U.S. Auto Parts Network, Inc.
Form S-1
November 02, 2006
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As filed with the Securities and Exchange Commission on November 2, 2006

Registration No. 333-

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

U.S. Auto Parts Network, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**5531**	**68-0623433**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Number)**	**(I.R.S. Employer Identification No.)**

17150 South Margay Avenue

Carson, CA 90746

(310) 719-8666

(Address, Including Zip Code and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Michael J. McClane

Chief Financial Officer, Vice President of Finance and Treasurer

U.S. Auto Parts Network, Inc.

17150 South Margay Avenue

Carson, CA 90746

(310) 719-8666

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Ellen S. Bancroft, Esq. Scott R. Santagata, Esq. J.R. Kang, Esq. Jason R. Wisniewski, Esq. Dorsey & Whitney LLP 38 Technology Drive Irvine, CA 92618 (949) 932-3600	Michael J. Sullivan, Esq. Julia Vax, Esq. David Tang, Esq. Howard Rice Nemerovski Canady Falk & Rabkin, A Professional Corporation Three Embarcadero Center, Seventh Floor San Francisco, CA 94111-4024 (415) 434-1600

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

(continued on next page)

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee**
Common Stock, $0.001 par value	$100,000,000	$10,700

(1) Includes the offering price attributable to shares that the Underwriters have the option to purchase solely to cover over-allotments, if any.

(2) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Subject to completion, dated November 2, 2006

PROSPECTUS

Shares

Common Stock

This is U.S. Auto Parts Network, Inc. s initial public offering. U.S. Auto Parts Network, Inc. is selling all of the shares of common stock offered by this prospectus.

We expect the public offering price to be between $ and $ per share. Currently, no public market exists for the shares. After pricing the offering, we expect that the common stock will be traded on the NASDAQ Global Market under the symbol PRTS.

Investing in our common stock involves risks. See Risk Factors beginning on page 9.

PRICE $ PER SHARE

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Net proceeds, before expenses, to U.S. Auto Parts	$	$

The underwriters may also purchase up to an additional shares from us at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus to cover over-allotments, if any.

The underwriters expect to deliver the shares on or about , 2006.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

RBC CAPITAL MARKETS **THOMAS WEISEL PARTNERS LLC**

PIPER JAFFRAY **JMP SECURITIES**

, 2006.

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you different or inconsistent information, you should not rely on it. We are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions where offers or sales are permitted. The information in this prospectus is only accurate as of the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus contains market data and industry forecasts and projections, which we have obtained from third party market research, publicly available information and industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers experience in the industry, and we cannot assure you that any of the projected amounts will be achieved. Similarly, we believe that the surveys and market research others have performed are reliable, but we have not independently verified the information.

For investors outside the United States: Neither we nor any of the underwriters for the offering of our common stock have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about, and to observe any restrictions relating to, our offering and the distribution of this prospectus.

U.S. Auto Parts®, U.S. Auto Parts Network®, PartsTrain®, Partsbin, Kool-Vue and Auto-Vend are our United States trademarks. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.

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PROSPECTUS SUMMARY

This summary highlights the information contained elsewhere in this prospectus. This summary is not complete and may not contain all the information you should consider before investing in our common stock. You should read the entire prospectus carefully, including the Risk Factors and the consolidated financial statements and related notes before making an investment decision.

Our Business

Overview

We are a leading online provider of aftermarket auto parts, including body parts, engine parts, performance parts and accessories. Our user-friendly websites provide customers with a comprehensive selection of approximately 550,000 products, identified as stock keeping units or SKUs. We have developed a proprietary product database that maps our 550,000 SKUs to over 4.3 million 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 websites are located at *www.partstrain.com* and *www.autopartswarehouse.com*, and our corporate website is located at *www.usautoparts.com*.

Our online sales channel and relationships with suppliers enable us to eliminate several intermediaries in the traditional auto parts supply chain, allowing us to acquire many of our products directly from manufacturers and sell them to our customers. Additionally, as an online retailer, we do not incur many of the costs associated with operating brick and mortar stores. We believe that our ability to disintermediate the auto parts supply chain, combined with our efficient e-commerce platform, enables us to sell products at competitive prices while achieving higher operating margins and return on invested capital than many traditional automotive parts retailers.

Our business has grown consistently since we launched our first website in 2000. In the year ended December 31, 2005 and the nine months ended September 30, 2006, we generated net sales of $59.7 million and $83.7 million, respectively. In the year ended December 31, 2005 and for the nine months ended September 30, 2006, we generated net income of $6.8 million and $3.5 million, respectively. During the same periods, we also generated Adjusted EBITDA of $8.8 million and $10.2 million, respectively. In addition, we have experienced continued growth in the number of monthly unique visitors to our websites. In September 2006, approximately 6.8 million unique visitors visited our websites. The number of orders placed through all of our e-commerce websites has also increased from approximately 288,000 orders for the year ended December 31, 2005 to approximately 505,000 orders for the nine months ended September 30, 2006. The average order value of purchases on our websites for the nine months ended September 30, 2006 was approximately $120.

Industry Overview

The United States automotive aftermarket industry is forecasted to be $204 billion in 2006 according to the Automotive Aftermarket Industry Association, or AAIA, an independent trade association. Our addressable market is forecasted by AAIA to be approximately $91.3 billion, which consists of approximately $37.8 billion in sales to Do-It-Yourself, or DIY, customers, and approximately $53.5 billion in sales to Do-It-For-Me, or DIFM, customers. While the U.S. auto parts aftermarket is a large market characterized by modest growth, we believe there is an opportunity for e-commerce aftermarket auto parts retailers to grow faster than the overall market.

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According to Forrester Research, an independent market research firm, online purchases by U.S. consumers are expected to grow from approximately $172 billion in 2005 to approximately $329 billion by 2010, representing a 13.9% compound annual growth rate. Additionally, according to Forrester Research, the percentage of U.S. households shopping online is projected to grow from 39% in 2005 to 48% in 2010.

In 2006, the online and mail order portion of aftermarket auto part sales is forecasted to be $2.7 billion according to the AAIA. While the portion of online and mail order sales is a relatively small percentage of our addressable market at approximately 3%, we believe online penetration rates of aftermarket auto parts consumers will continue to increase and, as a result, sales for online aftermarket auto parts are expected to continue to grow at a faster rate than the overall auto parts market.

The auto parts market has traditionally been fragmented and inefficient, with multiple intermediaries, including importers, wholesalers, distributors and retailers, between manufacturers and consumers. Furthermore, auto parts retailers who operate brick and mortar stores generally stock only a small percentage of the products that are available for sale. As a result, consumers must often visit several retailers to find a part or have a retailer order the part for future delivery. The fragmented nature of the auto parts market has also meant an absence of a centralized database or a comprehensive, master catalog of products, which maps all aftermarket auto parts to all relevant applications for such parts. We believe this inadequacy of information leads to inefficiencies in the sale and purchase process for both the retailer and the consumer.

Our Solution

We believe our solution addresses the problems faced in the traditional auto parts market and provides additional benefits for our customers. The key components of our solution include:

Disintermediation of the Auto Parts Supply Chain. We have developed an online sales channel that enables us to sell aftermarket auto parts to our customers while eliminating several intermediaries in the traditional auto parts supply chain. Disintermediating the traditional supply chain allows us to offer auto parts to our customers at competitive prices and allows us to more efficiently deliver products to our customers while generating higher profit margins.

Leading Network of Websites. We have developed a network of websites to offer our broad selection of aftermarket auto parts. Our flagship websites for e-commerce are located at *www.partstrain.com* and *www.autopartswarehouse.com*. We believe that we provide an intuitive online shopping experience that enables us to cost-effectively attract an increasing number of visitors to our sites while reducing the number of product returns and exchanges.

Proprietary Product Catalog. We have invested significant resources and time over several years to build a proprietary product catalog that maps our 550,000 SKUs to over 4.3 million product applications based on vehicle makes, models and years. By creating a master catalog of individual auto parts and accessories mapped to multiple vehicle makes, models and years, we increase our sales potential while reducing inventory management expense. We believe that there is no other online catalog of aftermarket body parts, engine parts, performance parts and accessories currently available today that offers the same breadth, accuracy and detail.

Flexible Fulfillment Methods. We fulfill customer orders using two primary methods: (i) stock-and-ship, where we take physical delivery of a part and store it in one of our distribution centers until it is shipped to a customer, and (ii) drop-ship, where the part is shipped directly to the customer from

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the supplier. We believe that the flexibility of fulfilling orders via two different fulfillment methods allows us to offer a broader selection of products, optimize product inventory and enhance business profitability.

Low Cost Operations. Our offshore and outsourced operations in the Philippines and India, which are responsible for a majority of the development and maintenance of our websites and product catalog, allow us to access a qualified workforce at a significantly lower cost than comparably experienced U.S.-based professionals.

Long-Standing Supplier Relationships. We source products from manufacturers and distributors located in Asia and the United States. We have developed strong relationships with our suppliers, some of whom have been working with us for over a decade. Our supplier relationships and our understanding of the market enable us to set competitive pricing for our products and ensure product availability.

Benefits to Customers

We believe our solution provides multiple benefits to our customers, including:

Broad Product Selection and Availability. Our proprietary product catalog provides our customers with the ability to select from over 4.3 million product applications, based on vehicle makes, models and years.

Competitive Pricing. We are able to offer our customers lower prices relative to original equipment manufacturer, or OEM, parts retailers and traditional aftermarket retailers by eliminating several intermediaries in the aftermarket auto parts supply chain, leveraging our long-term supplier relationships and establishing an efficient online cost structure that capitalizes on relatively inexpensive labor.

