

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K/A**

Amendment No. 1

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**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 12, 2010



**U.S. AUTO PARTS NETWORK, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction  
of incorporation)

**001-33264**  
(Commission  
File Number)

**68-0623433**  
(IRS Employer  
Identification No.)

**17150 South Margay Avenue, Carson, CA 90746**  
(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code (310) 735-0553**

**N/A**

(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Introductory Note.**

U.S. Auto Parts Network, Inc. (“USAP” or the “Company”) previously filed with the Securities and Exchange Commission a Current Report on Form 8-K on August 18, 2010, (the “Initial Report”) to, among other matters, report the acquisition of all of the outstanding capital stock of Automotive Specialty Accessories and Parts, Inc. (“WAG”). This Form 8-K/A amends the Initial Report to provide the required financial statements of an acquired business, required pro forma financial information and related exhibits. This amendment does not amend or otherwise affect Items 1.01, 2.01, 2.03 or 8.01 of the Initial Report.

**Item 9.01. Financial Statements and Exhibits****(a) Financial Statements of Business Acquired.**

The audited financial statements (including the consolidated balance sheets, statements of operations, statements of cash flow, related notes and independent auditors’ report) of WAG as of and for the 53 weeks ended January 2, 2010 and the 52 weeks ended December 27, 2008 and December 29, 2007 are filed as exhibits 99.1 and 99.2 to this Current Report on Form 8-K/A and are incorporated by reference in their entirety herein.

The unaudited condensed consolidated financial statements (including the consolidated balance sheet of WAG as of July 3, 2010 and the statements of operations and statements of cash flow of WAG as of and for the 26 weeks ended July 3, 2010 and the 27 weeks ended July 4, 2009 and related notes) are filed as exhibit 99.3 to this Current Report on Form 8-K/A and are incorporated by reference in their entirety herein.

**(b) Pro Forma Financial Information.**

The unaudited pro forma condensed combined financial information (including the consolidated balance sheets, statements of operations and related notes) as of and for the 26 weeks ended July 3, 2010 and the 52 weeks ended January 2, 2010 are filed as exhibit 99.4 to this Current Report on Form 8-K/A and are incorporated by reference in their entirety herein.

**(c) Exhibits.** The following exhibits are filed with this Current Report on Form 8-K/A:

<u>Exhibit No.</u>	<u>Description</u>
2.2	Stock Purchase Agreement executed August 2, 2010 among Go Fido, Inc., WAG, 2000 Riverside Capital Appreciation Fund, L.P. and the other stockholders of WAG (1)
23.1	Consent of BDO USA, LLP, independent auditors for WAG
23.2	Consent of Deloitte & Touche LLP, independent auditors for WAG
99.1	Audited financial statements of WAG as of and for the 53 weeks ended January 2, 2010
99.2	Audited financial statements of WAG as of and for the 52 weeks ended December 27, 2008 and December 29, 2007
99.3	Unaudited condensed consolidated financial statements of WAG as of and for the 26 weeks ended July 3, 2010 and the 27 weeks ended July 4, 2009
99.4	Unaudited Pro forma condensed combined financial information

(1) Incorporated by reference to Exhibit No. 10.57 of the registrant’s Current Report on Form 8-K filed on August 4, 2010.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: October 28, 2010

**U.S. AUTO PARTS NETWORK, INC.**

By: /s/ THEODORE R. SANDERS

**Theodore R. Sanders**  
**Chief Financial Officer**

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## EXHIBIT INDEX

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Consent of Independent Registered Public Accounting Firm

U.S. Auto Parts Network, Inc.  
Carson, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3/A (No. 333-163811) and Form S-8 (No. 333-143179, 333-149973, 333-158224 and 333-165493) of U.S. Auto Parts Network, Inc. of our report dated October 26, 2010, relating to the consolidated financial statements of Automotive Specialty Accessories and Parts, Inc. and subsidiaries as of and for the year ended January 2, 2010 which appears in this Form 8-K.

/s/ BDO USA, LLP

Chicago, Illinois  
October 26, 2010

**CONSENT OF INDEPENDENT AUDITORS**

We consent to the incorporation by reference in Registration Statements No. 333-163-811 on Form S-3/A and No. 333-143179, 333-149973, 333-158224 and 333-165493 on Form S-8 of U.S. Auto Parts Network, Inc. of our report dated July 10, 2009 relating to the financial statements of Automotive Specialty Accessories and Parts, Inc. (a Delaware Corporation) and subsidiaries as of and for the years ended as of December 27, 2008 and December 29, 2007, appearing in this Form 8-K of U.S. Auto Parts Network, Inc. dated October 26, 2010.

*/s/ DELOITTE & TOUCHE LLP*

Chicago, Illinois  
October 28, 2010

# **Automotive Specialty Accessories and Parts, Inc.**

## **Consolidated Financial Statements As of and for the Year Ended January 2, 2010**

The report accompanying these financial statements was issued by BDO USA, LLP, a New York limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

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# **Automotive Specialty Accessories and Parts, Inc.**

**Consolidated Financial Statements**  
**As of and for the Year Ended January 2, 2010**



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**Automotive Specialty Accessories and Parts, Inc.**

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## **Independent Auditors' Report**

To the Board of Directors  
of Automotive Specialty Accessories  
and Parts, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Automotive Specialty Accessories and Parts, Inc. and subsidiaries (the "Company"), formerly known as JCW Holding Company, as of January 2, 2010 and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Automotive Specialty Accessories and Parts, Inc. and subsidiaries as of January 2, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7 of the consolidated financial statements, the Company was not in compliance with its debt covenants as defined in the debt agreements and therefore the maturity of the debt could have been accelerated and would have resulted in substantial doubt about the Company's ability to continue as a going concern. Upon the August 2, 2010 acquisition of the Company as described in Note 13, the debt was retired with the proceeds.

Chicago, Illinois  
October 26, 2010

BDO USA, LLP, a New York limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

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# **Financial Statements**

**Automotive Specialty Accessories and Parts, Inc.**  
**Consolidated Balance Sheet**

	<u>January 2, 2010</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 42,219
Receivables, net of reserve for uncollectible accounts of \$79,115	3,000,903
Inventories — net	11,081,817
Prepaid expenses and other assets	841,081
Deferred catalog expenses	<u>1,245,568</u>
<b>Total Current Assets</b>	<u>16,211,588</u>
<b>Property and Equipment</b>	
Property and equipment	43,651,968
Less accumulated depreciation and amortization	<u>25,138,512</u>
<b>Net Property and Equipment</b>	<u>18,513,456</u>
<b>Other Assets</b>	
Deferred financing costs, net of accumulated amortization of \$84,070	348,291
Customer relationships, net	—
Trademarks and trade names	5,200,000
Goodwill	<u>10,495,138</u>
<b>Total Other Assets</b>	<u>16,043,429</u>
	<u>\$50,768,473</u>

**Automotive Specialty Accessories and Parts, Inc.**  
**Consolidated Balance Sheet**

	<u>January 2, 2010</u>
<b>Liabilities and Shareholders' Equity</b>	
<b>Current Liabilities</b>	
Revolving line of credit	\$ 6,467,332
Accounts payable	17,991,853
Accrued expenses	3,019,526
Customers' deposits	1,505,817
Current portion of long-term notes payable and debt in default	16,741,665
<b>Total Current Liabilities</b>	<u>45,726,193</u>
<b>Other Noncurrent Liabilities</b>	<u>195,822</u>
<b>Total Liabilities</b>	<u>45,922,015</u>
<b>Shareholders' Equity</b>	
Preferred shares, \$0.01 par value — 200,000 shares authorized; 183,536.5 shares issued	18,353,650
Common shares, \$0.01 par value — 1,000,000 shares authorized; 332,230 shares issued	3,322
Additional paid-in capital	33,656,324
Notes receivable — shareholders	(750,000)
Accumulated deficit	(46,018,508)
Treasury stock, 5,030 shares at cost	(398,330)
<b>Total Shareholders' Equity</b>	<u>4,846,458</u>
	<u>\$ 50,768,473</u>

See accompanying notes to consolidated financial statements.

