U.S. Auto Parts Network, Inc.
Form 10-Q
May 10, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 2, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-33264

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

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

16941 Keegan Avenue, Carson, CA 90746
(Address of Principal Executive Office) (Zip Code)
(310) 735-0085
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý
As of May 6, 2016, the registrant had 34,677,434 shares of common stock outstanding, $0.001 par value.

U.S. AUTO PARTS NETWORK, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THIRTEEN WEEKS ENDED APRIL 2, 2016
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Unless the context requires otherwise, as used in this report, the terms "U.S. Auto Parts," the "Company," "we," "us" and "our" refer to U.S. Auto Parts Network, Inc. and its wholly-owned and majority-owned subsidiaries. Unless otherwise stated, all amounts are presented in thousands. In addition, unless the context requires otherwise, references to AutoMD refer to AutoMD, Inc., our majority-owned subsidiary.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements included in this report, other than statements or characterizations of historical or current fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and we intend that such forward-looking statements be subject to the safe harbors created thereby. Any forward-looking statements included herein are based on management’s beliefs and assumptions and on information currently available to management. We have attempted to identify forward-looking statements by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would”, “will “will likely result” and variations of these words or similar expressions. These forward-looking statements include, but are not limited to, statements regarding future events, our future operating and financial results, financial expectations, expected growth and strategies, current business indicators, capital needs, financing plans, capital deployment, liquidity, contracts, litigation, 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)

	April 2, 2016	January 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$4,542	$5,537
Short-term investments	65	65
Accounts receivable, net of allowances of $34 and $17 at April 2, 2016 and January 2, 2016, respectively	3,461	3,236
Inventory	46,937	51,216
Other current assets	3,109	2,475
Total current assets	58,114	62,529
Property and equipment, net	18,138	18,431
Intangible assets, net	1,356	1,476
Other non-current assets	1,253	1,320
Total assets	$78,861	$83,756
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$27,635	$25,523
Accrued expenses	7,679	7,267
Revolving loan payable	3,000	11,759
Current portion of capital leases payable	530	521
Other current liabilities	4,456	3,854
Total current liabilities	43,300	48,924
Capital leases payable, net of current portion	10,128	10,168
Deferred income taxes	766	944
Other non-current liabilities	1,566	1,577
Total liabilities	55,760	61,613
Commitments and contingencies		
Stockholders' equity:		
Series A convertible preferred stock, $0.001 par value; $1.45 per share liquidation value or aggregate of $6,017; 4,150 shares authorized; 4,150 shares issued and outstanding at April 2, 2016 and January 2, 2016	4	4
Common stock, $0.001 par value; 100,000 shares authorized; 34,675 and 34,137 shares issued and outstanding at April 2, 2016 and January 2, 2016	35	34
Additional paid-in capital	176,919	176,873
Accumulated other comprehensive income	421	440
Accumulated deficit	(155,819)	(157,011)
Total stockholders' equity	21,560	20,340
Noncontrolling interest	1,541	1,803
Total equity	23,101	22,143
Total liabilities and stockholders' equity	$78,861	$83,756

See accompanying notes to consolidated financial statements (unaudited).

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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	
	April 2, 2016	April 4, 2015
Net sales	$ 80,806	$ 76,388
Cost of sales [(1)]	56,214	54,910
Gross profit	24,592	21,478
Operating expenses:		
Marketing	11,490	10,852
General and administrative	4,485	4,181
Fulfillment	6,038	5,060
Technology	1,277	1,288
Amortization of intangible assets	120	115
Total operating expenses	23,410	21,496
Income (loss) from operations	1,182	(18)
Other income (expense):		
Other income, net	6	23
Interest expense	(347)	(373)
Total other expense, net	(341)	(350)
Income (loss) before income taxes	841	(368)
Income tax provision (benefit)	(149)	(52)
Net income (loss) including noncontrolling interests	990	(316)
Net loss attributable to noncontrolling interests	(262)	(256)
Net income (loss) attributable to U.S. Auto Parts	1,252	(60)
Other comprehensive loss attributable to U.S. Auto Parts:		
Foreign currency translation adjustments	(5)	(10)
Total other comprehensive loss attributable to U.S. Auto Parts	(5)	(10)
Comprehensive income (loss) attributable to U.S. Auto Parts	$ 1,247	$ (70)
Net income (loss) attributable to U.S. Auto Parts per share:		
Basic and diluted net income (loss) per share	$ 0.03	$ —
Diluted net income (loss) per share	$ 0.03	$ —
Weighted average common shares outstanding:		
Shares used in computation of basic net income (loss) per share	34,497	33,720
Shares used in computation of diluted net income (loss) per share	39,359	33,720

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

See accompanying notes to consolidated financial statements (unaudited).

