeks ended July 1, 2017, the effective tax rate for the Company's continuing operations was (2,441.8)% and (1,358.1)%, respectively. The effective tax rate for the thirteen and twenty-six weeks ended July 1, 2017 differed from the U.S. federal statutory rate primarily as a result of the partial release of the



valuation allowance maintained against the Company's deferred tax assets.

Note 7 – Commitments and Contingencies

Facilities Leases

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

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

2018 \$783  
2019 1,223  
2020 541  
Total \$2,547

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

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

Legal Matters

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

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

On May 25, 2018, the Court granted the Company's motion for preliminary injunction and ordered that (i) the Defendants are restrained from enforcing the 3X Bonding Requirement, the Three Percent Bonding Requirement, and

any other enhanced bonding requirement on the Company in order to obtain entry of its shipments into the United States, and (ii) CBP shall use its best efforts to process all of the Company's shipping containers and release all of the Company's imports not implicated by

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

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

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

#### Note 8 – Product information

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Private Label				
Collision	57%	55%	58%	55%
Engine	18%	17%	17%	17%
Performance	1%	1%	1%	1%
Branded				
Collision	1%	1%	1%	1%
Engine	11%	10%	11%	10%
Performance	12%	16%	12%	16%
Total	100%	100%	100%	100%

Note 9 – Discontinued Operations

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

The following table summarizes the results of discontinued operations:

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

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

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

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

**Cautionary Statement**

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

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

**Overview**

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

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

1. Number of SKUs required to serve the market. The number of automotive SKUs has grown dramatically over the last several years. In today's market, unless the consumer is driving a high volume produced vehicle and needs a simple maintenance item, the part they need is not typically on the shelf at a brick-and-mortar store. We believe our user-friendly websites provide customers with a favorable alternative to the brick-and-mortar shopping experience by offering a comprehensive selection of over 1.0 million SKUs with detailed product descriptions, attributes and photographs combined with the flexibility of fulfilling orders using both drop-ship and stock-and-ship methods.
2. U.S. vehicle fleet expanding and aging. The average age of U.S. vehicles, an indicator of auto parts demand, rose to a record-high 11.5 years as of January 2015, according to IHS Automotive, a market analytics firm that expects the average age to rise to 11.8 years by 2019. IHS expects the number of vehicles that are 12 years or older to increase by 15% through 2019. IHS found that the total number of light vehicles in operation in the U.S. has increased to record levels, and should continue to rise through 2019. We believe an increasing vehicle base and rising average age of vehicles will have a positive impact on overall aftermarket parts demand because older vehicles generally require more repairs. In many cases we believe these older vehicles are driven by do-it-yourself ("DIY") car owners who are more likely to handle any necessary repairs themselves rather than taking their car to the professional repair shop.
3. Growth of online sales. The U.S. Auto Care Association estimates that overall revenue from online sales of auto parts and accessories is projected to increase to approximately \$13.2 billion in 2018 and more than double by 2023. Improved product availability, lower prices and consumers' growing comfort with digital platforms are driving the

shift to online sales. We believe that we are well positioned for the shift to online sales due to our history of being a leading source for aftermarket automotive parts through online marketplaces and our network of websites.

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

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

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

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

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

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

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

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



and twenty-six weeks ended June 30, 2018 our unique visitors decreased by 34.0% and 32.1%, respectively, compared to the same periods in 2017 due primarily to a shift in traffic from e-commerce sites to online marketplaces, as well as due to lower organic traffic and a decline in paid traffic due to customer acquisition economics.

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

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

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

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

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

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

#### Executive Summary

For the second quarter of 2018, the Company's continuing operations generated net sales of \$76,973, compared with \$80,208 for the second quarter of 2017, representing a decrease of 4.0%. Our continued operations generated a net loss of \$485 for the second quarter of 2018 compared to net income of \$26,918 for the second quarter of 2017. Our continuing operations generated income before interest expense, net, income tax provision, depreciation and amortization expense, amortization of intangible assets, plus share-based compensation expense, and costs related to our customs issues ("Adjusted EBITDA") of \$2,786 in the second quarter of 2018 compared to \$3,818 in the second quarter of 2017. Adjusted EBITDA, which is not a Generally Accepted Accounting Principle measure, is presented because such measure is used by rating agencies, securities analysts, investors and other parties in evaluating the Company. It should not be considered, however, as an alternative to operating income, as an indicator of the Company's operating performance, or as an alternative to cash flows, as a measure of the Company's overall liquidity, as presented in the Company's consolidated financial statements. Further, the Adjusted EBITDA measure shown may not be comparable to similarly titled measures used by other companies. Refer to the table presented below under "Non-GAAP measures" for additional information and a reconciliation of net income (loss) to Adjusted EBITDA. Our second quarter 2018 net sales consisted of online sales, representing 89.0% of the total (compared to 90.6% in the second quarter of 2017), and offline sales, representing 11.0% of the total (compared to 9.4% in the second quarter of 2017). The net sales decrease was due to a decrease in online sales of \$4,132, or 5.7%, partially offset by an increase in offline sales of \$959 or 12.7%. The offline sales channel increased primarily due to increased Kool-View® sales. Our online sales channels decrease is primarily the result of a \$3,792, or 8.8%, decrease in our e-commerce sales channel, attributable largely to the decline in traffic and the out of stock positions resulting from customs wrongful seizure of our grilles and the prior backlog of our shipping containers at the port of Norfolk arising from the seizures.