**Automotive Specialty Accessories and Parts, Inc.**  
**Consolidated Statement of Operations**

	<b>Year ended January 2, 2010</b>
<b>Revenues</b>	
Net merchandise sales	\$100,786,364
Shipping and handling revenue	18,167,181
Other revenues	4,310,758
<b>Total Revenues</b>	<u>123,264,303</u>
<b>Cost of Goods Sold</b>	
Cost of merchandise sales	63,718,232
Shipping and handling costs	13,965,375
<b>Total cost of goods sold</b>	<u>77,683,607</u>
<b>Gross Profit</b>	<u>45,580,696</u>
<b>Operating Expenses</b>	
Catalog and advertising	15,326,879
Salaries and wages	14,291,611
General and administrative	14,476,556
Depreciation and amortization	3,655,273
Impairment of intangible assets	13,353,000
Management fees	450,000
<b>Total Operating Expenses</b>	<u>61,553,319</u>
<b>Operating Loss</b>	<u>(15,972,623)</u>
<b>Other Income (Expense)</b>	
Gain on extinguishment of debt	4,148,862
Interest expense	(1,582,454)
Total other income — net	<u>2,566,408</u>
<b>Loss Before Income Taxes</b>	<u>(13,406,215)</u>
<b>Income Tax Expense</b>	<u>—</u>
<b>Net Loss</b>	<u>\$ (13,406,215)</u>

See accompanying notes to consolidated financial statements.

**Automotive Specialty Accessories and Parts, Inc.**  
**Consolidated Statement of Shareholders' Equity**

	\$.01 Par Value Preferred Shares	Preferred Share Amount	\$.01 Par Value Common Shares	Common Share Amount	Additional Paid-in Capital	Notes Receivable - Share- holders	Common Share Warrants Subject to Put Option	Accumulated Deficit	Treasury Stock	Total
<b>Balance, December 28, 2008</b>	—	\$ —	343,123	\$ 3,431	\$34,773,017	\$(1,989,302)	\$ 405,000	\$ (32,612,293)	\$(398,330)	\$ 181,523
Correction of an error (1)	—	—	—	—	—	—	(405,000)	—	—	(405,000)
<b>Restated Balance, December 28, 2008</b>	—	—	343,123	3,431	34,773,017	(1,989,302)	—	(32,612,293)	(398,330)	(223,477)
Net loss	—	—	—	—	—	—	—	(13,406,215)	—	(13,406,215)
Capital contribution	—	—	—	—	52,500	—	—	—	—	52,500
Preferred shares issued	183,536.5	18,353,650	—	—	—	—	—	—	—	18,353,650
Common shares issued	—	—	1,500	15	69,985	—	—	—	—	70,000
Notes receivable — shareholders	—	—	(12,393)	(124)	(1,239,178)	1,239,302	—	—	—	—
<b>Balance, at January 2, 2010</b>	<b>183,536.5</b>	<b>\$18,353,650</b>	<b>332,230</b>	<b>\$ 3,322</b>	<b>\$33,656,324</b>	<b>\$ (750,000)</b>	<b>\$ —</b>	<b>\$ (46,018,508)</b>	<b>\$(398,330)</b>	<b>\$ 4,846,458</b>

(1) - Refer to Note 13 for additional details

See accompanying notes to consolidated financial statements.

**Automotive Specialty Accessories and Parts, Inc.**  
**Consolidated Statement of Cash Flows**

	<b>Year ended January 2, 2010</b>
<b>Cash Flow From Operating Activities</b>	
Net loss	\$(13,406,215)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization	3,655,273
Impairment of intangible assets	13,353,000
Amortization of debt issuance costs	84,070
Gain on extinguishment of debt	(4,148,862)
Bad debt expense	161,098
Change in assets and liabilities	
Receivables	(755,771)
Inventories	2,852,968
Prepaid expenses and other assets	(18,829)
Deferred catalog expenses	671,164
Accounts payable	(2,008,682)
Accrued expenses	(1,972,204)
Customers' deposits	736,534
Other current and noncurrent liabilities	(51,752)
Net cash used in operating activities	<u>(848,208)</u>
<b>Cash Flows From Investing Activities</b>	
Capital expenditures	<u>(4,979,739)</u>
Net cash used in investing activities	<u>(4,979,739)</u>
<b>Cash Flows From Financing Activities</b>	
Net payment of revolving line of credit	(1,598,668)
Payment of long-term notes payable	(23,930,477)
Proceeds from long-term notes payable	13,250,000
Capital contribution	52,500
Debt issuance costs paid	(432,361)
Common shares issued	70,000
Preferred shares issued	18,353,650
Net cash provided by financing activities	<u>5,764,644</u>



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**Automotive Specialty Accessories and Parts, Inc.**  
**Consolidated Statement of Cash Flows**

	Year ended January 2, 2010
<b>Net Decrease in Cash</b>	\$ (63,303)
<b>Cash</b> , at beginning of year	<u>105,522</u>
<b>Cash</b> , at end of year	<u>\$ 42,219</u>
<b>Supplemental Cash Flow Disclosures</b>	
Interest paid	\$1,746,448

See accompanying notes to consolidated financial statements.

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**Automotive Specialty Accessories and Parts, Inc.**

**Notes to Consolidated Financial Statements**

**1. Nature of the Business and Summary of Significant Accounting Policies**

*Nature of the Business*

Automotive Specialty Accessories and Parts, Inc. ("ASAP"), a Delaware corporation, is a direct marketer of automotive parts and accessories, formerly known as JCW Holding Company.

*Acquisition by Riverside*

ASAP and its wholly owned subsidiaries, J. C. Whitney & Co. and Warshawsky Advertising, were acquired by The Riverside Capital Appreciation Fund 2000 ("Riverside") and management shareholders on June 21, 2002. Including transaction-related expenses, the purchase price was approximately \$59.1 million. The acquisition has been accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their relative fair values at the date of acquisition. The purchase price exceeded the fair value of the net assets acquired by approximately \$8.3 million, which has been recorded as goodwill in the accompanying consolidated balance sheets. In addition, \$4,800,000 was allocated to customer relationships (amortizable) and \$13,500,000 was allocated to trademarks and trade names (not amortizable). In November 2003, Warshawsky Advertising was dissolved.

*Acquisition by ASAP*

On October 3, 2003, J.C. Whitney acquired Stylin' Concepts, Inc. for approximately \$29.5 million. Stylin' Concepts, Inc., located in Independence, Ohio, is a direct marketer of sport truck accessories. Stylin' Concepts, Inc. sells its products through catalogs, the Internet, and a retail store. The acquisition has been accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their relative fair values at the date of acquisition. The purchase price exceeded the fair value of the net assets acquired by approximately \$24.7 million, which has been recorded as goodwill in the accompanying consolidated balance sheets. In addition, \$825,000 was allocated to customer relationships (amortizable) and \$2,600,000 was allocated to trademarks and trade names (not amortizable). In 2004, the Company recorded an additional liability in connection with the acquisition of approximately \$604,000 and increased goodwill accordingly.

*Principles of Consolidation*

The consolidated financial statements include the accounts of ASAP and its wholly owned subsidiaries, J.C. Whitney & Co and Stylin' Concepts, Inc. (collectively the "Company"). All intercompany transactions have been eliminated.

*Year-End*

The Company uses a fiscal year of 52 or 53 weeks ending on the Saturday closest to December 31. Fiscal year 2009 was a 53-week year ended on January 2, 2010.

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

***Accounting Standards Codification***

Effective with the financial statements for the year ended January 2, 2010, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "the Codification") 105-10, "*Generally Accepted Accounting Principles*," which became the single official source of authoritative, nongovernmental United States generally accepted accounting principles. The adoption of ASC 105-10 changed all references to authoritative accounting literature in the Company's notes to consolidated financial statements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Inventories***

Inventories are valued at the lower of cost (first-in, first-out method) or market. Excess stock and obsolete items are valued at net realizable value.

The Company receives vendor allowances as a result of meeting defined purchase levels. These allowances are accrued as a reduction of merchandise purchase price and result in a reduction of cost of sales as the merchandise is sold.

***Deferred Catalog Expenses***

Deferred catalog expenses consist of the third-party direct costs including primarily creative design, paper, printing, postage, and mailing costs for all Company direct response catalogs. Such costs are capitalized as deferred catalog expenses and are amortized over their expected future benefit. Each catalog is fully amortized within nine months.

***Deferred Financing Costs***

Deferred financing costs are amortized over the term of the related loan with amortization included in interest expense.