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

	Thirteen Weeks Ended	
	April 2, 2016	April 4, 2015
Operating activities		
Net income (loss) including noncontrolling interests	$990	$(316)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	1,851	1,934
Amortization of intangible assets	120	115
Deferred income taxes	(178)	(67)
Share-based compensation expense	802	510
Stock awards issued for non-employee director service	2	—
Amortization of deferred financing costs	20	20
Gain from disposition of assets	—	(13)
Changes in operating assets and liabilities:		
Accounts receivable	(225)	(405)
Inventory	4,279	15
Other current assets	(630)	(506)
Other non-current assets	49	(7)
Accounts payable and accrued expenses	2,492	2,497
Other current liabilities	601	904
Other non-current liabilities	78	(131)
Net cash provided by operating activities	10,251	4,550
Investing activities		
Additions to property and equipment	(1,276)	(2,151)
Proceeds from sale of property and equipment	—	13
Cash paid for intangible assets	(125)	(110)
Net cash used in investing activities	(1,401)	(2,248)
Financing activities		
Borrowings from revolving loan payable	5,939	4,314
Payments made on revolving loan payable	(14,698)	(5,850)
Proceeds from stock options	127	13
Payments on capital leases	(141)	(66)
Statutory tax withholding payment for share-based compensation	(970)	(438)
Payment of liabilities related to financing activities	(100)	—
Net cash used in financing activities	(9,843)	(2,027)
Effect of exchange rate changes on cash	(2)	(11)
Net change in cash and cash equivalents	(995)	264
Cash and cash equivalents, beginning of period	5,537	7,653
Cash and cash equivalents, end of period	$4,542	$7,917
Supplemental disclosure of non-cash investing and financing activities:		
Accrued asset purchases	$849	$700
Property acquired under capital lease	111	—
Accrued intangible asset	—	15
Supplemental disclosure of cash flow information:		
Cash (paid) received during the period for income taxes	$(7)	$7
Cash paid during the period for interest	315	303

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. Through AutoMD.com, a majority-owned subsidiary, the Company also 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 consumer 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 collision parts serving the body repair segment, 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. 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 April 2, 2016 and the consolidated results of operations and cash flows for the thirteen weeks ended April 2, 2016 and April 4, 2015. 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 January 2, 2016, which was filed with the SEC on March 11, 2016 and all our other periodic filings, including Current Reports on Form 8-K, filed with the SEC after the end of our 2015 fiscal year, and throughout the date of this report.
During the thirteen weeks ended April 2, 2016, the Company had a net income of $1,252 compared to a net loss of $60 during the thirteen weeks ended April 4, 2015. 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.

Segment Data
The Company operates in two reportable operating segments. The criteria the Company uses 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, the core auto parts business ("Base USAP"), and an online automotive repair information source of which we are a majority stockholder ("AutoMD").

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation" ("ASU 2016-09"). The objective of this update is to simplify accounting related to stock compensation. The new standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is evaluating the effect that ASU 2016-09 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.

Note 2 –Intangible Assets, Net

Intangible assets consisted of the following at April 2, 2016 and January 2, 2016 (in thousands):

		April 2, 2016			January 2, 2016		
	Useful Life	Gross Carrying Amount	Accumulated Amort. and Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amort. and Impairment	Net Carrying Amount
Intangible assets subject to amortization:							
Product design intellectual property	4 years	$2,750	$ (2,426)	$ 324	$2,750	$ (2,361)	$ 389
Patent license agreements	3 - 5 years	562	(250)	$ 312	562	(219)	$ 343
Domain and trade names	10 years	1,407	(687)	$ 720	1,407	(663)	$ 744
Total		$4,719	$ (3,363)	$ 1,356	$4,719	$ (3,243)	$ 1,476

Intangible assets subject to amortization are amortized on a straight-line basis. Amortization expense relating to intangible assets for the thirteen weeks ended April 2, 2016 and April 4, 2015 was $120 and $115, respectively. The following table summarizes the future estimated annual amortization expense for these assets over the next five years:

2016	$361
2017	344
2018	185
2019	100
2020	100
Thereafter	266
Total	$1,356

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. The Credit Facility matures on April 26, 2017. At April 2, 2016, our outstanding revolving loan balance was $3,000.