Prompt Order Fulfillment. Our proprietary order fulfillment system allows us to efficiently process and ship items from our distribution centers or from our suppliers, ensuring timely delivery of products to our customers.

Detailed Product Information. We provide detailed product descriptions and photographs, specific vehicle applications, part numbers for aftermarket parts, pricing information and related part and brand suggestions for the parts offered on our websites so our customers can make an informed purchasing decision on every order.

Satisfying Shopping Experience and Knowledgeable Customer Service. Our easy to navigate websites are accessible from the convenience of the customer s home or office or anywhere with an Internet connection. Our customer support staff is available to provide assistance to our customers throughout the purchase process 24 hours a day, seven days a week, via phone, live-chat or e-mail.

Our Growth Strategy

Our primary objective is to continue our growth and to strengthen our position as a leading online provider of aftermarket auto parts. The key elements of our strategy are as follows:

Expand Our Product Offering. We will continue to expand our product selection by adding new SKUs from existing suppliers, adding new suppliers and optimizing our distribution centers to create additional capacity for new items.

Cost-Effectively Increase the Number of Visitors to Our Websites. We intend to increase the number of visitors to our websites by continuing to enhance our site content and layout, so that our websites will be included as a relevant search result when consumers use Internet search engines to find aftermarket auto parts.

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Increase Our Visitor Conversion Rate. We seek to increase the conversion rate of visitors to our websites by improving our existing website designs and online purchase processes, and by continuing to focus on customer service.

Increase Repeat Customers. We intend to increase the number of customers who make repeat purchases from our websites by continuing to offer a broad range of products at competitive prices, improving the overall customer shopping experience, focusing on customer service and rapid fulfillment of orders, and by further enhancing the features and functionality of our websites.

Expand e-Commerce Distribution Channels. We plan to build and strengthen partnerships with auction sites, large online marketplaces, complementary niche websites and comparison shopping sites in order to expand the distribution channels for our products.

Pursue Strategic Acquisitions that Augment Our Business. We intend to selectively pursue acquisition opportunities to increase our share of the aftermarket auto parts market and expand our product offering.

Corporate Information

We were formed as a California corporation in 1995 and reincorporated in Delaware in March 2006. Our executive offices are located at 17150 South Margay Avenue, Carson, California 90746, and our telephone number is (310) 719-8666. Our corporate website is located at *www.usautoparts.com.* Our flagship retail websites are located at *www.partstrain.com* and *www.autopartswarehouse.com.* The information contained in, or that can be accessed through, our websites does not constitute a part of this prospectus. Unless the context requires otherwise, as used in this prospectus, the terms U.S. Auto Parts, we, us and our refer to U.S. Auto Parts Network, Inc. and its subsidiaries, and the term Partsbin refers to All OEM Parts, Inc., ThePartsBin.com, Inc. and their affiliated companies, which we acquired in May 2006.

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The Offering

Common stock offered by us	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	For repayment of approximately $35.0 million of indebtedness and for working capital and other general corporate purposes, including expanding our infrastructure and sales and marketing activities. In addition, we may use a portion of the net proceeds for acquisitions and investments in complementary businesses, technologies and strategic relationships. See Use of Proceeds.
Risk Factors	See Risk Factors and the other information included in this prospectus for a discussion of factors you should consider carefully before investing in shares of our common stock.
Proposed NASDAQ Global Market symbol	PRTS

The number of shares of common stock outstanding after this offering is based on 36,388,226 shares outstanding as of September 30, 2006, which assumes the conversion of all of our outstanding preferred stock into 11,055,425 shares of common stock immediately prior to the completion of this offering, and does not include, as of such date:

- 4,027,560 shares of common stock issuable upon the exercise of outstanding options at a weighted average exercise price of $4.92 per share;
- shares of common stock reserved for future grant or issuance under our stock option plans;
- 140,554 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $4.38 per share; and
- the effect of a -for- reverse stock split, which is expected to be effected prior to the completion of this offering.

Unless otherwise indicated, all information in this prospectus assumes:

- the underwriters will not exercise their over-allotment option to purchase up to additional shares of common stock;
- no other person will exercise any other outstanding options or warrants; and
- the initial public offering price will be $ per share.

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Summary Consolidated Financial Data

The following tables summarize our consolidated financial data for the periods presented and should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus. The summary consolidated financial data for the years ended December 31, 2003, 2004 and 2005 are derived from our audited consolidated financial statements. We have also included data from our unaudited consolidated financial statements for the nine months ended September 30, 2005 and 2006.

	Years Ended December 31,				Nine Months Ended September 30,		
	2003	2004	2005	Pro Forma 2005(1) (unaudited)	2005 (unaudited)	2006 (unaudited)	Pro Forma 2006(1) (unaudited)
	(in thousands, except share and per share data)						
Consolidated Statement of Income Data:							
Net sales	$31,657	$40,658	$59,698	$97,993	$43,979	$83,665	$107,524
Cost of sales	17,814	21,334	34,829	64,227	25,876	53,779	71,469
Gross profit	13,843	19,324	24,869	33,766	18,103	29,886	36,055
Operating expenses:							
General and administrative(2)	2,284	3,599	7,254	10,325	5,555	7,081	8,694
Marketing(2)	3,617	4,526	5,802	10,862	4,315	10,313	13,539
Fulfillment(2)	3,246	2,990	4,357	4,407	3,162	3,589	3,608
Technology(2)	405	776	868	1,431	596	992	1,305
Amortization of intangibles		8	17	8,176	13	3,037	6,174
Total operating expenses	9,552	11,899	18,298	35,201	13,641	25,012	33,320
Income (loss) from operations	4,291	7,425	6,571	(1,435)	4,462	4,874	2,735
Other income (expense), net	(42)	36	85	(1,852)	97	(800)	(1,529)
Income (loss) before income taxes	4,249	7,461	6,656	(3,287)	4,559	4,074	1,206
Income tax provision (benefit)	478	328	(163)	(195)	(199)	539	(110)
Net income (loss)	$3,771	$7,133	$6,819	$(3,092)	$4,758	$3,535	$1,316
Basic net income (loss) per share	$0.20	$0.32	$0.31	$(0.12)	$0.22	$0.15	$0.05
Diluted net income (loss) per share	$0.20	$0.32	$0.31	$(0.12)	$0.22	$0.11	$0.04
Pro forma basic net income per share(5)			$0.21			$0.10	
Shares used in computation of basic net income (loss) per share	18,794,793	22,000,000	22,000,000	25,305,529	22,000,000	23,634,781	25,317,816
Shares used in computation of diluted net income (loss) per share	18,794,793	22,000,000	22,000,000	25,305,529	22,000,000	32,270,315	33,953,350
Shares used in the computation of pro forma basic net income per share(5)			33,055,425			34,690,206	
Non-GAAP Financial Measures:							
EBITDA(3)	4,382	7,961	8,755	8,888	6,095	9,589	10,520
Adjusted EBITDA(3)	4,382	7,961	8,755	8,888	6,095	10,193	11,124
Unaudited Pro Forma Statement of Income Data(4):							
Income (loss) before income taxes	4,249	7,461	6,656	(3,287)	4,559	4,074	1,206
Pro forma provision (benefit) for income taxes	1,729	2,964	2,657	(1,301)	1,822	1,728	586
Pro forma net income (loss)	$2,520	$4,497	$3,999	$(1,986)	$2,737	$2,346	$620
Pro forma basic net income (loss) per share	$0.13	$0.20	$0.18	$(0.08)	$0.12	$0.10	$0.02

Pro forma diluted net income (loss) per share	$0.13	$0.20	$0.18	$(0.08)	$0.12	$0.07	$0.02

(see footnotes on next page)

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(footnotes to prior page)

(1) The pro forma financial information gives effect to the acquisition of Partsbin as if the acquisition occurred on January 1, 2005.

(2) Includes share-based compensation expense related to option grants, as follows:

	Years Ended December 31,				Nine Months Ended September 30,		
	2003	2004	2005	Pro Forma 2005(1) (unaudited)	2005 (unaudited)	2006 (unaudited)	Pro Forma 2006(1) (unaudited)
	(in thousands)						
General and administrative	$	$	$	$	$	$ 359	$ 359
Marketing						126	126
Fulfillment						16	16
Technology						103	103
	$	$	$	$	$	$ 604	$ 604

(3) EBITDA and Adjusted EBITDA are supplemental non-GAAP financial measures. GAAP means generally accepted accounting principles in the United States. EBITDA is equal to net income plus (a) interest expense, net; (b) income tax provision (benefit); (c) amortization of intangibles; and (d) depreciation and amortization. Our definition of Adjusted EBITDA is different from EBITDA because we further adjust EBITDA to exclude share-based compensation expense. A reconciliation of these non-GAAP financial measures to net income is set forth in the related table under Non-GAAP Financial Measures below.

(4) Presents pro forma provision for income taxes and pro forma net income as if we operated as a C corporation in all periods presented. See Note 1 and Note 7 of the Notes to our Consolidated Financial Statements included elsewhere in this prospectus for an explanation of the unaudited pro forma statement of income data.

(5) Pro forma basic net income per share for the latest year end and interim period only has been computed to give effect to the conversion of the Series A convertible preferred stock into common stock upon the closing of the Company s initial public offering on an if-converted basis.

The pro forma as adjusted consolidated balance sheet data below give effect to the conversion of all of our outstanding preferred stock into 11,055,425 shares of our common stock immediately prior to the closing of this offering, as well as the receipt of the estimated proceeds from the sale of the shares in this offering at an assumed initial offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and the repayment after the closing of this offering of $35.0 million of indebtedness incurred in connection with our acquisition of Partsbin.