***Property and Equipment***

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. Major repairs, which extend the useful life of an asset, are charged to the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The cost of property and equipment retired or sold, and the related accumulated depreciation are removed from the accounts and any related gain or loss is included in earnings.

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

Depreciation and amortization are provided over the following estimated service lives:

Building	39 years
Computer equipment and software	3-5 years
Machinery and equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of useful life or remaining lease term

The cost and accumulated amortization of property leased under capitalized leases are included in property and equipment and are charged to amortization expense over the life of the lease and are fully amortized as of January 2, 2010. Long-lived assets used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of an asset may not be recoverable.

***Internal-Use Software***

The Company expenses costs incurred in the preliminary project stage and, thereafter, capitalizes costs incurred in developing or obtaining internal use software and includes them in property and equipment, net. Certain costs, such as maintenance and training, are expensed as incurred. Capitalized costs are amortized over a period of three to five years using the straight-line method. In addition, direct internal and external costs associated with the development of the features and functionality of the Company's internet platform technology incurred during the application and infrastructure development phase have been capitalized and are included in property and equipment, net in the consolidated balance sheet. Typical capitalized costs include, but are not limited to, acquisition and development of software tools required for the development and operation of the internet platform technology, hardware, and costs incurred to develop the internet platform technology. These capitalized costs are amortized over the estimated useful life of three to five years using the straight-line method. Capitalized software costs are subject to impairment evaluation whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

***Fair Value of Financial Instruments***

The carrying values of cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of fair value due to the short maturity of those items. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying amount.

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

***Intangible Assets***

Identifiable intangible assets, including customer relationships, trademarks, and trade names are valued based on third-party appraisals performed in connection with their acquisition by the Company. Customer relationships are amortized over their estimated useful lives of six years on an accelerated method. Trademarks and trade names have an indefinite useful life and, therefore, are not amortized. Goodwill represents the excess of the cost over the fair value of acquired assets at the date of acquisition and is not amortized.

Indefinite lived intangibles (trademarks and trade names) and goodwill are tested at least annually for impairment. If the asset is determined to be impaired, an impairment loss would be recognized to reduce carrying value to fair value. The Company uses a discounted cash flow model for the assessment of impairment that requires assumptions about the timing and amount of future cash flows, risk, the cost of capital and terminal values. See Note 4 for additional information regarding trade name and goodwill impairment.

***Customers' Deposits***

Customers' deposits consist of cash received with orders for which delivery has not occurred as of the balance sheet date.

***Revenue Recognition***

The Company recognizes revenue when merchandise is received by the customer. The Company reduces revenue for anticipated returns based on historical experience. Revenue includes shipping and handling charges to customers, and cost of goods sold includes shipping and handling expenses incurred by the Company.

The Company generates other revenues primarily through two sources. These sources include royalty agreements for web advertising of other distributors or dealers and fees earned from a third-party service agreement in which the Company processes membership fee collections. These other sources of revenue are presented within the "Other Revenues" on the Statement of Operations, and revenue is recognized when earned.

***Reserve for Customer Returns***

Customer returns are recorded in the period in which the related sale is recognized. Credits are issued to customers for returned products which totaled \$11,167,412 for the year ended January 2, 2010. The Company's sales returns and allowances reserve totaled \$267,324 at January 2, 2010 and is included in accrued expenses.

***Income Taxes***

Income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes arise from temporary differences between the tax basis of assets and

**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

liabilities and their reported amounts in the consolidated financial statements and from net operating loss carryforwards. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in tax expense in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that a portion or all of the deferred income tax assets will not be realized, including deferred income tax assets attributed to net operating loss carryforwards.

***Uncertainty in Income Taxes***

In July 2006, the FASB issued ASC 740-10-25, “*Accounting for Uncertainty in Income Taxes*,” which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. ASC 740-10-25 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation was effective for the Company’s 2009 fiscal year. The Company adopted the provisions of ASC 740-10-25 on December 28, 2008 (fiscal year 2009). Under ASC 740-10-25, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The implementation of ASC 740-10-25 had no impact on the Company’s consolidated financial statements. The Company does not believe there are any unrecognized tax benefits that should be recorded. No interest or penalties were accrued as of December 28, 2008 as a result of the adoption of ASC 740-10-25. For the year ended January 2, 2010, there were no interest or penalties recorded or included in the consolidated statements of operations. The Company is open to examination by taxing authorities from fiscal year 1997 forward.

***Subsequent Events***

In May 2009, the FASB issued ASC 855, “*Subsequent Events*” (ASC 855), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company adopted ASC 855 beginning April 1, 2009. The Company has evaluated subsequent events through October 26, 2010, the date the consolidated financial statements were available to be issued. Refer to Note 13 for additional details on subsequent events.

**2. Deferred Catalog Expenses**

Deferred catalog expenses include the following:

	<u>January 2, 2010</u>
Advance payments of paper and printing costs	\$ 265,000
Unamortized catalogs	<u>980,568</u>
<b>Total</b>	<b><u>\$1,245,568</u></b>

**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

**3. Property and Equipment**

Property and equipment include the following:

	January 2, 2010
Land	\$ 550,000
Building	11,022,655
Computer equipment and software	26,861,072
Machinery and equipment	2,455,003
Furniture and fixtures	1,392,879
Leasehold improvements	1,370,359
Less accumulated depreciation and amortization	<u>(25,138,512)</u>
Total	<u>\$ 18,513,456</u>

**4. Intangible Assets**

Intangible assets consist of the following:

	January 2, 2010	
	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets — customer relationships	<u>\$5,625,000</u>	<u>\$5,625,000</u>
Unamortizable intangible assets — trademarks and trade names	<u>\$5,200,000</u>	

The following table provides a summary of the trademarks and trade names activity for the year ended January 2, 2010:

	January 2, 2010
Beginning balance	\$ 16,100,000
Impairments	<u>(10,900,000)</u>
Ending balance	<u>\$ 5,200,000</u>

In 2009, the Company recorded a trade name impairment of \$9,800,000 related to the J.C. Whitney trade name and \$1,100,000 related to the Stylin' Concepts trade name, which resulted primarily from lower estimated revenue than previously expected. The fair value of the trade names were estimated using the present value of expected royalty savings and is a level 3 measurement due to unobservable inputs. The impairment loss was then recorded for the difference between the fair value of the trade names and the carrying value of the trade names.

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

The Company's reporting units are determined based upon whether discrete financial information is available and regularly reviewed, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. The Company's reporting units are J.C. Whitney & Co. and Stylin' Concepts, Inc., both of which had goodwill. The measurement of impairment of goodwill consists of two steps. In the first step, the Company compares the fair value of each reporting unit to its carrying value. As part of the impairment analysis, the Company determines the fair value of each of its reporting units with goodwill using the income approach. The income approach uses a discounted cash flow methodology to determine fair value. This methodology recognizes value based on the expected receipt of future economic benefits. Key assumptions in the income approach include a free cash flow projection, an estimated discount rate, a long-term growth rate and a terminal value. These assumptions are based upon the Company's historical experience, current market trends and future expectations. During 2009, the Company experienced lower cash flows than expected due to generally weak economic conditions. The Company determined that the fair value of both reporting units was less than their carrying values at January 2, 2010. Following this assessment, the Company performed a second step in order to determine the implied fair value of goodwill in the reporting units. The activities in the second step included hypothetically valuing all of the tangible and intangible assets of the impaired reporting unit using market participant assumptions, as if the reporting unit had been acquired in a business combination. If the resulting implied goodwill value is lower than the related recorded goodwill value, then an impairment is recorded. The implied goodwill value is a level 3 measurement due to unobservable inputs. As a result of this assessment, the Company recorded a goodwill impairment charge of \$1,282,000 and \$1,171,000 on the J.C. Whitney & Co. and Stylin' Concepts, Inc. reporting units, respectively.

The following table provides a summary of the goodwill activity for the year ended January 2, 2010:

	<u>January 2,</u> <u>2010</u>
Beginning balance	\$12,948,138
Impairments	<u>(2,453,000)</u>
Ending balance	<u>\$10,495,138</u>

The remaining goodwill balance as of January 2, 2010 was \$7,005,608 and \$3,489,530 for the J.C. Whitney & Co. and Stylin' Concepts, Inc. reporting units, respectively, which includes \$1,282,000 and \$21,847,501 of aggregate impairments through that date.