On May 6, 2016, the Company and JPMorgan Chase Bank, N.A. ("JPMorgan") entered into a Ninth 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. Pursuant to the Amendment, letters of credit can be issued if after giving effect to such issuance, the letters of credit exposure shall not exceed $15,000, which was an increase from the previously agreed upon $6,000.

Loans drawn under the Credit Facility bear interest, at the Company's option, at a per annum rate equal to either (a) LIBOR plus an applicable margin of 1.50%, or (b) a "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 April 2, 2016, the Company's LIBOR based interest rate was 1.94% (on $3,000 principal) and the Company's prime based rate was 3.50% (on $0 principal). A commitment fee, based upon undrawn availability under the Credit Facility bearing interest at a rate of 0.25% per annum, is payable monthly. Under the terms of the Credit Agreement, cash receipts are deposited into a lock-box, which are at the Company's discretion unless the "cash dominion period" is in effect, during which cash receipts will be used to reduce amounts owing under the Credit Agreement. The cash dominion period is triggered in an event of default or if excess availability is less than the $3,600 for five 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 $20,074 at April 2, 2016. As of the date hereof, the cash dominion period has not been in effect; accordingly, no principal payments are due.

Note 4 – Stockholders' Equity and Share-Based Compensation

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 consist of 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 income (loss) and other comprehensive loss are reported in the consolidated financial statements at the consolidated amounts, which includes amounts allocated to both the Company's interest and the non-controlling interests in AutoMD. Net loss and other comprehensive loss is then attributed to the Company's interest and the non-controlling interests. Net income (loss) to non-controlling interests is deducted from net income (loss) in the consolidated statements of comprehensive operations to determine net income (loss) attributable to the Company's common stockholders.

The following table summarizes the Company's stock option activity under the AutoMD 2014 Equity Incentive Plan (the "AMD Plan") for the thirteen weeks ended April 2, 2016, and details regarding the options outstanding and exercisable at April 2, 2016:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding, January 2, 2016	1,430	$1.00		
Granted	10	$1.00		
Exercised	—	—		
Expired	—	—		
Forfeited	(35)	$1.00		
Options outstanding, April 2, 2016	1,405	$1.00	8.95	$ —
Vested and expected to vest at April 2, 2016	1,044	$1.00	8.94	$ —
Options exercisable, April 2, 2016	345	$1.00	8.80	$ —

At April 2, 2016, 545 shares were available for future grants under the AMD Plan.

The weighted-average fair value of options granted and outstanding as of April 2, 2016 and April 4, 2015 was $0.55 and $0.54, respectively. The intrinsic value of stock options at the date of exercise is the difference between the fair value of the stock at the date of the balance sheet and the exercise price. During the thirteen weeks ended April 2, 2016 and April 4, 2015, the options had $0 intrinsic value. The Company had $419 of unrecognized share-based compensation expense related to stock options outstanding as of April 2, 2016, which expense is expected to be recognized over a weighted-average period of 2.94 years.

Options exercised under all share-based compensation plans are granted net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. For those employees who elect not to receive shares net of the minimum statutory withholding requirements, the appropriate taxes are paid directly by the employee. During the thirteen weeks ended April 2, 2016, we withheld 0 shares to satisfy $0 of employees' tax obligations and 0 shares related to the net settlement of the stock options.

U.S. Auto Parts Network Options and Restricted Stock Units

The Company had the following common stock option activity during the thirteen weeks ended April 2, 2016:

•Granted options to purchase 680 common shares.
•Forfeitures of 4 options to purchase common shares.
•Expiration of 10 options to purchase common shares.

The following table summarizes the Company’s restricted stock unit ("RSU") activity for the thirteen weeks ended April 2, 2016, and details regarding the awards outstanding and exercisable at April 2, 2016 (in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Awards outstanding, January 2, 2016	804	$ —		
Awarded	954	$ —		
Vested	(774)	$ —		
Forfeited	—	$ —		
Awards outstanding, April 2, 2016	984	$ —	1.25	$ 2,666
Vested and expected to vest at April 2, 2016	854	$ —	1.21	$ 2,313

During the thirteen weeks ended April 2, 2016, all RSU's that vested were time-based. For the majority of RSUs awarded, the number of shares issued on the date the RSUs vest is net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. For those employees who elect not to receive shares net of the minimum statutory withholding requirements, the appropriate taxes are paid directly by the employee. During the thirteen weeks ended April 2, 2016, we withheld 131 shares to satisfy $371 of employees' tax obligations. Although shares withheld are not issued, they are treated as a common stock repurchase in our consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting.