	As of September 30, 2006	
	Actual	Pro Forma As Adjusted
	(unaudited)	

	(in thousands)
Consolidated Balance Sheet Data:	
Cash and cash equivalents	$ 3,287
Working capital	(4,528)
Total assets	68,505
Total debt, including current portion, capital lease obligations and notes payable to stockholders	34,888
Stockholders equity	20,229

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Non-GAAP Financial 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, because we believe such measures are important supplemental information for investors. We calculate EBITDA as net income before (a) interest expense, net; (b) income tax provision (benefit); (c) amortization of intangibles; and (d) depreciation and amortization. Adjusted EBITDA further adjusts EBITDA to exclude share-based compensation expense related to our grant of stock options and other equity instruments. These non-GAAP financial measures are 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. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business.

We use EBITDA and Adjusted EBITDA:

- as measurements of our operating performance because they assist us in comparing our operating performance on a consistent basis by removing the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal budget;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our operational strategies; and
- to evaluate our capacity to fund capital expenditures and expand our business.

We also believe that analysts and investors use EBITDA and Adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

Management strongly encourages investors to review our 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. For information about our financial results as reported in accordance with GAAP, see our consolidated financial statements and related notes included in this prospectus.

The table below reconciles net income (loss) to EBITDA and Adjusted EBITDA for the periods presented:

	Years Ended December 31,				Nine Months Ended September 30,		
	2003	2004	2005	Pro Forma 2005(1) (unaudited)	2005 (unaudited)	2006 (unaudited)	Pro Forma 2006(1) (unaudited)
	(in thousands)						
Net income (loss)	$ 3,771	$ 7,133	$ 6,819	$ (3,092)	$ 4,758	$ 3,535	$ 1,316
Interest expense, net	13	44	106	1,931	68	950	1,657
Income tax provision (benefit)	478	328	(163)	(195)	(199)	539	(110)
Amortization of intangibles		8	17	8,176	13	3,037	6,174
Depreciation and amortization	120	448	1,976	2,068	1,455	1,528	1,483
EBITDA	4,382	7,961	8,755	8,888	6,095	9,589	10,520

Share-based compensation						604	604
Adjusted EBITDA	$ 4,382	$ 7,961	$ 8,755	$ 8,888	$ 6,095	$ 10,193	$ 11,124

(1) The pro forma financial information gives effect to the acquisition of Partsbin as if the acquisition occurred on January 1, 2005.

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RISK FACTORS

You should consider carefully the following risks before you decide to purchase our common stock. Additional risks and uncertainties not presently known to us or that we currently believe are not important may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected, the value of our common stock could decline and you may lose all or part of your investment.

Risks Relating to Our Business

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

The online market for aftermarket auto parts is less developed than the online market for many other business and consumer products. Our success will depend in part on our ability to attract new customers and customers who have historically purchased auto parts through traditional retail and wholesale operations. Furthermore, we may have to incur significantly higher and more sustained advertising and promotional expenditures or price our products more competitively than we currently anticipate in order to attract additional online consumers to our websites and convert them into purchasing customers. Specific factors that could prevent prospective customers from purchasing from us include:

- concerns about buying auto parts without face-to-face interaction with sales personnel;
- the inability to physically handle, examine and compare products;
- delivery time associated with Internet orders;
- concerns about the security of online transactions and the privacy of personal information;
- delayed shipments or shipments of incorrect or damaged products; and
- the inconvenience associated with returning or exchanging items purchased online.

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

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

Our success depends on our ability to attract online consumers to our websites and convert them into customers in a cost-effective manner. We use a variety of methods to attract visitors to our websites, but we are significantly dependent upon search engines, shopping comparison sites and other online sources for our website traffic. We are included in search results as a result of both 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 sites. Algorithmic listings cannot be purchased and instead are determined and displayed solely by a set of formulas utilized by the search engine. We rely on both algorithmic and purchased listings to attract and direct consumers to our websites. Search engines, shopping comparison sites and other online sources revise their algorithms from time to time in an attempt to optimize their search results. If one or more of the search engines, shopping comparison sites or other online sources on which we rely for website traffic were to modify its general methodology for how it displays our websites, resulting in fewer consumers clicking through to our websites, our financial results could be adversely affected. If any free search engine or shopping comparison site on which we rely begins charging

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fees for listing or placement, or if one or more of the search engines, shopping comparison sites and other online sources on which we rely for purchased listings, modifies or terminates its relationship with us, our expenses could rise, we could lose customers and traffic to our websites could decrease. In addition, our success in attracting visitors who convert to customers will depend in part upon our ability to identify and purchase relevant search terms, provide relevant content on our sites, and effectively target our other marketing programs such as e-mail campaigns and affiliate programs. If we are unable to attract visitors to our websites and convert them to customers in a cost-effective manner, then our business and financial results may be harmed.

We are dependent upon relationships with suppliers in Taiwan, China and the United States for the vast majority of our products

We acquire substantially all of our products from manufacturers and distributors located in Taiwan, China and the United States. Our top five suppliers represented approximately 47.4% of our total product purchases in 2005 and 55.5% for the nine months ended September 30, 2006. Although we have long standing business relationships with many of our suppliers, we do not have any long-term contracts or exclusive agreements with our suppliers that would ensure our ability to acquire the types and quantities of products we desire at acceptable prices and in a timely manner. In addition, our ability to acquire products from our suppliers in amounts and on terms acceptable to us is dependent upon a number of factors that could affect our suppliers and which are beyond our control. For example, financial or operational difficulties that some of our suppliers may face may increase the cost of the products we purchase from them. In addition, the trend towards consolidation among auto parts suppliers may disrupt or end our relationship with some suppliers, and could lead to less competition and, consequently, higher prices.

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

- political, social and economical instability and the risk of war or other international incidents in Asia;
- fluctuations in foreign currency exchange rates that may increase our cost of products;
- tariffs and protectionist laws and business practices that favor local businesses;
- difficulties in complying with import and export laws, regulatory requirements and restrictions; and
- natural disasters and public health emergencies.

If we do not maintain our relationships with our existing suppliers or develop relationships with new suppliers on acceptable commercial terms, we may not be able to continue to offer a broad selection of merchandise at competitive prices and, as a result, we could lose customers and our sales could decline.

We recently acquired Partsbin and the integration of our businesses may be time consuming and expensive and may not be immediately successful, if at all

In May 2006, we completed the acquisition of Partsbin, an online retailer of aftermarket auto parts. As a result of the acquisition, we added 47 employees, and our available SKUs and net sales increased significantly. The acquisition of Partsbin has involved significant costs, has resulted in challenges integrating the diverse technologies used by each company and has placed, and may continue to place, pressures on our operational and financial infrastructure. We cannot assure you that our current cost structure or infrastructure will be adequate for the combined companies. To successfully integrate Partsbin, we anticipate that we will need to improve our operational and financial systems, procedures and controls and maintain our cost structure at appropriate levels.

The Partsbin acquisition also expanded our product offerings, particularly in the area of engine parts and performance parts and accessories, and significantly increased our use of drop-ship as a method of fulfillment. We cannot assure you that we can effectively manage this new fulfillment model or address the market for these additional auto parts.

The integration of Partsbin may involve the consolidation of diverse business cultures, require substantial time and expenses, and distract management from other business matters. In addition, this acquisition may include significant intangible assets that are subject to periodic impairment testing which could result in substantial accounting charges. If we are unable to integrate Partsbin in an efficient and timely manner, our business and operating results will be harmed.

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

The auto parts industry is competitive and highly fragmented, with products distributed through multi-tiered and overlapping channels. We compete with both online and offline retailers who offer OEM and aftermarket auto parts to either the DIY or DIFM customer segments. Current or potential competitors include the following:

- national auto parts retailers such as Advance Auto Parts, AutoZone, CSK Auto, Napa Auto Parts, O Reilly Automotive and Pep Boys;
- large online marketplaces such as Amazon.com and eBay;
- local independent retailers or niche auto parts online retailers; and
- wholesale auto parts distributors such as Keystone Automotive and LKQ Corporation.

Barriers to entry are low, and current and new competitors can launch websites at a relatively low cost. Many of our current and potential offline competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing, technical, management and other resources than we do. In addition, some of our competitors have used and may continue to use aggressive pricing tactics and devote substantially more financial resources to website and system development than we do. We expect that competition will further intensify in the future as Internet use and online commerce continue to grow worldwide. Increased competition may result in reduced operating margins, reduced profitability, loss of market share and diminished brand recognition.

We would also experience significant competitive pressure if any of our suppliers were to sell their products directly to customers. Since our suppliers have access to merchandise at very low costs, they could sell products at lower prices and maintain higher gross margins on their product sales than we can. In this event, our current and potential customers may decide to purchase directly from these suppliers. Increased competition from any supplier capable of maintaining high sales volumes and acquiring products at lower prices than us could significantly reduce our market share and adversely impact our financial results.

We rely on key personnel and may need additional personnel for the success and growth of our business

Our business is largely dependent on the personal efforts and abilities of key personnel including Mehran Nia, our Chief Executive Officer and President, and Michael McClane, our Chief Financial Officer, Executive Vice President of Finance, Treasurer and Secretary. Messrs. Nia and McClane, as well as any of our other key employees, can terminate their employment relationship with us at any time. We do not maintain key person life insurance on any officer or employee. Our performance also depends on our ability to identify, attract, retain and motivate highly skilled technical, managerial, merchandising, marketing and customer service personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such personnel. The loss of any key employee or our inability to attract or retain other qualified employees could harm our business and results of operations.