**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

**5. Related-Party Transactions**

The Company has entered into an advisory agreement with its majority shareholder, Riverside, whereby Riverside provides financial and management consulting services to the Company for a fee of approximately \$450,000 per year. As of January 2, 2010, the Company has \$339,841 recorded as a liability to Riverside within accounts payable, which was paid in 2010.

The Company had a note of \$5,037,500 payable to a minority shareholder that was issued in connection with the acquisition of Stylin' Concepts, Inc. Interest on the unpaid portion commenced on March 31, 2004, and was to be paid quarterly. This note was paid in full in 2010. See Note 7 for additional information. Interest expense for this note was \$352,625 for the year ended January 2, 2010.

**6. Leases**

The Company leases its administrative office and office equipment under operating lease agreements. Rent expense was \$603,834 for the year ended January 2, 2010. The Company's leases expire at various dates through 2016.

Future minimum payments under the Company's operating leases as of January 2, 2010, are as follows:

<u>Fiscal year</u>	
2010	\$ 614,996
2011	608,734
2012	567,627
2013	370,343
2014	368,329
Thereafter	<u>770,144</u>
Total	<u>\$3,300,173</u>

**7. Notes Payable**

On October 3, 2003, the Company amended its existing credit agreements to provide additional funding related to the acquisition of Stylin' Concepts, Inc. The amended credit agreements included a revolving line of credit, two term loans, and letters of credit. The revolving line of credit increased to \$19 million and supported the Company's direct borrowings and issuance of letters of credit. In November 2005, the lender provided temporary borrowing availability of an additional \$2.5 million, gradually decreasing through July 31, 2006. Subsequently, in September 2006, the Company amended the existing credit agreement to provide additional availability of \$2.5 million. This additional availability revision expired in September 2007, but was subsequently extended until June 30, 2008. The remaining credit agreement was extended through May 31, 2009. This facility was in the form of a capital call agreement with individual

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

investors and was subject to certain commitments as defined in the agreement. Interest was paid monthly. Interest was determined based on the Company's total funded debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA") ratio at the end of each quarter. The agreement included an unused commitment fee of 0.5% annually. There was an unconditional security interest in all property of the Company, including inventory, receivables, and property and equipment. As of December 27, 2008, the Company had direct borrowings of \$8,066,000 along with letters of credit of \$253,471. The outstanding balance under this credit facility was refinanced with PNC Bank in May 2009.

On October 3, 2003, the Company amended a term loan dated June 25, 2002, and entered into two term loans for \$11.5 million and \$6.5 million, which were used for the acquisition of Stylin' Concepts, Inc. The \$6.5 million term loan was subsequently paid off on September 30, 2005. Principal and interest were payable in quarterly installments. Interest was determined based on the ratio of the Company's total funded debt to EBITDA ratio at the end of each quarter. In November 2005, the lender restructured the remaining term loan amortization schedule. The remaining facility expired in September 2008, but was subsequently extended until February 2009 and then extended through May 30, 2009. This term loan was secured by the Company's inventory, receivables, and property and equipment. At December 27, 2008, the Company had \$6,400,000 outstanding on this facility. This loan was retired in 2009 using the proceeds of a new credit facility.

On October 3, 2003 and June 25, 2002, the Company entered into a senior subordinated debt agreement. This note carried interest payable quarterly at an annual rate of 12% plus payable in-kind interest of 4%. As of December 27, 2008, the principal balance was \$19,728,501. As discussed below, the outstanding balance under this debt agreement was retired in fiscal 2009 by using the proceeds from a preferred stock offering. In connection with the senior subordinated debt, a total of 3,235 and 7,049 warrants valued at \$162,000 and \$243,000 were issued on October 3, 2003 and June 25, 2002, respectively. These amounts were recorded as discounts on the debt which was accreted to interest expense over the scheduled term of the notes. As of December 27, 2008, the unamortized discount relating to the warrants was \$9,237, which was fully accreted in 2009. Each warrant was exercisable into one share of common stock for \$0.01 per share. As of December 28, 2008, all of the warrants remained outstanding. The warrants issued in connection with the senior subordinated debt provide the holders with a put option that is exercisable at the discretion of the holder. The warrants are classified as liabilities because they contain redemption rights that are not solely within the Company's control. Refer to Note 13 for additional details. The fair value of the warrants were determined using the Black-Scholes model with assumptions similar to those described in Note 8. The fair value is a level 3 measurement due to unobservable inputs.

On October 3, 2003, the Company entered into a \$5,037,500 subordinate promissory note payable with a minority shareholder in connection with the acquisition of Stylin' Concepts, Inc. This note carries interest payable quarterly commencing on March 31, 2004, at a rate per annum of 7.0%. The unpaid portion was originally due in a lump sum on the earliest of October 3, 2010, or a change in control of the Company. The due date was extended to the earliest of November 14, 2012 or a change in control of the Company. The entire balance remained outstanding as of January 2, 2010.

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

The above agreements contained certain restrictive covenants, including minimum EBITDA, maximum total funded debt to EBITDA, maximum senior funded debt to EBITDA, minimum fixed charge coverage ratio, and maximum capital expenditures, all as defined in the agreements.

On December 30, 2008 (fiscal year 2009), Riverside and other common shareholders invested \$16,353,650 into the Company. In return, Riverside and these shareholders received 163,536.5 shares of preferred stock at a \$100 per share stated price, 1,500 shares of common stock held by the senior subordinated debt holders, and the 10,284 warrants to purchase the Company's common shares previously-owned by the senior subordinated debt holders as described above. The Company used the proceeds from this offering to fully retire the senior subordinated debt and related accrued interest, aggregating to \$19,743,862. At the date of the transaction, the recorded value of the warrants was \$405,000. Accordingly, the Company recognized a \$4,148,862 gain upon the extinguishment of the senior subordinated debt and effective repurchase of the outstanding warrants. Commensurate with this transaction, the value of the outstanding warrants transferred to Riverside and the other common shareholders became de minimus because the existence of the newly-issued preferred stock rendered the value of the Company's common stock de minimus. As such, the entire \$16,353,650 investment was allocated to the preferred stock and none was allocated to the transferred warrants. The value of the warrants was still de minimus as of January 2, 2010.

On May 14, 2009, the Company entered into a new three year, \$26 million credit facility with PNC Bank. Initial borrowings under this facility were used to retire the then outstanding senior debt as described above. This credit facility includes a \$12.75 million revolving line of credit, a \$13.25 million term loan payable in thirty-five equal and consecutive monthly principal payments of \$270,834 each beginning on June 1, 2009 and letters of credit. Interest was determined based on the Company's senior debt to EBITDA ratio at the end of each quarter and was 8% on the term loan and 5.25% on the revolving line of credit as of January 2, 2010. There was an unconditional security interest in all property of the Company, including inventory, receivables and property and equipment. As of January 2, 2010, the Company had direct borrowings on the revolving line of credit of \$6,467,332, along with letters of credit of \$153,471. At January 2, 2010, the Company had \$11,704,165 outstanding on the term loan.

The PNC facility contained certain restrictive covenants including minimum fixed charge coverage ratio, maximum senior funded debt to EBITDA and maximum capital expenditures. As of January 2, 2010, the Company was not in compliance with its debt covenants. As such, the outstanding debt is classified as current in the balance sheet.

As described in Note 13, the Company paid in full the outstanding debt related to the PNC facility as well as the subordinate promissory note in 2010 in connection with the acquisition of the Company.

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

**8. Stock Options**

***Performance-Based Options***

The Company grants to certain officers, directors, and certain employees options to purchase common stock. The options are exercisable only to the extent they have vested. Vesting criteria is based upon employment and achievement of defined annual Company performance tests. Shares not earned during the year due to the performance test not being met expire and terminate. However, if the performance results in the subsequent year immediately following the nonachievement year exceed the performance test by ten percent (10%), then fifty percent (50%) of the prior year options not earned will vest.

No such options have vested since the inception of the plan in fiscal 2003 and only 5,000 such options remain unexpired as of January 2, 2010.

At January 2, 2010, the exercise price on 3,000 options is \$100, with the remaining 2,000 options at \$50 a share. None of the options are exercisable as of January 2, 2010. The weighted-average remaining contractual life is 8.62 years.