For the thirteen weeks ended April 2, 2016, we recorded compensation expense of $827. As of April 2, 2016, there was unrecognized compensation expense of $1,806 related to unvested RSUs based on awards that are expected to vest. The unrecognized compensation expense is expected to be recognized over a weighted-average period of 1.25 years.

Note 5 – Net Income (Loss) Per Share

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

	Thirteen Weeks Ended	
	April 2, 2016	April 4, 2015
Net income (loss) per share:		
Numerator:		
Net income (loss) attributable to U.S. Auto Parts	$1,252	$(60)
Dividends on Series A Convertible Preferred Stock	60	60
Net income (loss) available to common shares	$1,192	$(120)
Denominator:		
Weighted-average common shares outstanding (basic)	34,497	33,720
Common equivalent shares from common stock options, preferred stock and warrants	4,862	—
Weighted-average common shares outstanding (diluted)	39,359	33,720
Basic and diluted net income (loss) per share	$0.03	$—
Diluted net income (loss) per share	$0.03	$—

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

	Thirteen Weeks Ended	
	April 2, 2016	April 4, 2015
Common stock warrants	20	50
Series A Convertible Preferred Stock	—	4,150
Restricted stock units	957	905
Options to purchase common stock	3,692	5,712
Total	4,669	10,817

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 2011-2015 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 2012-2015 remain open.

For the thirteen weeks ended April 2, 2016 the effective tax rate for the Company was (17.7)%. The Company's effective tax rate for the thirteen weeks ended April 2, 2016 differed from the U.S. federal statutory rate primarily as a result of the recording of valuation allowance against the pre-tax losses that was offset by the tax benefit resulting from the reduction of excess book basis in the Company's investment in AutoMD over its tax basis due to AutoMD's pre-tax losses. For the thirteen weeks ended April 4, 2015, the effective tax rate for the Company was 14.1%. The Company’s effective tax rate for the thirteen weeks ended April 4, 2015 differed from the U.S. federal statutory rate primarily as a result of the recording of valuation allowance against the pre-tax losses.

Note 7 – Commitments and Contingencies

Facilities Leases

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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 LaSalle, Illinois and in Chesapeake, Virginia. The Company’s Philippines subsidiary leases office space under an agreement through April 2020.

Facility rent expense for the thirteen weeks ended April 2, 2016 was $402 compared to $365 for the thirteen weeks ended April 4, 2015.

Minimum lease commitments under non-cancellable operating leases as of April 2, 2016 were as follows (in thousands):

2016	$1,138
2017	1,230
2018	1,267
2019	845
2020	200
2021 onwards	$—
Total	$4,680

Capital lease commitments as of April 2, 2016 were as follows (in thousands):

2016	$977
2017	1,276
2018	1,284
2019	1,298
2020	1,130
2021 onwards	12,912
Total minimum payments required	18,877
Less amount representing interest	8,219
Present value of minimum capital lease payments	$10,658

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.

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 – 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 income (loss) from operations. Operating income (loss) represents earnings (loss) 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
Thirteen weeks ended April 2, 2016			
Net sales	$ 80,746	$ 60	$ 80,806
Gross profit	$ 24,532	$ 60	$ 24,592
Operating costs (1)	$ 22,621	$ 789	$ 23,410
Income (loss) from operations	$ 1,911	$ (729)	$ 1,182
Capital expenditures	$ 1,005	$ 271	$ 1,276
Depreciation and amortization	$ 1,544	$ 307	$ 1,851
Total assets, net	$ 73,988	$ 4,873	$ 78,861
Thirteen weeks ended April 4, 2015			
Net sales	$ 76,325	$ 63	$ 76,388
Gross profit	$ 21,415	$ 63	$ 21,478
Operating costs (1)	$ 20,720	$ 776	$ 21,496
Income (loss) from operations	$ 695	$ (713)	$ (18)
Capital expenditures	$ 1,966	$ 185	$ 2,151
Depreciation and amortization	$ 1,549	$ 385	$ 1,934
Total assets, net	$ 76,172	$ 7,667	$ 83,839

(1) Operating costs for AutoMD primarily consist of depreciation and amortization on fixed assets and personnel costs. Indirect costs are not allocated to AutoMD.