If our product catalog database is stolen or misappropriated or if a competitor is able to create a substantially similar catalog without infringing our rights, then we may lose an important competitive advantage

We have invested significant resources and time to build and maintain our product catalog, which is maintained in the form of an electronic database, and maps SKUs to relevant product applications based on vehicle makes, models and years. We believe that our product catalog provides us with an important competitive advantage in both driving traffic to our websites and converting that traffic to revenue by enabling customers to quickly locate the products they require. We cannot assure you that we can protect our product catalog from unauthorized copying or theft by a third party. In addition, it is possible that a competitor could develop a catalog or database that is similar to or more comprehensive than ours, without infringing our rights. In the event our product catalog is stolen, copied or otherwise replicated by a competitor, whether lawfully or not, we may lose an important competitive advantage and our business could be harmed.

We must continue to develop and maintain our brands, which is costly and may not generate corresponding revenue

Although we sell our products through a network of websites, our flagship websites are located at *www.partstrain.com* and *www.autopartswarehouse.com*, and our corporate website is located at *www.usautoparts.com*. Maintaining and strengthening these brands is an important factor in attracting new customers and building customer loyalty to generate repeat business. Accordingly, we intend to continue to implement promotional strategies to enhance our brand and attract new customers to our websites. These initiatives require significant expenditures and may not have a material positive impact on our brand identity or result in a commensurate increase in sales. In addition, building our brand will depend upon our ability to continue to provide a broad range of auto parts at competitive prices combined with high quality customer service. If we are unsuccessful in our branding efforts, the strength of our brands may decline and our sales could decline.

Our future operating results may fluctuate and may fail to meet market expectations, which could adversely affect the market price of our common stock

We expect that our revenue and operating results will continue to fluctuate from quarter to quarter due to various factors, many of which are beyond our control. If our quarterly revenue or operating results fall below the expectations of investors or securities analysts, the price of our common stock could significantly decline. The factors that could cause our operating results to fluctuate include, but are not limited to:

- fluctuations in the demand for aftermarket auto parts;
- price competition on the Internet or among offline retailers for auto parts;
- our ability to attract visitors to our websites and convert those visitors into customers;
- our ability to maintain and expand our supplier and distribution relationships;
- the effects of seasonality on the demand for our products;
- our ability to accurately forecast demand for our products and maintain appropriate inventory levels;
- our ability to build and maintain customer loyalty;

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- the success of our brand-building and marketing campaigns;
- government regulations related to use of the Internet for commerce, including the application of existing tax regulations to Internet commerce and changes in tax regulations;
- technical difficulties, system downtime or Internet brownouts; and
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure.

Economic conditions may have an adverse effect on the demand for aftermarket auto parts and could adversely affect our sales and operating results

We sell aftermarket auto parts consisting of body and engine parts used for repair and maintenance, performance parts used to enhance performance or improve aesthetics, and accessories that increase functionality or enhance a vehicle s features. Demand for our products may be adversely affected by general economic conditions. In declining economies, consumers often defer regular vehicle maintenance and may forego purchases of nonessential performance products, which can result in a decrease in demand for auto parts in general. In expanding economies, consumers may be more likely to purchase new vehicles instead of repairing existing vehicles or they may be less price sensitive, leading to an increase in OEM parts sales at dealerships, either of which could also result in a decline in our sales. If such decreases in demand for our products are not offset by other factors, such as the deferral of new car purchases in declining economies, which may result in more required repairs for older vehicles, or the purchase of performance parts and accessories in expanding economies, our financial condition and results of operations would suffer.

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

We maintain business operations in the United States and the Philippines and outsourced call centers in both India and the Philippines. These international operations include development and maintenance of our websites, software development, enhancements of our online marketing technologies, and customer support services. We also operate a Canadian subsidiary to facilitate sales in Canada. We are subject to a number of risks and challenges that specifically relate to our international operations. Our international operations may not be successful if we are unable to meet and overcome these challenges, which could limit the growth of our business and may have an adverse effect on our business and operating results. These risks and challenges include:

- difficulties and costs of staffing and managing foreign operations;
- restrictions imposed by local labor practices and laws on our business and operations;
- exposure to different business practices and legal standards;
- unexpected changes in regulatory requirements;
- the imposition of government controls and restrictions;
- political, social and economic instability and the risk of war, terrorist activities or other international incidents;

natural disasters and public health emergencies;

potentially adverse tax consequences;

the failure of local laws to provide a sufficient degree of protection against infringement of our intellectual property; and

fluctuations in foreign currency exchange rates.

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

Our success depends on our ability to successfully receive and fulfill orders and to promptly deliver our products to our customers. Although we recently added a complementary drop-ship fulfillment method, largely for our Partsbin products, the majority of orders for our other products are filled from our inventory through our distribution centers, where all our inventory management, packaging, labeling and product return processes are performed. Increased demand and other considerations may require us to expand our distribution centers or transfer our fulfillment operations to larger facilities in the future.

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

We are dependent upon third parties for distribution and fulfillment operations with respect to many of our products

For a number of the products that we sell, we outsource the distribution and fulfillment operation and are dependent on our distributors to manage inventory, process orders and distribute those products to our customers in a timely manner. For the nine months ended September 30, 2006, we fulfilled 11.4% of our net sales through a single supplier. Our agreements with this supplier may be terminated at any time by either party, with 120 to 365 days notice. In addition, we do not have definitive agreements with many of our primary international suppliers. If we do not maintain our existing relationships with our distributors on acceptable commercial terms, we will need to obtain other suppliers and may not be able to continue to offer a broad selection of merchandise at competitive prices, and our sales may decrease.

In addition, because we outsource to distributors a number of these traditional retail functions relating to those products, we have limited control over how and when orders are fulfilled. We also have limited control over the products that our distributors purchase or keep in stock, and our agreements with most of our distributors do not require them to set aside any amount of inventory to fulfill our orders or to give our orders priority over other resellers to whom they sell. Our distributors may not accurately forecast the products that will be in high demand or they may allocate popular products to other resellers, resulting in the unavailability of certain products for sale on our websites. Any inability to offer a broad array of products at competitive prices and any failure to deliver those products to our customers in a timely and accurate manner may damage our reputation and brand and could cause us to lose customers.

Our ability to sustain or increase our profitability will suffer if we fail to manage our growth effectively

In recent years we have experienced rapid growth that has placed, and will continue to place, pressures on our operational and financial infrastructure. Our workforce has increased from 114 employees as of December 31, 2003 to 434 employees as of September 30, 2006. Our net sales have increased from $31.7 million in 2003 to $83.7 million for the nine months ended September 30, 2006. Our strategy for growth includes efforts to increase our operating efficiencies. Our recent expansion and planned growth have placed, and are expected to continue to place, a strain on our infrastructure, operations and managerial resources. We intend to further increase the size of our operations, and we expect our operating expenses to increase, as we, among other things:

- expand our domestic and international operations;
- increase our technology and development efforts to enhance and maintain our websites and technology infrastructure;
- hire additional personnel, including customer service specialists, sales and marketing professionals, and financial professionals;
- upgrade our operational and financial systems, procedures and controls; and
- assume the responsibilities and costs of being a public company.

Our success depends upon our ability to manage our operations and our growth effectively. To be successful, we will need to improve our operational and financial systems, procedures and controls, maintain our cost structure at appropriate levels, manage international operations, and hire additional personnel. We cannot assure you that our efforts will be successful or that we can improve our systems, procedures and controls in a timely manner. Delays or problems associated with any improvements or expansion of our systems, procedures and controls could harm our business and operating results. In addition, we may fail to accurately estimate and assess our increased operating expenses as we grow. As our operating expenses increase, we will need to grow our revenue in order to maintain and increase our profitability.

Challenges by OEMs to the validity of aftermarket auto parts and claims of infringement could adversely affect our business

Original equipment manufacturers have attempted to use claims of intellectual property infringement against manufacturers and distributors of aftermarket auto parts to restrict or eliminate the sale of aftermarket auto parts that are the subject of the claims. We have received in the past, and we anticipate we may in the future, receive communications alleging that certain products we sell infringe third-party patents, copyrights, trademarks and trade names or other intellectual property rights. For example, in December 2005, Ford Global Technologies, LLC filed a complaint with the United States International Trade Commission, or USITC, against us and five other named respondents, including four Taiwan-based manufacturers. Ford currently alleges in this action that we and the other respondents infringed ten design patents that Ford claims cover eight parts for the 2004-2005 Ford F-150 truck (see Business Legal Proceedings). Ford has asked the USITC to issue a permanent general exclusion order excluding from entry into the United States all auto parts that infringe the ten Ford design patents and that are imported into the United States, sold for importation in the United States, or sold within the United States after importation. Ford also seeks a permanent order directing us and the other respondents to cease and desist from, among other things, selling, marketing, advertising, distributing and offering for sale imported auto parts that infringe the design patents. To date, our sales of these parts have been minimal, but as the design for the 2004 model is incorporated into later year models of the F-150 and these trucks have been on the road longer, sales of aftermarket replacement parts for these trucks may increase substantially. Furthermore, if Ford continues to pursue, expands or escalates its claims against us, or if other OEMs commence similar actions, and any of them are successful in these actions, we could be restricted or prohibited from selling certain aftermarket products and the aftermarket auto parts industry could decline significantly, which could have a material adverse effect on our business, financial condition and results of operations.

Future infringement claims could also result in increased costs of doing business arising from increased legal expenses, adverse judgments or settlements or changes to our business practices required to settle such claims or satisfy any judgments. Litigation could result in interpretations of the law that require us to change our business practices or otherwise increase our costs and harm our business. We do not maintain insurance coverage to cover the types of claims that could be asserted. If a successful claim were brought against us, it could expose us to significant liability.