***Non-Performance Based Options***

The Company granted to certain officers, directors, and certain employees options to purchase shares of common stock for \$100 or \$50 a share. The options are exercisable only to the extent they have vested. The options shall vest 25% on each of the first four anniversaries of their grant date, as defined in the "Options Agreement" as long as the optionee is still an employee of the Company. Of the 43,196 options outstanding as of December 28, 2008, 18,737 were cancelled during fiscal 2009 and of the remaining 24,259 options at January 2, 2010, 14,076 are exercisable.

At January 2, 2010, the exercise price on 23,299 options is \$100, with the remaining 1,160 options at \$50 a share. The weighted-average remaining contractual life is 7.17 years.

**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

**All Options**

The grant-date fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model that uses various assumptions regarding the (1) expected volatility in the fair value of the Company's stock due to the Company being privately held, (2) expected life of the option, (3) expected dividend yield on the underlying shares, and (4) risk-free interest rate based on the U.S. Treasury yield curve and expected forfeiture rate. The specific assumptions are as follows:

	Year ended January 2, 2010
Dividend yield	—
Risk-free interest rate	3.45%
Volatility	23.2%
Expected life (years)	10

Stock-based compensation expense has been de minimus through fiscal 2010 and is expected to be de minimus going forward.

**9. Income Taxes**

Deferred income taxes result primarily from the use of accelerated methods to calculate depreciation on certain fixed assets for income tax purposes, the deferral of certain reserves for income tax purposes and the capitalization of the Company's net operating loss carryforwards for financial reporting purposes. Valuation allowances, if necessary, are provided against deferred income tax assets, which are more likely than not expected to be realized. The net balance of deferred income taxes at January 2, 2010 was \$0.

As of January 2, 2010, the Company has \$21,743,861 in net operating loss carryforwards expiring beginning in 2012 through 2029, which may be offset against future taxable income. The Company also has alternative minimum tax and other credits available for carryforward of \$158,824 at January 2, 2010, which do not expire.

The difference between the federal statutory tax rate and the effective tax rate for the year ended January 2, 2010, relates primarily to the change in valuation allowance.

The income tax provision consists of the following:

	Year ended January 2, 2010
Current	\$ —
Deferred	—
Income tax provision (benefit)	\$ —

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

**10. Shareholders' Equity**

In October 2002, a shareholders' agreement was entered into by the Company, Riverside, and all investors, as defined. This agreement restricts the transfer of shares by Riverside and the investors to specific methods and prices.

The Company allowed certain employees to borrow money to purchase Company stock. In 2009, the former Chairman of the Board exchanged 12,393 of common shares for the forgiveness of his entire note receivable totaling \$1,239,302. The total remaining notes receivable outstanding was \$750,000 at January 2, 2010 and is due from the former Chief Executive Officer. This promissory note has an interest rate of 2.51%, is due in full on July 18, 2011, is collateralized by the remaining shares, and is recorded as contra-equity.

On December 30, 2008 (fiscal year 2009), the Company issued 163,536.5 preferred shares, par value \$0.01 per share, to Riverside and other shareholders for \$100 per share. The Company issued an additional 20,000 preferred shares on December 18, 2009. The total proceeds from the preferred shares was \$18,353,650.

The holders of preferred stock are entitled to receive dividends in preference to any declaration or payment of any dividend on the common stock at the rate of 21 percent per annum, compounded quarterly and payable when declared by the Board. The total accumulated dividends payable when declared as of January 2, 2010 is \$3,663,982. For the year ended January 2, 2010, there were no dividends declared or paid by the Company.

The liquidation preferences allow for holders of preferred stock entitlement to receive preference of any distribution of proceeds prior to the holders of common stock at an amount equal to the greater of (i) \$100 per share multiplied by 1.4 or (ii) \$100 per share plus all accrued but unpaid dividends on such shares. If upon a liquidation event, the proceeds distributed shall be insufficient to provide for the full preferential amounts to preferred shareholders, then the proceeds legally available shall be distributed ratably to the holders of preferred stock in proportion to the full preferential amount each holder is otherwise entitled to receive based on the total original issue price of the shares held by the preferred shareholder. If all distributions are made in full to preferred shareholders the remaining proceeds will be distributed to common shareholders ratably based on the number of shares held by the holder.

The preferred stock is non-redeemable and non-convertible and the holders of preferred stock are entitled to one vote on all matters submitted for a vote or consent of the stockholders of the Company.

**11. Employee Benefit Plan**

The Company has a 401(k) retirement savings plan. This plan is available to substantially all employees the first of the month following their date of hire. Under the plan, employees may elect to contribute up to 20% of base compensation up to Internal Revenue Service limits. The Company will match 20% up to the first 6% of the employees' elective contributions. The Company's contributions for this plan totaled \$91,093 for the year ended January 2, 2010.

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**Automotive Specialty Accessories and Parts, Inc.**  
**Notes to Consolidated Financial Statements**

**12. Contingent Liabilities**

The Company is party to various legal proceedings arising from normal business activities. The Company has been named as defendant in class action lawsuits related to the alleged sale of merchandise containing asbestos. Amounts paid by the Company to date have not been significant. The Company's product liability insurance will cover any significant potential exposure and legal fees from these lawsuits.

**13. Correction of an Error**

During fiscal 2009, the Company re-evaluated the warrants and related put option pursuant to ASC 480-10, "*Distinguishing Liabilities from Equity*" and determined that the warrants should be classified as liabilities because they contain redemption rights that are not solely within the Company's control. At December 27, 2008, the Company incorrectly classified the warrants subject to put option as equity. As such, the Company recorded a prior period adjustment to correct the error in the Consolidated Statement of Shareholders' Equity to reclassify the warrants as liabilities.

**14. Subsequent Events**

On August 2, 2010, Go Fido, Inc., a wholly-owned subsidiary of U.S. Auto Parts Network, Inc., acquired all of the Company's outstanding equity securities for \$27,500,000. As part of the transaction, the Company paid off all outstanding debt in full as disclosed in Note 7.

**Automotive Specialty Accessories and Parts, Inc.**

**Consolidated Financial Statements as of and for the  
Years Ended December 27, 2008 and December 29,  
2007, and Independent Auditors' Report**



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Automotive Specialty  
Accessories and Parts, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Automotive Specialty Accessories and Parts, Inc. (a Delaware Corporation) and subsidiaries (the "Company") as of December 27, 2008 and December 29, 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Automotive Specialty Accessories and Parts, Inc. and subsidiaries as of December 27, 2008 and December 29, 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

July 10, 2009

**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 27, 2008 AND DECEMBER 29, 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 105,522	\$ 99,935
Receivables — net of reserve of \$60,708 and \$87,333	2,406,230	2,629,852
Inventories — net	13,934,785	15,698,599
Prepaid expenses and other assets	822,252	790,532
Deferred catalog expenses	1,916,732	2,564,389
Total current assets	<u>19,185,521</u>	<u>21,783,307</u>
<b>FIXED ASSETS:</b>		
Fixed assets — at cost	38,701,294	35,276,503
Less accumulated depreciation and amortization	21,615,100	20,141,291
Net fixed assets	<u>17,086,194</u>	<u>15,135,212</u>
<b>OTHER NONCURRENT ASSETS:</b>		
Other noncurrent assets		42,277
Debt issuance cost — net		81,551
Deferred taxes — net	1,097,994	1,245,459
Customer relationships	102,796	639,856
Trademarks and trade names	16,100,000	16,100,000
Goodwill	12,948,138	33,624,639
Total other noncurrent assets	<u>30,248,928</u>	<u>51,733,782</u>
<b>TOTAL</b>	<u><b>\$66,520,643</b></u>	<u><b>\$88,652,301</b></u>

(Continued)

**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 27, 2008 AND DECEMBER 29, 2007**

	<b>2008</b>	<b>2007</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 20,000,535	\$ 14,899,509
Accrued liabilities	4,991,730	6,061,960
Deferred taxes	1,097,994	1,245,459
Revolving line of credit	8,066,000	12,510,000
Customers' deposits	769,283	708,240
Current portion of long-term notes payable	<u>19,728,501</u>	<u>27,225,560</u>
Total current liabilities	<u>54,654,043</u>	<u>62,650,728</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term notes payable — net of discount	11,437,503	5,037,500
Other noncurrent liabilities	<u>247,574</u>	<u>159,273</u>
Total noncurrent liabilities	<u>11,685,077</u>	<u>5,196,773</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Common shares, \$0.01 par value — 1,000,000 shares authorized; 343,123 and 333,283 shares issued at 2008 and 2007, respectively	3,431	3,338
Paid-in capital	34,773,017	33,833,160
Notes receivable — shareholders	(1,989,302)	(1,239,302)
Common share warrants subject to put option	405,000	405,000
Retained deficit	<u>(32,612,293)</u>	<u>(11,849,066)</u>
Treasury stock, 5,030 shares at 2008; 4,530 shares at 2007	<u>(398,330)</u>	<u>(348,330)</u>
Total shareholders' equity	<u>181,523</u>	<u>20,804,800</u>
<b>TOTAL</b>	<u>\$ 66,520,643</u>	<u>\$ 88,652,301</u>

(Concluded)

See notes to consolidated financial statements.