The following table summarizes the approximate distribution of Base USAP revenue by product type.

	Thirteen Weeks Ended	
	April 2, 2016	April 4, 2015
Private Label		
Collision	52%	50%
Engine	14%	13%
Performance	1%	1%
Branded		
Collision	2%	2%
Engine	12%	13%
Performance	19%	21%
Total	100%	100%

Note 9 – AutoMD

On October 8, 2014, AutoMD entered into a Common Stock Purchase Agreement ("Purchase Agreement") to sell an aggregate of 7,000 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 continues 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 valued at $3,847, less the related deferred tax liability of $1,313.

Additionally, pursuant to the terms of the Purchase Agreement, the Company may be required to purchase 2,000 shares of AutoMD common stock at a purchase price of $1.00 per share, with such purchase to be triggered only if as of October 8, 2016, AutoMD does not meet a required minimum number of approved auto repair shops permitted to submit a quotation on AutoMD's website ("Registered Repair Shops"), or separately if at any time 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 $7,000 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. The Investor Rights Agreement includes certain demand and piggyback registration rights, and restrictions on transfers or dilutive transactions involving AutoMD common stock. Prior to October 8, 2017, the Company is prohibited from transferring 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 AutoMD 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, and effect such transfer.

The table below presents the effect of changes in the Company's ownership interest in AutoMD on the Company's equity during the thirteen weeks ended April 2, 2016:

	Noncontrolling Interest		
Balance, January 2, 2016	$	1,803	
Net loss allocable to noncontrolling interest	(262		)
Balance, April 2, 2016	$	1,541	

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. Through AutoMD.com, our majority-owned subsidiary, the Company also educates consumers on the maintenance and service of their vehicles. Our flagship consumer 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.

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 11.7 years by 2018. IHS expects the number of vehicles that are 12 years or older to increase by 15% by 2020. IHS found that the total number of light vehicles in operation in the U.S. has increased to record levels, with new vehicle registrations outpacing scrappage rates by more than 42%. 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. Management estimates that overall revenue from online sales of auto parts and accessories is projected to increase from approximately $5.5 billion in 2015 to $9.7 billion in 2018. 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 cost-effective manner.

AutoMD. In October 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%.

AutoMD's mission is to be the repair shop advocate for all vehicle owners, increase their confidence in the repair process and provide the most affordable and high quality options for automobile repair. AutoMD's current focus is on marketing and technology. AutoMD's current marketing strategy involves driving growth in their repair shop network. During the first quarter of 2016, marketing efforts resulted in approximately 700 repair shops joining AutoMD's network, rising from about 3,220 repair shops in December 2015 to approximately 3,900 at the end of the first quarter of 2016. AutoMD now has repair shops participating in 43 states. In addition to marketing, AutoMD continues to

refine the online experience, including its mobile presence.
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			
	April 2, 2016		April 4, 2015	
Unique Visitors (millions) [1]	31.4		30.6	
E-commerce Orders (thousands)	559		516	
Online Marketplace Orders (thousands)	322		296	
Total Online Orders (thousands)	881		812	
E-commerce Average Order Value	$ 106		$ 110	
Online Marketplace Average Order Value	$ 72		$ 71	
Total Online Average Order Value	$ 94		$ 96	
Revenue Capture [1]	85.5	%	85.5	%
Conversion [1]	1.8	%	1.7	%

(1) 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 first quarter of 2016, our unique visitors increased by 2.6% compared to the first quarter of 2015. The increase in unique visitors was primarily due to an increase in paid traffic partially offset by a decrease in organic traffic.

Total Number of Orders: We monitor the total number of orders as an indicator of future revenue trends. Total orders increased 8.5% in the first quarter of 2016 compared to the first quarter of 2015, with e-commerce and online marketplace orders increasing by 8.3% and 8.8%, respectively. We believe that e-commerce and online marketplace orders improved for the first quarter through an enhanced customer experience, greater product selection and certain strategic pricing initiatives. 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. Average order value decreased 2.1% in the first quarter of 2016 compared to the first quarter of 2015 primarily due to a mix shift towards more private label sales. 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 first quarter of 2016, our revenue capture remained flat compared to the first quarter of 2015. We expect our revenue capture level to marginally improve in fiscal year 2016, compared to fiscal year 2015, as we continue to improve our customers’ purchase experience.