Like most e-commerce retailers, our success depends on our ability to attract online consumers to our websites and convert them into customers in a cost-effective manner. Historically, marketing through search engines provided the most efficient opportunity to reach millions of on-line auto part buyers. We are included in search results through paid search listings, where we purchase specific search terms that will result in the inclusion of our listing, and algorithmic searches that depend upon the searchable content on our websites. Algorithmic listings cannot be purchased and instead are determined and displayed solely by a set of formulas utilized by the search engine. We have had a history of success with our search engine marketing techniques, which gave our different websites preferred positions in

search results. Search engines, like Google, revise their algorithms from time to time in an attempt to optimize their search results. During the last few years, Google has changed its search results ranking algorithm. In some cases our unique visitor count, and therefore our financial results, were negatively impacted by these changes. We continue to address the ongoing changes to the Google methodology and continue to invest in paid advertising channels, but during the second quarter of 2018, our unique visitor count decreased by 8.4 million, or 34.0%, to 16.3 million unique visitors compared to 24.7 million unique visitors in the second quarter of 2017 primarily due to a

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

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

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

We believe we can return to positive e-commerce growth by continuing to focus on making the auto parts purchasing process as easy and seamless as possible. We plan to continue to provide unique catalog content and provide better content on our websites with the goal of improving our ranking on the search results.

We continue to work to improve the website purchase experience for our customers by (1) helping our customers find the parts they want to buy by reducing failed searches and increasing user purchase confidence; (2) implementing guided navigation and custom buying experiences specific to strategic part names; (3) increasing order size across our sites through improved recommendation engines; (4) improving our site speed; and (5) creating a frictionless checkout experience for our customers. In addition, we intend to continue to improve our mobile enabled websites to take advantage of shifting consumer behaviors. These efforts are intended to increase the conversion rate of our visitors to customers, the total number of orders and average order value, and the number of repeat purchases, as well as contribute to our revenue growth.

We continue to work towards becoming one of the preferred low price options in the market for aftermarket auto parts and accessories. We also continue to offer lower prices by increasing foreign sourced private label products as they are generally less expensive and we believe provide better value for the consumer. We believe our product offering will improve the conversion rate of visitors to our website, grow our revenues and improve our margins.

We continue to increase product selection by being the first to market with many new SKUs. We currently have over 55,000 private label SKUs and over 1.0 million branded SKUs in our product selection. We will seek to add new categories and expand our existing specialty categories. We believe continued product expansion will increase the total number of orders and contribute to our revenue growth. Additionally, we plan to continue to maintain certain in-stock inventory throughout the year to ensure consistent service levels and improve customer experience.

We continue to implement cost saving measures.

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

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

#### Non-GAAP measures

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

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

Management uses Adjusted EBITDA as one measure of the Company's operating performance because it assists in comparing the Company's operating performance on a consistent basis by removing the impact of stock compensation expense and costs associated with our customs issues, as well as other items that allow for a more meaningful comparison of our core business results and those of other companies. Internally, this non-GAAP measure is also used by management for planning purposes, including the preparation of internal budgets; for allocating resources to enhance financial performance; and for evaluating the effectiveness of operational strategies. The Company also believes that analysts and investors use Adjusted EBITDA as a supplemental measure to evaluate the ongoing operations of companies in our industry.

This non-GAAP financial measure is used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review the Company's consolidated financial statements in their entirety and to not rely on any single financial measure. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. In addition, the Company expects to continue to incur expenses similar to the non-GAAP adjustments described above, and exclusion of these items from the Company's non-GAAP measures should not be construed as an inference that these costs are unusual, infrequent or non-recurring.

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

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

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

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

## Results of Continuing Operations

The following table sets forth selected statement of operations data for the periods indicated, expressed as a percentage of net sales:

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

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

## Net Sales and Gross Margin

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

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