**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 27, 2008 AND DECEMBER 29, 2007**

	<u>2008</u>	<u>2007</u>
<b>REVENUES:</b>		
Net merchandise sales	\$127,863,565	\$144,448,958
Shipping and handling revenue	22,659,303	23,206,845
Other revenues	4,058,277	3,602,307
Total revenues	<u>154,581,145</u>	<u>171,258,110</u>
<b>COST OF GOODS SOLD:</b>		
Cost of merchandise sales	77,068,768	85,633,594
Shipping and handling costs	17,446,431	18,111,669
Total cost of goods sold	<u>94,515,199</u>	<u>103,745,263</u>
<b>GROSS PROFIT</b>	<u>60,065,946</u>	<u>67,512,847</u>
<b>OPERATING EXPENSES:</b>		
Catalog and advertising	20,413,274	27,003,176
Salaries and wages	16,040,715	16,738,600
General and administrative	14,898,899	16,500,718
Depreciation and amortization	3,533,590	4,648,244
Impairment of goodwill	20,676,501	
Management fees	450,000	450,000
Total operating expenses	<u>76,012,979</u>	<u>65,340,738</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(15,947,033)</u>	<u>2,172,109</u>
<b>OTHER EXPENSE — Interest expense</b>	<u>(4,815,768)</u>	<u>(5,576,319)</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>(20,762,801)</u>	<u>(3,404,210)</u>
<b>INCOME TAX EXPENSE</b>	<u>(426)</u>	<u>(4,241,259)</u>
<b>NET LOSS</b>	<u>\$ (20,763,227)</u>	<u>\$ (7,645,469)</u>

See notes to consolidated financial statements.

**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 27, 2008 AND DECEMBER 29, 2007**

	\$0.01 Par Value Common Shares	Common Share Amount	Paid-In Capital	Notes Receivable Share Holders	Common Share Warrants Subject to Put Option	Retained Deficit	Treasury Stock	Total
BALANCE — December 30, 2006	333,823	\$ 3,338	\$33,825,038	\$(1,239,302)	\$405,000	\$ (4,203,597)	\$(348,330)	\$ 28,442,147
Net loss						(7,645,469)		(7,645,469)
Compensation expense — stock options			8,122					8,122
BALANCE — December 29, 2007	333,823	3,338	33,833,160	(1,239,302)	405,000	(11,849,066)	(348,330)	20,804,800
Net loss						(20,763,227)		(20,763,227)
Common shares issued	9,300	93	929,907					930,000
Compensation expense — stock options			9,950					9,950
Purchase of treasury stock — 500 shares							(50,000)	(50,000)
Notes receivable — shareholders				(750,000)				(750,000)
BALANCE — December 27, 2008	<u>343,123</u>	<u>\$ 3,431</u>	<u>\$34,773,017</u>	<u>\$(1,989,302)</u>	<u>\$405,000</u>	<u>\$(32,612,293)</u>	<u>\$(398,330)</u>	<u>\$ 181,523</u>

See notes to consolidated financial statements.

**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 27, 2008 AND DECEMBER 29, 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(20,763,227)	\$(7,645,469)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,533,590	4,648,244
Goodwill impairment	20,676,501	
Gain on sales of fixed assets	(12,723)	
Accrued interest on subordinated debt	918,305	739,912
Deferred taxes		4,241,259
Compensation expense — stock options	9,950	8,122
Bad debt expense	201,439	489,579
Changes in assets and liabilities:		
Receivables	22,183	1,704,283
Inventories	1,763,814	1,468,201
Prepaid expenses and other assets	148,280	213,286
Deferred catalog expenses	647,657	693,946
Accounts payable	4,579,987	(2,138,081)
Accrued liabilities	(1,070,230)	(748,588)
Customers' deposits	61,043	79,156
Other current and noncurrent liabilities	88,301	(159,516)
Net cash provided by operating activities	<u>10,804,870</u>	<u>3,594,334</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(4,344,921)	(1,940,566)
Proceeds from sale of fixed assets	55,000	39,600
Net cash used in investing activities	<u>(4,289,921)</u>	<u>(1,900,966)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of revolving line of credit	(4,444,000)	(1,242,000)
Payment of long-term notes payable	(2,015,362)	(1,861,700)
Purchase of treasury stock	(50,000)	
Net cash used in financing activities	<u>(6,509,362)</u>	<u>(3,103,700)</u>
NET INCREASE IN CASH	5,587	(1,410,332)
CASH — Beginning of year	99,935	1,510,267
CASH — End of year	<u>\$ 105,522</u>	<u>\$ 99,935</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Interest paid	<u>\$ 4,396,291</u>	<u>\$ 5,042,561</u>
Taxes paid	<u>\$ —</u>	<u>\$ —</u>

See notes to consolidated financial statements.

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**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 27, 2008 AND DECEMBER 29, 2007**

**1. NATURE OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of the Business** — Automotive Specialty Accessories and Parts, Inc. (ASAP), a Delaware corporation, is a direct marketer of automotive parts and accessories, formerly known as JCW Holding Company.

**Acquisition by Riverside** — ASAP and its wholly owned subsidiaries, J.C. Whitney & Co. and Warshawsky Advertising (collectively, the “Company”), were acquired by The Riverside Capital Appreciation Fund 2000 (“Riverside”) and management shareholders on June 21, 2002. Including transaction-related expenses, the purchase price was approximately \$59.1 million. The acquisition has been accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their relative fair values at the date of acquisition. The purchase price exceeded the fair value of the net assets acquired by \$8,287,691, which has been recorded as goodwill in the accompanying consolidated balance sheets. In addition, \$4,800,000 was allocated to customer relationships (amortizable) and \$13,500,000 was allocated to trademarks and trade names (not amortizable). In November 2003, Warshawsky Advertising was dissolved.

**Acquisition by ASAP** — On October 3, 2003, J.C. Whitney & Co. acquired Stylin’ Concepts, Inc. for approximately \$29.5 million. Stylin’ Concepts, Inc., located in Independence, Ohio, is a direct marketer of sport truck accessories. Stylin’ Concepts, Inc. sells its products through catalogs, the Internet, and a retail store. The acquisition has been accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their relative fair values at the date of acquisition. The purchase price exceeded the fair value of the net assets acquired by \$24,733,031, which has been recorded as goodwill in the accompanying consolidated balance sheets. In addition, \$825,000 was allocated to customer relationships (amortizable) and \$2,600,000 was allocated to trademarks and trade names (not amortizable). In 2004, the Company recorded an additional liability in connection with the acquisition of approximately \$604,000 and increased goodwill accordingly.

**Principles of Consolidation** — The consolidated financial statements include the accounts of ASAP and its wholly owned subsidiaries. All intercompany transactions have been eliminated.

**Year-End** — The Company uses a fiscal year of 52 to 53 weeks ending on the Saturday closest to December 31. Fiscal year 2008 was a 52-week year ended on December 27, 2008. Fiscal year 2007 was a 52-week year ended on December 29, 2007.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Inventories** — Inventories are valued at the lower of cost or market on a first-in, first-out basis. Excess stock and obsolete items are valued at net realizable value.

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The Company receives vendor allowances as a result of meeting defined purchase levels. These allowances are accrued as a reduction of merchandise purchase price and result in a reduction of cost of sales as the merchandise is sold.