If we fail to offer a broad selection of products and brands at competitive prices to meet our customers demands, our revenue could decline

In order to expand our business, we must successfully offer, on a continuous basis, a broad selection of auto parts that meet the needs of our customers. Our auto parts are used by consumers for a variety of purposes, including repair, performance, improved aesthetics and functionality. In addition, to be successful, our product offerings must be broad and deep in scope, competitively priced, well-made, innovative and attractive to a wide range of consumers. We cannot predict with certainty that we will be successful in offering products that meet all of these requirements. If our product offerings fail to satisfy our customers requirements or respond to changes in customer preferences, our revenue could decline.

Future acquisitions could disrupt our business and harm our financial condition

Key components of our growth strategy include expanding our product offerings, increasing our customer base and improving the customer experience. In pursuit of our growth strategy, we expect that we will selectively pursue acquisitions of businesses, technologies or services in order to expand our capabilities, enter new markets or increase our market share. We have limited experience in making acquisitions, and we compete with larger, better financed companies in identifying and completing acquisitions. We cannot assure you that we will be able to identify or consummate any future acquisitions on favorable terms, or at all. Integrating any newly acquired businesses, technologies or services is likely to be expensive and time consuming. To finance any acquisitions, it may be necessary for us to raise additional capital through public or private financings. Additional funds may not be available on terms that are favorable to us, and, in the case of equity financings, would result in dilution to our stockholders. If we do complete any acquisitions, we may be unable to operate the acquired businesses profitably, realize the anticipated synergies from the acquisition or otherwise implement our strategy successfully. If we are unable to integrate any newly acquired entities, technologies or services effectively or retain the key employees of any acquired companies, our business and results of operations will suffer. The time and expense associated with finding suitable and compatible businesses, technologies or services could also disrupt our ongoing business and divert our management s attention. Future acquisitions by us could also result in large and immediate write-offs, assumption of debt and unforeseen liabilities and significant adverse accounting charges, any of which could substantially harm our business, financial condition and results of operations. We have no current plans, agreements or commitments with respect to any acquisitions.

We may be subject to liability for sales and other taxes and penalties, which could have an adverse effect on our business

We currently collect sales or other similar taxes only on the shipment of goods to the states of California, New Jersey and Tennessee. The U.S. Supreme Court has ruled that vendors whose only connection with customers in a state is by common carrier or the U.S. mail are free from state-imposed duties to collect sales and use taxes in that state. However, states could seek to impose additional income tax obligations or sales tax collection obligations on out-of-state companies such as ours, which engage in or facilitate online commerce, based on their interpretation of existing laws, including the Supreme Court ruling, or specific facts relating to us. If sales tax obligations are successfully imposed upon us by a state or other jurisdiction, we could be exposed to substantial tax liabilities for past sales and penalties and fines for failure to collect sales taxes. We could also suffer decreased sales in that state or jurisdiction as the effective cost of purchasing goods from us increases for those residing in that state or jurisdiction.

In addition, a number of states, as well as the U.S. Congress, have been considering various initiatives that could limit or supersede the Supreme Court s apparent position regarding sales and use taxes on Internet sales. If any of these initiatives are enacted, we could be required to collect sales and use taxes in additional states and our revenue could be adversely affected. Furthermore, the U.S. Congress has not yet extended a moratorium, which was first imposed in 1998 but has since expired, on state and local governments ability to impose new taxes on Internet access and Internet transactions. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us as well as substantially impair the growth of e-commerce and adversely affect our revenue and profitability. Since our service is available over the Internet in multiple states, these jurisdictions may require us to qualify to do business in these states. If we fail to qualify in a jurisdiction that requires us to do so, we could face liabilities for taxes and penalties.

If we are unable to provide satisfactory customer support, our reputation would be harmed and we could lose customers

We believe that our experienced customer support personnel provide us with a key competitive advantage by providing a positive shopping experience for our customers. We maintain customer support centers in California and have outsourced call centers in the Philippines and India. Any material disruption or slowdown in our customer support services resulting from telephone or Internet failures, power or service outages, natural disasters, labor disputes, or other events could make it difficult or impossible to provide adequate customer support. Furthermore, we may be unable to attract and retain an adequate number of competent customer support representatives, which is essential in creating a favorable customer experience. In addition, because our outsourced call centers are located in the Philippines and India, we may experience difficulties in training our support team or monitoring the level of support provided. If we are unable to continually provide adequate and trained staffing for our customer support operations, our reputation could be seriously harmed and our sales could decline. Further, we cannot assure you that call volumes will not exceed our present system capacities. If this occurs, we could experience delays in accepting orders, responding to customer inquiries and addressing customer concerns. Because our success depends in large part on keeping our customers satisfied, any failure to provide satisfactory levels of customer support would likely impair our reputation and we could lose customers.

We could be liable for breaches of security on our websites

A fundamental requirement for e-commerce is the secure transmission of confidential information over public networks. Anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to mitigate such fraud or breaches may adversely affect our operating results. We may be required to expend significant capital and other resources to protect against potential security breaches or to alleviate problems caused by any breach. We rely on licensed encryption and authentication technology to provide the security and authentication necessary for secure transmission of confidential information, including credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments may result in a compromise or breach of the algorithms that we use to protect customer transaction data. In the event someone circumvents our security measures, it could seriously harm our business and reputation and we could lose customers. Security breaches could also expose us to a risk of loss or litigation and possible liability for failing to secure confidential customer information.

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The success of our business depends on the continued growth of the Internet as a retail marketplace and the related expansion of the Internet infrastructure

Our future success depends upon the continued and widespread acceptance and adoption of the Internet as a vehicle to purchase products. If customers or manufacturers are unwilling to use the Internet to conduct business and exchange information, our business will fail. The commercial acceptance and use of the Internet may not continue to develop at historical rates, or may not develop as quickly as we expect. The growth of the Internet, and in turn the growth of our business, may be inhibited by concerns over privacy and security, including concerns regarding viruses and worms, reliability issues arising from outages or damage to Internet infrastructure, delays in development or adoption of new standards and protocols to handle the demands of increased Internet activity, decreased accessibility, increased government regulation, and taxation of Internet activity. In addition, our business growth may be adversely affected if the Internet infrastructure does not keep pace with the growing Internet activity and is unable to support the demands placed upon it, or if there is any delay in the development of enabling technologies and performance improvements.

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

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

System failures, including failures due to natural disasters or other catastrophic events, could prevent access to our websites, which could reduce our net sales and harm our reputation

Our sales would decline and we could lose existing or potential customers if they are not able to access our websites or if our websites, transaction processing systems or network infrastructure does not perform to our customers satisfaction. Any Internet network interruptions or problems with our websites could:

- prevent customers from accessing our websites;
- reduce our ability to fulfill orders or bill customers;
- reduce the number of products that we sell;
- cause customer dissatisfaction; or
- damage our brand and reputation.

We have experienced brief computer system interruptions in the past, and we believe they will continue to occur from time to time in the future. Our systems and operations are also vulnerable to damage or interruption from a number of sources, including a natural disaster or other catastrophic event such as an earthquake, typhoon, volcanic eruption, fire, flood, terrorist attack, power loss, telecommunications failure, physical and electronic break-ins and other similar events. For example, our headquarters and the majority of our infrastructure, including some of our servers, are located in Southern California, a seismically active

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region. We also maintain offshore and outsourced operations in the Philippines, an area that was recently subjected to a typhoon and a volcanic eruption. In addition, California has in the past experienced power outages as a result of limited electrical power supplies. Such outages, natural disasters and similar events may recur in the future and could disrupt the operation of our business. Our technology infrastructure is also vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. Although the critical portions of our systems are redundant and back up copies are maintained offsite, not all of our systems and data are fully redundant. We do not presently have a formal disaster recovery plan in effect and may not have sufficient insurance for losses that may occur from natural disasters or catastrophic events. Any substantial disruption of our technology infrastructure could cause interruptions or delays in our business and loss of data or render us unable to accept and fulfill customer orders or operate our websites in a timely manner, or at all.

Capacity constraints on our technology infrastructure would harm our business, prospects, results of operations and financial condition

If the volume of traffic on our websites or the number of purchases made by customers increases substantially, we may need to further expand and upgrade our technology, transaction processing systems and network infrastructure. Capacity constraints can cause unanticipated system disruptions, slower response times, degradation in levels of customer service, impaired quality and delays in reporting accurate financial information.

We may be unable to project accurately the rate or timing of traffic increases or successfully and cost-effectively upgrade our systems and infrastructure in time to accommodate future traffic levels on our websites. Any such upgrades to our systems and infrastructure will require substantial expenditures. In addition, we may be unable to upgrade and expand our transaction processing systems in an effective and timely manner or to integrate any newly developed or purchased functionality with our existing systems. Any inability to efficiently upgrade our systems and infrastructure in a timely manner to account for such growth and integrations may cause unanticipated system disruptions, slower response times, degradation in levels of customer service, impaired quality, delayed order fulfillment, any of which could result in a decline in our sales and harm our reputation.

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

We rely on third parties for the shipment of our products, but because we do not have written long-term agreements with any of these third parties, we cannot be sure that these relationships will continue on terms favorable to us, or at all. Increases in shipping costs could harm our business, prospects, financial condition and results of operations by increasing our costs of doing business and resulting in reduced gross margins. In addition, if our relationships with these third parties are terminated or impaired, or if these third parties are unable to deliver products for us, whether through labor shortage, slow down or stoppage, deteriorating financial or business condition, responses to terrorist attacks or for any other reason, we would be required to use alternative carriers for the shipment of products to our customers. Changing carriers could have a negative effect on our business and operating results due to reduced visibility of order status and package tracking and delays in order processing and product delivery, and we may be unable to engage alternative carriers on a timely basis, upon terms favorable to us, or at all.