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 first quarter of 2016, our conversion improved by

0.1% to 1.8% compared to 1.7% in the first quarter of 2015.
Executive Summary

For the first quarter of 2016, Base USAP generated net sales of $80,746, compared with $76,325 for the first quarter of 2015, representing an increase of 5.8%. Base USAP net income for the first quarter of 2016 was $1,537, compared to net income of $187 for the first quarter of 2015. We generated income before interest expense, net, income tax provision, depreciation and amortization expense, amortization of intangible assets, plus share-based compensation expense and restructuring costs (“Adjusted EBITDA”) of $4,344 in the first quarter of 2016 compared to $2,851 in the first quarter of 2015. 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 under "Non-GAAP measures" for additional information and a reconciliation of net income (loss) to Adjusted EBITDA.

For the first quarter of 2016, AutoMD generated net sales of $60 compared to $63 in the same period last year. AutoMD's net loss was $547 for the first quarter of 2016 compared to a net loss of $503 for the first quarter of 2015. AutoMD's Adjusted EBITDA was negative $385 compared to negative $287 in the same period last year.

Our first quarter 2016 net sales consisted of online sales, representing 90.7% of the total (compared to 90.4% in the first quarter of 2015), and offline sales, representing 9.3% of the total (compared to 9.6% in the first quarter of 2015). The net sales increase was due to an increase of $4,240, or 6.1%, in online sales as well as an increase in offline sales by $178, or 2.4%. The online sales channels increase is primarily the result of a $2,361, or 4.9%, increase in our e-commerce sales channel as well as a $2,124, or 11.1%, increase in our online market places. The increase in our e-commerce and online marketplaces sales channels was driven by a combination of increased unique visitors as well as improved conversion.

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. While we continue to address the ongoing changes to the Google methodology, during the first quarter of 2016, our unique visitor count increased by 0.8 million, or 2.6%, to 31.4 million unique visitors compared to 30.6 million unique visitors in the first quarter of 2015 primarily due to an increase in paid traffic, partially offset by lower organic traffic. 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 increased for the first quarter of 2016 compared to the first quarter of 2015, while our average order value remained flat for the same period. Total expenses, which primarily consisted of cost of sales and operating costs, increased during the first quarter of 2016 compared to the same period in 2015. Components of our cost of sales and operating costs are described in further detail under — “Results of Operations” below.

We made positive strides towards achieving our strategic goals during fiscal year 2015 and during the first quarter in fiscal year 2016 we continue to pursue strategies to support our positive sales growth and improve gross profit while reducing operating costs as percent of sales:

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We expect to continue positive e-commerce growth by providing unique catalog content and providing better content on our websites with the goal of improving our ranking on the search results. In addition, we intend to improve mobile enabled websites to take advantage of shifting consumer behaviors. We expect revenue trends to remain positive in 2016.

- 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; and (3) increasing order size across our sites through improved recommendation engines. In addition, we intend to build mobile enabled websites to take advantage of shifting consumer behaviors. These efforts

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may 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 are the consumer advocate for auto repair through AutoMD.com. We will continue to devote resources to AutoMD.com, its system development and the expansion of its repair shop network, drawing upon the proceeds from the sale of AutoMD common stock. We believe this resource allocation will help improve our brand recognition and contribute to our revenue growth.
- We continue to implement cost saving measures.

Overall, we expect continued revenue growth in fiscal year 2016 compared to fiscal year 2015 due to the initiatives we have implemented and will implement through the remainder of our fiscal year.

We have redesigned our approach to attracting customers through search engines with increased paid advertising which has helped us offset some of the decline in organic traffic to our e-commerce sites. 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.

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 (a) share-based compensation expense; and (b) restructuring costs.

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

Management uses Adjusted EBITDA as one measure of the Company’s operating performance because it assists in comparing the Company’s operating performance on a consistent basis by removing the impact of stock compensation expense, as well as items that are not expected to be recurring. Internally, this non-GAAP measure is also used by management for planning purposes, including the preparation of internal budgets; for allocating resources to enhance financial performance; and for evaluating the effectiveness of operational strategies. The Company also believes that 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 operates in two reportable segments identified as the core auto parts business ("Base USAP"), 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 two 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 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.

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

	Thirteen Weeks Ended					
	April 2, 2016			April 4, 2015		
	Base USAP	AMD	Consolidated	Base USAP	AMD	Consolidated
Net sales	$80,746	$ 60	$ 80,806	$76,325	$ 63	$ 76,388
Cost of sales	56,214	—				