**Deferred Catalog Expenses** — Deferred catalog expenses consist of the third-party direct costs, including primarily creative design, paper, printing, postage, and mailing costs for all Company direct response catalogs. Such costs are capitalized as deferred catalog expenses and are amortized over their expected future benefit. Each catalog is fully amortized within nine months.

**Fixed Assets** — Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. Major repairs, which extend the useful life of an asset, are charged to the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The cost of property and equipment retired or sold and the related accumulated depreciation are removed from the accounts and any related gain or loss is included in earnings.

Depreciation and amortization are provided over the following estimated service lives:

Building	39 years
Computer equipment and software	3–5 years
Machinery and equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of useful life or remaining lease term

The cost and accumulated amortization of property leased under capitalized leases are included in property and equipment and are charged to amortization expense over the life of the lease. Long-lived assets used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of an asset may not be recoverable.

**Fair Value of Financial Instruments** — Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying amount.

**Intangible Assets** — Identifiable intangible assets, including customer relationships, trademarks, and trade names are valued based on third-party appraisals performed in connection with their acquisition by the Company. Customer relationships are amortized over their estimated useful lives of six years. Trademarks and trade names have an indefinite useful life and, therefore, are not amortized. Goodwill represents the excess of the cost over the fair value of acquired assets at the date of acquisition. Intangible assets are reviewed for impairment on an annual basis.

**Customers' Deposits** — Customers' deposits consist of cash received with orders for which delivery has not occurred as of the balance sheet date.

**Revenue Recognition** — The Company recognizes revenue when merchandise is received by the customer. The Company reduces revenue for anticipated returns based on historical experience. Revenue includes shipping and handling charges to customers, and cost of goods sold includes shipping and handling expenses incurred by the Company.



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The Company generates other revenues primarily through two sources. These sources include royalty agreements for web advertising of other distributors or dealers and fees earned from a third-party service agreement in which the Company processes membership fee collections. These other sources of revenue are presented within the “Other revenues” on the statement of operations.

**Reserve for Customer Returns** — At the time of sale, the Company provides a reserve equal to the gross profit on projected merchandise returns based on its prior return experience. This reserve is recorded in accrued liabilities.

**Stock-Based Compensation** — Effective January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123(R), *Share-Based Payment*, using the modified prospective transition method. Under that transition method, compensation expense recognized includes all share-based payments granted, but not yet vested, based on the grant-date fair value determined in accordance with the original provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. The fair value of the options was determined at the date of grant using the Black-Scholes option-pricing model and is being amortized to expense over the options’ vesting periods.

**Income Taxes** — Income taxes are accounted for using the asset and liability method. Under this method, deferred taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements and from net operating loss carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in tax expense in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that a portion or all of the deferred income tax assets will not be realized, including deferred income tax assets attributed to net operating loss carryforwards. In June 2006, FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation is effective for the Company’s fiscal year beginning December 28, 2008. Management is currently evaluating and has not yet determined the impact adopting FIN No. 48 will have on the Company’s financial position, results of operations, or cash flows.

**New Accounting Pronouncements** — In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. The new statement establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. FASB Statement No. 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed for another year the effective date of FSP FAS 157 for all nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is currently evaluating the impact of this statement on the Company’s financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment to FASB Statement No. 115*. FASB Statement No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value with charges in fair value recorded in earnings. This statement is effective for fiscal years beginning after November 15, 2007. Adoption of this statement did not have a material effect on the Company.

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations*. The provisions of this statement are effective for the Company's fiscal year beginning December 28, 2008. Adoption of this statement will not have a material effect on the Company.

## 2. DEFERRED CATALOG EXPENSES

Deferred catalog expenses at December 27, 2008 and December 29, 2007, include the following:

	<u>2008</u>	<u>2007</u>
Advance payments of paper and printing costs	\$ 66,686	\$ 216,455
Postage for future catalogs	3,138	68,900
Unamortized catalogs	<u>1,846,908</u>	<u>2,279,034</u>
Total	<u>\$1,916,732</u>	<u>\$2,564,389</u>

## 3. FIXED ASSETS

Fixed assets at December 27, 2008 and December 29, 2007, include the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 550,000	\$ 550,000
Building	11,022,655	11,022,655
Computer equipment and software	21,902,463	18,912,209
Machinery and equipment	2,443,360	2,379,271
Furniture and fixtures	1,421,945	1,382,998
Leasehold improvements	1,360,871	1,029,370
Less accumulated depreciation and amortization	<u>(21,615,100)</u>	<u>(20,141,291)</u>
	<u>\$ 17,086,194</u>	<u>\$ 15,135,212</u>

## 4. INTANGIBLE ASSETS

The intangible assets acquired as of December 27, 2008 and December 29, 2007, are as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortizable intangible assets — customer relationships	<u>\$ 5,625,000</u>	<u>\$5,522,205</u>	<u>\$ 5,625,000</u>	<u>\$4,985,144</u>
Unamortizable intangible assets — trademarks and trade names	<u>\$16,100,000</u>		<u>\$16,100,000</u>	

In 2008, the Company recorded a goodwill impairment of \$20,676,501 related to the Stylin' Concepts, Inc. business, which resulted primarily from lower estimated future cash flows than previously expected. The fair value of that reporting unit was estimated using the expected present value of future cash flows. The impairment loss was then recorded for the difference between the implied fair value of the unit's goodwill and the carrying value of the goodwill. During the year ended December 29, 2007, there were no adjustments to the amounts recorded as goodwill:

	<u>2008</u>	<u>2007</u>
Beginning balance	\$ 33,624,639	\$33,624,639
Impairments	(20,676,501)	
Ending balance	<u>\$ 12,948,138</u>	<u>\$33,624,639</u>

Estimated amortization expense of customer relationships for the remaining useful life of one year is as follows:

<u>2009</u>	<u>\$102,795</u>
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## 5. RELATED-PARTY TRANSACTIONS

The Company has entered into an advisory agreement with its majority shareholder, Riverside, whereby Riverside will provide financial and management consulting services to the Company for a fee of approximately \$450,000 per year.

The Company has a note of \$5,037,500 payable to a minority shareholder in connection to the acquisition of Stylin' Concepts, Inc. Interest on the unpaid portion commenced on March 31, 2004, and is to be paid quarterly. See Note 7 for additional information.

## 6. LEASES

The Company leases its administrative office and certain vehicles under operating lease agreements. Additionally, the Company leases certain office equipment under capital lease agreements. Rent expense was \$714,842 and \$1,462,158 for the years ended December 27, 2008 and December 29, 2007, respectively. The Company's leases expire at various dates through 2016.

Future minimum payments under the Company's operating and capital leases as of December 27, 2008, are as follows:

<u>Years Ending December</u>	
2009	\$ 603,834
2010	614,996
2011	608,734
2012	567,627
2013	370,343
Thereafter	<u>1,138,474</u>
Total	<u>\$3,904,008</u>

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## 7. NOTES PAYABLE

On October 3, 2003, the Company amended the existing credit agreements to provide additional funding related to the acquisition of Stylin' Concepts, Inc. The amended credit agreements include a revolving loan, two term loans, and letters of credit. The revolving credit note increased to \$19 million and supports the Company's direct borrowings and issuance of letters of credit to provide working capital. In November 2005, the lender provided temporary borrowing availability of \$2.5 million, gradually decreasing through July 31, 2006. Subsequently, in September 2006, the Company amended the existing credit agreement to provide additional availability of \$2.5 million. This additional availability revision expired in September 2007, but was subsequently extended until June 30, 2008. The remaining credit agreement was extended through May 31, 2009. This facility is in the form of a capital call agreement with individual investors and is subject to certain commitments as defined in the agreement. Interest is paid monthly. Effective October 3, 2003, interest is determined based on the Company's total funded debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio at the end of each quarter. The agreement includes an unused commitment fee of 0.5% annually. There is an unconditional security interest in all property of the Company, including inventory, receivables, and fixed assets. As of December 27, 2008 and December 29, 2007, the Company had direct borrowings of \$8,066,000 and \$12,510,000 outstanding, along with letters of credit of \$253,471 and \$153,471, respectively.