We face exposure to product liability lawsuits

The automotive industry in general has been subject to a large number of product liability claims due to the nature of personal injuries that result from car accidents or malfunctions. As a distributor of auto

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parts, we could be held liable for the injury or damage caused if the products we sell are defective or malfunction. While we carry insurance against product liability claims, if the damages in any given action were high or we were subject to multiple lawsuits, the damages and costs could exceed the limits of our insurance coverage. If we were required to pay substantial damages as a result of these lawsuits, it may seriously harm our business and financial condition. Even defending against unsuccessful claims could cause us to incur significant expenses and result in a diversion of management s attention. In addition, even if the money damages themselves did not cause substantial harm to our business, the damage to our reputation and the brands offered on our websites could adversely affect our future reputation, brand and could result in a decline in our net sales and profitability.

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

We are subject to federal and state consumer protection laws and regulations, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices, as well as laws and regulations governing businesses in general and the Internet and e-commerce. Additional laws and regulations may be adopted with respect to the Internet, the effect of which on e-commerce is uncertain. These laws may cover issues such as user privacy, spyware and the tracking of consumer activities, marketing e-mails and communications, other advertising and promotional practices, money transfers, pricing, content and quality of products and services, taxation, electronic contracts and other communications, intellectual property rights, and information security. Furthermore, it is not clear how existing laws such as those governing issues such as property ownership, sales and other taxes, trespass, data mining and collection, and personal privacy apply to the Internet and e-commerce. To the extent we expand into international markets, we will be faced with complying with local laws and regulations, some of which may be materially different than U.S. laws and regulations. Any such foreign law or regulation, any new U.S. law or regulation, or the interpretation or application of existing laws and regulations to the Internet or other online services, may have a material adverse effect on our business, prospects, financial condition and results of operations by, among other things, impeding the growth of the Internet, subjecting us to fines, penalties, damages or other liabilities, requiring costly changes in our business operations and practices, and reducing customer demand for our products and services. We do not maintain insurance coverage to cover the types of claims or liabilities that could arise as a result of such regulation.

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

We regard our trademarks, trade secrets and similar intellectual property as important to our success. We rely on trademark and copyright law, and trade secret protection, and confidentiality and/or license agreements with employees, customers, partners and others to protect our proprietary rights. We cannot be certain that we have taken adequate steps to protect our proprietary rights, especially in countries where the laws may not protect our rights as fully as in the United States. In addition, third parties may infringe or misappropriate our proprietary rights, and we could be required to incur significant expenses to preserve them. We have federally-registered and common law trademarks, as well as pending federal trademark registrations for several marks. Even if we obtain approval of such pending registrations, the resulting registrations may not adequately cover our inventions or protect us against infringement by others. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our products and services may be made available online. We also currently own or control a number of Internet domain names, including *www.usautoparts.com*, *www.partstrain.com* and *www.autopartswarehouse.com*. We may be unable to protect these domain names or acquire or maintain relevant domain names in the United States and in other countries. If we are not able to protect our trademarks, domain names or other intellectual property, we may experience difficulties in achieving and maintaining brand recognition and customer loyalty.

Our e-commerce system is dependent on open-source software, which exposes us to uncertainty and potential liability

We utilize open-source software such as Linux, Apache, MySQL, PHP, Fedora and Perl throughout our web properties and supporting infrastructure. Open-source software is maintained and upgraded by a general community of software developers under various open-source licenses, including the GNU General Public License, or GPL. These developers are under no obligation to maintain, enhance or provide any fixes or updates to this software in the future. Additionally, under the terms of the GPL and other open-source licenses, we may be forced to release to the public source-code internally developed by us pursuant to such licenses. Furthermore, if any of these developers contribute any code of others to any of the software that we use, we may be exposed to claims and liability for intellectual property infringement. A number of lawsuits are currently pending against third parties over the ownership rights to the various components within some open-source software that we use. If the outcome of these lawsuits is unfavorable, we may be held liable for intellectual property infringement based on our use of these open-source software components. We may also be forced to implement changes to the code-base for this software or replace this software with internally developed or commercially licensed software.

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

We rely on third-party vendors, including data center and bandwidth providers. Any disruption in the network access or co-location services, which are the services that house and provide Internet access to our servers, provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business, the nature and extent of which we cannot predict. We exercise little control over these third-party vendors, which increases our vulnerability to problems with the services they provide. We also license technology and related databases from third parties to facilitate elements of our e-commerce platform. We have experienced and expect to continue to experience interruptions and delays in service and availability for these elements. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies could negatively impact our relationship with our customers and adversely affect our business.

Our systems also heavily depend on the availability of electricity, which also comes from third-party providers. If we were to experience a major power outage, we would have to rely on back-up generators. These back-up generators may not operate properly through a major power outage, and their fuel supply could also be inadequate during a major power outage. Information systems such as ours may be disrupted by even brief power outages, or by the fluctuations in power resulting from switches to and from backup generators. This could disrupt our business and cause us to lose customers.

The United States government may substantially increase border controls and impose restrictions on cross-border commerce that may substantially harm our business

We purchase a substantial portion of our products, including our Kool-Vue mirrors, from suppliers in Taiwan and China. Restrictions on shipping goods into the United States from other countries pose a substantial risk to our business. Particularly since the terrorist attacks on September 11, 2001, the United

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States government has substantially increased border surveillance and controls. If the United States were to impose further border controls and restrictions, impose quotas, tariffs or import duties, increase the documentation requirements applicable to cross border shipments or take other actions that have the effect of restricting the flow of goods from Taiwan or China to the United States, we may have greater difficulty acquiring our inventory in a timely manner, experience shipping delays, or incur increased costs and expenses, all of which would substantially harm our business and results of operations.

Risks Relating to this Offering and Ownership of Our Common Stock

No public market for our common stock currently exists and an active trading market may not develop or be sustained following this offering

No public market for our common stock currently exists, and we cannot be certain that an active trading market for our common stock will develop or be sustained following this offering. Further, we cannot be certain that the market price of our common stock will not decline below the initial public offering price. The initial public offering price was determined by negotiation among us and the underwriters based upon several factors and may not be indicative of future market prices for our common stock.

Our stock price may be volatile, which may result in losses to our stockholders

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

The stock markets have historically experienced significant price and trading volume fluctuations. These fluctuations, as well as general economic and political conditions unrelated to our performance, may adversely affect the price of our common stock. In particular, following initial public offerings, the market prices for stocks of Internet and technology-related companies often reach levels that bear no established relationship to the operating performance of these companies. These market prices are generally not sustainable and could vary widely. In the past, following periods of volatility in the market price of a public company s securities, securities class action litigation has often been initiated. Securities litigation against us could result in substantial costs and divert our management s attention from other business concerns, which could seriously harm our business.

We have broad discretion as to the use of proceeds from this offering and may not use the proceeds effectively

We estimate the net proceeds of this offering to be approximately $ million. Our management will retain broad discretion as to the allocation of the proceeds and may spend these proceeds in ways in which our stockholders may not agree. The failure of our management to apply these funds effectively could result in unfavorable returns and uncertainty about our prospects, each of which could cause the price of our common stock to decline.

Our principal stockholders, executive officers and directors own a significant percentage of our stock and will continue to have significant control of our management and affairs after this offering

Upon completion of this offering, our executive officers and directors and entities that are affiliated with them will beneficially own approximately % of our outstanding shares of common stock. This

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significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, these stockholders, acting together, will be able to control our management and affairs and matters requiring stockholder approval including the election of our entire board of directors and certain significant corporate actions such as mergers, consolidations or the sale of substantially all of our assets. As a result, this concentration of ownership could delay, defer or prevent others from initiating a potential merger, takeover or other change in our control, even if these actions would benefit our other stockholders and us.

A large number of additional shares may be sold into the public market in the near future, which may cause the market price of our common stock to decline significantly, even if our business is doing well

Sales of a substantial amount of common stock in the public market, or the perception that these sales may occur, could adversely affect the market price of our common stock. After this offering, we will have outstanding shares of common stock. This includes the shares we are selling in this offering, which may be resold in the public market immediately. All of the remaining 36,388,226 shares outstanding after the offering will become available for resale in the public market 180 days after the date of this prospectus (subject to extension in certain circumstances) due to agreements these stockholders have with us or the underwriters. However, the underwriters can waive this restriction and allow these stockholders to sell their shares at any time. As restrictions on resale end, the market price could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them. For a more detailed description, see Shares Eligible for Future Sale.

New stockholders will incur substantial and immediate dilution as a result of this offering

The initial public offering price is substantially higher than the book value per share of our outstanding common stock. As a result, investors purchasing common stock in this offering will incur substantial and immediate dilution. At the initial public offering price of $ per share, purchasers in this public offering will experience immediate and substantial dilution of approximately $ per share, representing the difference between our historical net tangible book value per share after giving effect to this offering and the initial public offering price. In addition, purchasers of common stock in this offering will have contributed approximately % of the aggregate price paid by all purchasers of our stock but will own only approximately % of our common stock outstanding after this offering. In addition, we have issued options to acquire common stock at prices significantly below the public offering price. To the extent such options are ultimately exercised, there will be further dilution to investors in this offering.

If we fail to maintain an effective system of internal control over financial reporting or are not able to adequately address certain identified significant deficiencies in our system of internal controls or comply with Section 404 of the Sarbanes-Oxley Act of 2002, we may not be able to accurately report our financial results or prevent fraud, and our stock price could decline

Our auditors have identified certain significant deficiencies in our system of internal control over financial reporting that are primarily related to our need to hire additional financial and accounting employees, as well as our need to upgrade our accounting systems and improve the documentation of our key assumptions, estimates, accounting policies and procedures. If we fail to adequately address these significant deficiencies and are not able to staff our accounting and finance department with the appropriate complement of experienced employees, we may not be able to improve our system of internal control over financial reporting to comply with the reporting requirements applicable to a public companies in the United States. Furthermore, it is possible that our auditors will identify material weaknesses or additional significant deficiencies in the future in our system of internal control over financial reporting. Our failure to address any deficiencies or weaknesses in our internal control over financial reporting or to properly maintain an effective system of internal control over financial reporting could impact our ability to prevent fraud or to issue our financial statements in a timely manner that present fairly our financial condition and results of operations. The existence of any such deficiencies or weaknesses, even if cured, may also lead to the loss of investor confidence in the reliability of our financial statements, could harm our business and negatively impact the trading price of our common stock. Such deficiencies or material weaknesses may also subject us to lawsuits, investigations and other penalties.

In addition, Section 404 of the Sarbanes-Oxley Act of 2002 will require us to evaluate and report on our internal control over financial reporting and have our independent auditors attest to our evaluation, beginning with our Annual Report on Form 10-K for the year ending December 31, 2008. We have prepared an internal plan of action for compliance with Section 404 and for strengthening and testing our system of internal control to provide the basis for our report, but we cannot assure you that this plan of action will be sufficient to meet the rigorous requirements of Section 404, and our independent auditors may issue an adverse opinion regarding management s assessment of Section 404 compliance. It is also possible that our independent auditors may not be in a position to adequately assess our compliance with Section 404 on a timely basis, which could lead to our inability to comply with our reporting requirements under the Exchange Act of 1934, as amended (the Exchange Act). Our failure to comply with Section 404 or our reporting requirements would reduce investors confidence in our financial statements and harm our stock price and could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from the NASDAQ Global Market and the inability of registered broker/dealers to make a market in our common stock, which could also reduce our stock price.

We will incur increased costs and compliance risks as a result of being a public company

As a public company, we expect to incur significant legal, accounting and other expenses that we did not incur as a private company. These expenses are associated with our public company reporting requirements and certain corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and the new rules implemented by the SEC and the NASDAQ Stock Market. We expect that compliance with these rules and regulations, in particular Section 404 of the Sarbanes-Oxley Act of 2002, will substantially increase our legal and financial compliance costs and will likely require us to hire additional personnel and/or consultants. Like many smaller public companies, we expect to face a significant impact from required compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The process of strengthening our internal control and complying with Section 404 will be expensive and time consuming, and will require significant time and attention from our management team. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

We also expect these new rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

We do not intend to pay dividends on our common stock

We currently intend to retain any future earnings and do not expect to pay any cash dividends on our capital stock for the foreseeable future.

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Our charter documents could deter a takeover effort, which could inhibit your ability to receive an acquisition premium for your shares

Provisions of our certificate of incorporation, bylaws and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. For a more detailed discussion of these provisions, see Description of Capital Stock Anti-Takeover Provisions.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on our management s beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, may, plans, potential, pre should, will, would and similar expressions intended to identify forward-looking statements.

Forward-looking statements 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 this prospectus in greater detail under the heading Risk Factors. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management s beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

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.

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USE OF PROCEEDS

The net proceeds from our sale of shares of common stock in this offering are estimated to be approximately $ based on an assumed initial public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We presently intend to use the net proceeds of this offering as follows:

- Approximately $30.0 million will be used to repay our outstanding indebtedness under two term loans for approximately $20.0 million and $10.0 million, payable to our commercial lender. These loans bear interest at LIBOR plus 1.75% per annum and LIBOR plus 1.50% per annum (except during the first year in which the rate is 4.58%), respectively, and are due and payable beginning June 30, 2007 and March 31, 2007, respectively. Both loans have four year terms with the principal payable monthly over three years. However, the loans become due and payable in full upon the closing of an initial public offering. The proceeds of the loans borrowed were used to fund the acquisition of Partsbin, to fund the stockholder distribution made in connection with the March 2006 recapitalization, and for general working capital needs.

- Approximately $5.0 million will be used to repay our outstanding indebtedness under certain promissory notes payable to the former stockholders of Partsbin. The notes bear interest at LIBOR and are due and payable in equal quarterly installments beginning in the quarter ending June 30, 2007, with the final payment due in the quarter ending March 31, 2008. However, the notes become due and payable in full upon the closing of an initial public offering. The amounts outstanding under these promissory notes were used to fund the acquisition of Partsbin.

- The remainder of the net proceeds will be used for working capital and for general corporate purposes, including the introduction of new product categories, the expansion of existing product categories and expansion into complementary businesses.

We may also use a portion of the net proceeds of this offering to acquire or invest in complementary businesses, products, websites or technologies, or to enter into strategic marketing relationships with third parties. From time to time, in the ordinary course of business, we expect to evaluate potential acquisitions of these businesses, services or technologies and strategic relationships. Currently, we do not have any understandings, commitments or agreements with respect to any such acquisitions.

As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds to be received upon the completion of this offering, and the amounts we actually spend could be outside of the ranges set forth above. The amounts actually expended for the purposes listed above will depend upon a number of factors, including the growth of our sales and customer base, the type of efforts we make to build our brand and competitive developments in e-commerce. Accordingly, our management will retain broad discretion in the allocation of the net proceeds of this offering. Pending their use, we anticipate that the net proceeds of this offering will be invested in short-term, interest-bearing, investment-grade securities.

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DIVIDEND POLICY

Concurrently with our recapitalization and termination of our S corporation status in March 2006, we paid a cash distribution to our stockholders in an aggregate amount of $51.7 million, which included our final S corporation distribution in the amount of $1.7 million. We currently intend to retain any future earnings to finance the growth and development of our business, and we do not anticipate that we will declare or pay any cash dividends on our common stock in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements, restrictions under any existing indebtedness and other factors the board of directors deems relevant. Our bank loan documents currently prohibit us from paying any cash dividends on our common stock without the prior written consent of our lender.

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CAPITALIZATION

The following table indicates our capitalization at September 30, 2006:

- on an actual basis;
- on a pro forma basis to reflect the conversion of all of our outstanding preferred stock into an aggregate of 11,055,425 shares of common stock immediately prior to the completion of this offering; and
- on a pro forma as adjusted basis to reflect (a) the conversion of all of our outstanding preferred stock into an aggregate of 11,055,425 shares of common stock immediately prior to the completion of this offering; (b) the issuance of shares of common stock at an assumed initial public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us; and (c) the repayment after the offering of $35.0 million of indebtedness incurred in connection with the Partsbin acquisition.

This table should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus.

	September 30, 2006		
	Actual	Pro Forma (unaudited)	Pro Forma As Adjusted
	(in thousands, except share data)		
Cash and cash equivalents	$ 3,287	$ 3,287	$
Total debt, including current portion and capital lease obligations and notes payable to stockholders	34,888	34,888	
Stockholders equity :			
Preferred stock, $0.001 par value; 11,100,000 shares authorized; 11,055,425 shares issued and outstanding, actual and pro forma; no shares issued and outstanding, pro forma as adjusted	11		
Common stock, $0.001 par value; 50,000,000 shares authorized; 25,332,801 shares issued and outstanding, actual; 36,388,226 shares issued and outstanding, pro forma shares issued and outstanding, pro forma as adjusted	25	36	
Additional paid-in capital, excluding share-based compensation	63,048	63,048	
Share-based compensation	604	604	
Accumulated other comprehensive income	6	6	
Accumulated deficit	(43,465)	(43,465)	
Total stockholders equity	20,229	20,229	
Total capitalization	$ 55,117	$ 55,117	$

The table above excludes, as of September 30, 2006:

- 4,027,560 shares of common stock issuable upon the exercise of outstanding options at a weighted average exercise price of $4.92 per share;

shares of common stock reserved for future grant or issuance under our stock option plans; and

140,554 shares of common stock issuable upon the exercise of warrants outstanding at a weighted average exercise price of $4.38 per share.

For additional information regarding our capital structure, see Management Employee Benefit Plans, Description of Capital Stock and Note 5 of the Notes to the Consolidated Financial Statements of U.S. Auto Parts.

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DILUTION

Our pro forma net tangible book value as of September 30, 2006 was approximately $ million, or $ per share of common stock. Pro forma tangible book value per share represents our total tangible assets less total liabilities divided by the number of shares of common stock outstanding as of September 30, 2006 after giving effect to the conversion of all of our outstanding preferred stock into common stock immediately prior to the closing of this offering. After giving effect to (a) the conversion of all of our outstanding preferred stock into common stock immediately prior to the closing of this offering; (b) our sale of shares of common stock offered by this prospectus at an assumed offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us; and (c) the repayment of $35.0 million of our indebtedness upon completion of this offering, our pro forma net tangible book value as of September 30, 2006 would have been $ million, or $ per share of common stock. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to investors purchasing common stock in this offering.

The following table illustrates this per share dilution:

Assumed initial public offering price per share		$
Pro forma net tangible book value per share as of September 30, 2006	$	
Increase per share attributable to new investors		
Pro forma net tangible book value per share after this offering		
Dilution per share to new investors		$

The following table summarizes, on an as adjusted basis as of September 30, 2006, the difference between the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by existing stockholders and by new investors, assuming an initial public offering price of $ per share and before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us:

	Shares Purchased		Total Consideration		Average Price per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%		%	$
New investors					
Total			100%	100%	

The foregoing discussion and tables assume no exercise of any stock options or warrants outstanding as of September 30, 2006. To the extent that these options are exercised, new investors will experience further dilution. As of September 30, 2006, options to purchase 4,027,560 shares of common stock were outstanding at a weighted average exercise price of $4.92 per share and warrants to purchase 140,554 shares of common stock were outstanding at a weighted average exercise price of $4.38 per share. Assuming all of our outstanding options and warrants are exercised, new investors will own approximately % of our outstanding shares while contributing approximately % of the total amount paid to fund our company.

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SELECTED CONSOLIDATED FINANCIAL DATA OF U.S. AUTO PARTS

The consolidated statement of income data of U.S. Auto Parts for the years ended December 31, 2003, 2004 and 2005 and the consolidated balance sheet data as of December 31, 2004 and 2005 have been derived from, and are qualified by reference to, our audited consolidated financial statements included in this prospectus. The consolidated statement of operations data for the year ended December 31, 2002 and the consolidated balance sheet data as of December 31, 2002 and 2003 have been derived from our audited consolidated financial statements that are not included in this prospectus. The consolidated statement of operations data for the nine months ended September 30, 2005 and 2006 and the consolidated balance sheet data as of September 30, 2006 have been derived from, and are qualified by reference to, our unaudited consolidated financial statements that are included in this prospectus. The consolidated statement of operations data for the year ended December 31, 2001 and the consolidated balance sheet data as of December 31, 2001 have been derived from our unaudited consolidated financial statements that are not included in this prospectus. The unaudited consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, that management considers necessary for the fair presentation of the information for the unaudited periods. Historical results are not necessarily indicative of future results. The following data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this prospectus.

	Years Ended December 31,					Nine Months Ended September 30,	
	2001 (unaudited)	2002	2003	2004	2005	2005 (unaudited)	2006 (unaudited)
	(in thousands, except share and per share data)						
Consolidated Statement of Income:							
Net sales	$ 9,473	$ 17,936	$ 31,657	$ 40,658	$ 59,698	$ 43,979	$ 83,665
Cost of sales	6,202	12,275	17,814	21,334	34,829	25,876	53,779
Gross profit	3,271	5,661	13,843	19,324	24,869	18,103	29,886
Operating expenses:							
General and administrative(1)	1,528	1,090	2,284	3,599	7,254	5,555	7,081
Marketing(1)	467	1,685	3,617	4,526	5,802	4,315	10,313
Fulfillment(1)	934	2,473	3,246	2,990	4,357	3,162	3,589
Technology(1)	111	259	405	776	868	596	992
Amortization of intangibles				8	17	13	3,037
Total operating expenses	3,040	5,507	9,552	11,899	18,298	13,641	25,012
Income from operations	231	154	4,291	7,425	6,571	4,462	4,874
Other income (expense):							
Loss from disposition of assets	(4)		(62)				(5)
Other income	6	85	33	80	191	165	155
Interest expense, net	(44)	(21)	(13)	(44)	(106)	(68)	(950)
Other income (expense), net	(42)	64	(42)	36	85	97	(800)
Income before income taxes	189	218	4,249	7,461	6,656	4,559	4,074
Income tax provision (benefit)	3	3	478	328	(163)	(199)	539
Net income	$ 186	$ 215	$ 3,771	$ 7,133	$ 6,819	$ 4,758	$ 3,535
Basic net income per share	$ 0.01	$ 0.01	$ 0.20	$ 0.32	$ 0.31	$ 0.22	$ 0.15
Diluted net income per share	$ 0.01	$ 0.01	$ 0.20	$ 0.32	$ 0.31	$ 0.22	$ 0.11
Shares used in computation of basic net income per share	18,332,600	18,332,600	18,794,793	22,000,000	22,000,000	22,000,000	23,634,781
Shares used in computation of diluted net income per share	18,332,600	18,332,600	18,794,793	22,000,000	22,000,000	22,000,000	32,270,315
EBITDA(2)	$ 274	$ 333	$ 4,382	$ 7,961	$ 8,755	$ 6,095	$ 9,589
Adjusted EBITDA(2)	$ 274	$ 333	$ 4,382	$ 7,961	$ 8,755	$ 6,095	$ 10,193

(see footnotes on next page)

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(footnotes to prior page)

(1) Includes share-based compensation expense related to option grants, as follows:

	Years Ended December 31,						Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	Pro Forma 2005(1) (unaudited)	2005	2006 (unaudited)
	(in thousands)							
General and administrative	$	$	$	$	$	$	$	$ 359
Marketing								126
Fulfillment								16
Technology								103
	$	$	$	$	$	$	$	$ 604

(2) EBITDA and Adjusted EBITDA are supplemental non-GAAP financial measures. EBITDA is equal to net income plus (a) interest expense, net; (b) income tax provision (benefit); (c) amortization of intangibles; and (d) depreciation and amortization. Our definition of Adjusted EBITDA is different from EBITDA because we further adjust EBITDA to exclude share-based compensation expense. See Non-GAAP Financial Measures for a table that reconciles these non-GAAP financial measures to net income.

	December 31,					September 30,
	2001 (unaudited)	2002	2003	2004	2005	2006 (unaudited)
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 281	$ 252	$ 2,117	$ 2,130	$ 1,353	$ 3,287
Working capital	1,091	744	3,391	1,662	3,136	(4,528)
Total assets	2,963	4,290	8,289	13,111	14,484	68,505
Long-term debt (excluding notes payable to stockholders and current portion)	205	408	80	83	357	25,437
Notes payable to stockholders						5,000
Stockholders equity	1,027	1,142	4,543	5,960	5,239	20,229

Non-GAAP Financial 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, because we believe such measures are important supplemental information for investors. We calculate EBITDA as net income before (a) interest expense, net; (b) income tax provision (benefit); (c) amortization of intangibles; and (d) depreciation and amortization. Adjusted EBITDA further adjusts EBITDA to exclude share-based compensation expense related to our grant of stock options and other equity instruments. These non-GAAP financial measures are 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. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business.

We use EBITDA and Adjusted EBITDA:

- as measurements of our operating performance because they assist us in comparing our operating performance on a consistent basis by removing the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal budget;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our operational strategies; and
- to evaluate our capacity to fund capital expenditures and expand our business.

We also believe that analysts and investors use EBITDA and Adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

Management strongly encourages investors to review our 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. For information about our financial results as reported in accordance with GAAP, see our consolidated financial statements and related notes included in this prospectus.

The table below reconciles net income to EBITDA and Adjusted EBITDA for the periods presented:

	Years Ended December 31,					Nine Months Ended September 30,	
	2001 (unaudited)	2002	2003	2004	2005	2005 (unaudited)	2006 (unaudited)
Consolidated Statement of Operations Data:			(in thousands)				
Net income	$ 186	$ 215	$ 3,771	$ 7,133	$ 6,819	$ 4,758	$ 3,535
Interest expense, net	44	21	13	44	106	68	950
Income tax provision (benefit)	3	3	478	328	(163)	(199)	539
Amortization of intangibles				8	17	13	3,037
Depreciation and amortization	41	94	120	448	1,976	1,455	1,528
EBITDA	274	333	4,382	7,961	8,755	6,095	9,589
Share-based compensation							604
Adjusted EBITDA	$ 274	$ 333	$ 4,382	$ 7,961	$ 8,755	$ 6,095	$ 10,193

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SELECTED COMBINED FINANCIAL DATA OF PARTSBIN

The combined statement of operations data of All OEM Parts, Inc., ThePartsBin.com, Inc. and their affiliated companies (collectively, Partsbin) for the years ended December 31, 2003, 2004 and 2005 and the combined balance sheet data as of December 31, 2004 and 2005 have been derived from, and are qualified by reference to, the audited combined financial statements of Partsbin that are included in this prospectus. The combined balance sheet data as of December 31, 2002 and 2003 and the combined statement of operations data for the year ended December 31, 2002 have been derived from Partsbin s audited combined financial statements that are not included in this prospectus. The combined statement of operations data for the three months ended March 31, 2005 and 2006 and the combined balance sheet data as of March 31, 2006 have been derived from, and are qualified by reference to, Partsbin s unaudited combined financial statements that are included in this prospectus. The combined balance sheet data as of December 31, 2001 and the combined statement of operations data for the year then ended have been derived from Partsbin s unaudited combined financial statements that are not included in this prospectus. The unaudited combined financial statements of Partsbin have been prepared on a basis consistent with our audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for the fair presentation of the information for the unaudited periods. Historical results are not necessarily indicative of future results. The following data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the combined financial statements and related notes included elsewhere in this prospectus.

	Years Ended December 31,					Three Months Ended March 31,	
	2001 (unaudited)	2002	2003	2004	2005	2005	2006
				(in thousands)		(unaudited)	
Combined Statement of Operations Data:							
Net sales	$ 3,627	$ 10,636	$ 17,763	$ 23,679	$ 38,295	$ 7,470	$ 13,665
Cost of sales	2,771	8,409	13,596	18,148	29,398	5,746	10,255
Gross profit	856	2,227	4,167	5,531	8,897	1,724	3,410
Operating expenses:							
General and administrative	632	904	1,189	1,480	3,111	665	998
Marketing	226	1,278	2,417	3,804	5,172	1,077	1,332
Fulfillment		10	31	36	50	13	11
Technology	44	345	318	319	563	113	238
Total operating expenses	902	2,537	3,955	5,639	8,896	1,868	2,579
Income (loss) from operations	(46)	(310)	212	(108)	1	(144)	831
Other income (expense):							
Loss from disposition of assets		(3)	(9)				
Interest income		1	2	2	2		
Interest expense			(1)	(2)	(11)	(1)	(6)
Other income (expense), net		(2)	(8)		(9)	(1)	(6)

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