On October 3, 2003, the Company amended a term loan dated June 25, 2002, and entered into two term loans for \$11.5 million and \$6.5 million, which were used for the acquisition of Stylin' Concepts, Inc. The \$6.5 million term loan was subsequently paid off on September 30, 2005. Principal and interest are payable in quarterly installments. Interest is determined based on the ratio of Company's total funded debt to EBITDA ratio at the end of each quarter. In November 2005, the lender restructured the remaining term loan amortization schedule. The remaining facility expired in September 2008, but was subsequently extended until February 2009 and then extended through May 30, 2009. This term loan is secured by the Company's inventory, receivables, and fixed assets. At December 27, 2008 and December 29, 2007, the Company had \$6,400,000 and \$8,400,000, respectively, outstanding on this facility.

On October 3, 2003 and June 25, 2002, the Company entered into a senior subordinated debt agreement. This note carries interest payable quarterly at an annual rate of 12%. The principal due increases by 4% on a quarterly basis. As of December 27, 2008 and December 29, 2007, the principal balance was \$19,728,501 and \$18,825,557, respectively. In connection with the senior subordinated debt, a total of 3,235 and 7,049 warrants valued at \$162,000 and \$243,000 were issued on October 3, 2003, and June 25, 2002, respectively. Upon surrender of a warrant, the holder is entitled to purchase one share of the Company's common stock for \$0.01. As of December 27, 2008 and December 29, 2007, the unamortized discount relating to the warrants was \$9,237 and \$70,732, respectively. The accretion amounts were \$61,495 and \$80,901 for the years ended December 27, 2008 and December 29, 2007, respectively.

These agreements contain certain restrictive covenants, including minimum EBITDA, maximum total funded debt to EBITDA, maximum senior funded debt to EBITDA, minimum fixed charge coverage ratio, and maximum capital expenditures. As of December 27, 2008 and December 29, 2007, the Company was in compliance with its debt covenants or had received a waiver on the agreements.

On October 3, 2003, the Company entered into a \$5,037,500 subordinate promissory note payable with a minority shareholder in connection with the acquisition of Stylin' Concepts, Inc. This note carries interest payable quarterly commencing on March 31, 2004, at a rate per annum of 7%. The unpaid portion is due in a lump sum on the earliest of October 3, 2010, or a change in control of the Company.

On January 9, 2004, the Company entered into two agreements with a bank to swap \$5,375,000 and \$2,875,000 of variable rate debts for fixed rate debts at an annual rate of 3.37% and 2.3%, respectively. The \$2,875,000 agreement terminated with the payoff of the respective term loan. The remaining agreement expired on September 30, 2008. For the year ended December 29, 2007, the Company recorded a reduction to interest expense of \$16,061 to adjust the fair value of the interest rate swap included in other noncurrent liabilities on the accompanying December 29, 2007, balance sheets.

Following are the gross maturities, before discounts, for the Company's debt:

2009	\$34,203,738
2010	5,037,500
Total	<u>\$39,241,238</u>

On December 30, 2008 (fiscal year 2009), Riverside and other shareholders extinguished the senior subordinated debt agreement totaling \$19,743,862 on December 30, 2008, for \$16,000,000. The investing shareholders acquired the stock and warrants associated with the subordinated debt. Those equity holdings were valued at \$552,000 at close, with the remaining \$15,448,000 payment made to the subordinated debt holder. In connection with Riverside's payoff of this debt, the Company issued preferred stock totaling \$16,353,650, which represents 163,536.5 shares issued. The subordinate promissory note payable to a minority shareholder was extended to November 14, 2012.

## 8. STOCK OPTIONS

**Variable Options Granted** — The Company grants to certain officers, directors, and certain employees options to purchase common stock. The options are exercisable only to the extent they have vested. Vesting criteria is based upon employment and achievement of defined annual company performance tests. Shares not earned during the year due to the performance test not being met expire and terminate. However, if the performance results in the subsequent year immediately following the nonachievement year exceed the performance test by 10%, 50% of the variable options not earned will vest. In 2008 and 2007, the Company granted to certain employees options to purchase zero and 3,000 shares, respectively, of common stock. In 2007, all options were offered at \$100 a share.

No variable options have vested since the inception of the plan in fiscal year 2003. Once the options are exercised, the stock is subject to repurchase and transfer restrictions in accordance with the Company's "Stockholders Agreement."

Variable stock option transactions are summarized as follows:

<u>Variable Options</u>	<u>2008</u>	<u>Fair Value</u>	<u>2007</u>	<u>Fair Value</u>
Outstanding at beginning of year	5,847		5,137	
Granted		N/A	3,000	\$ 3.87
Exercised				
Expired	(2,847)		(1,363)	
Forfeited			(927)	
Outstanding at end of year	<u>3,000</u>		<u>5,847</u>	
Options exercisable at year-end	<u>—</u>		<u>—</u>	

At December 27, 2008, the exercise price on all 3,000 options is \$100. The weighted-average remaining contractual life is 9.81 years.

**Fixed Options Granted** — The Company granted to certain officers, directors, and certain employees options to purchase shares of common stock for \$100 a share. The options are exercisable only to the extent they have vested. The options shall vest 25% on each of the first four anniversaries of their grant date, as defined in the “Options Agreement” as long as the optionee is still an employee of the Company. At December 27, 2008 and December 29, 2007, compensation expense of \$9,950 and \$8,115, respectively, has been recorded in connection with these fixed plan options. Once the options are exercised, the stock is subject to repurchase and transfer restrictions in accordance with the Options Agreement.

Fixed stock options transactions are summarized as follows:

<u>Fixed Options</u>	<u>2008</u>	<u>Fair Value</u>	<u>2007</u>	<u>Fair Value</u>
Outstanding at beginning of year	37,955		25,195	
Granted	8,723	\$ 0.17	13,600	\$ 3.86
Exercised				
Forfeited	(3,482)		(840)	
Outstanding at end of year	<u>43,196</u>		<u>37,955</u>	
Options exercisable at year-end	<u>28,325</u>		<u>6,785</u>	

At December 27, 2008, the exercise price on 42,036 options is \$100, with the remaining 1,160 options at \$50 a share. The weighted-average remaining contractual life is 6.38 years.

**All Options** — The grant-date fair value of each option is calculated using the Black-Scholes option-pricing model with the following assumptions based on grant date:

	<u>January</u>	
	<u>2008</u>	<u>2007</u>
Dividend yield	—	—
Risk-free interest rate	3.62%	4.80%
Volatility	23.2%	16.2%
Expected life (years)	10	10

## 9. INCOME TAXES

Deferred taxes result primarily from the use of accelerated methods to calculate depreciation on certain fixed assets for income tax purposes, the deferral of certain reserves for income tax purposes, and the capitalization of the Company’s net operating loss carryforwards for financial reporting purposes. Valuation allowances, if necessary, are provided against deferred tax assets, which are not likely to be realized.

As of December 27, 2008 and December 29, 2007, the Company has \$20,581,809 and \$19,154,119 in tax basis net operating loss carryforwards expiring beginning in 2012, which may be offset against future taxable income. The Company also has alternative minimum tax and other credits available for carryforward of \$158,824 at December 27, 2008 and December 29, 2007, respectively.

The difference between the statutory rate and the effective rate for the years ending December 27, 2008 and December 29, 2007, relates primarily to permanent differences between book and tax accounting for the amortization of intangible assets.

Significant components of the Company's deferred tax assets and liabilities as of December 27, 2008 and December 29, 2007, are as follows:

	2008		2007	
	Current	Noncurrent	Current	Noncurrent
<b>Deferred tax assets:</b>				
Reserves not deducted for tax	\$ 938,334	\$ 973,637	\$ 810,577	\$ 1,146,684
Income tax net operating loss carryforwards		7,989,859		7,435,629
Nondeductible goodwill impairment		8,026,617		
Valuation allowance	(678,195)	(12,279,859)	(440,870)	(4,667,891)
	260,139	4,710,254	369,707	3,914,422
<b>Deferred tax liabilities — other liabilities</b>	<b>(1,358,133)</b>	<b>(3,612,260)</b>	<b>(1,615,166)</b>	<b>(2,668,963)</b>
<b>Net deferred tax (liabilities) assets</b>	<b><u>\$(1,097,994)</u></b>	<b><u>\$ 1,097,994</u></b>	<b><u>\$(1,245,459)</u></b>	<b><u>\$ 1,245,459</u></b>

The income tax provision for the years ended December 27, 2008 and December 29, 2007, consists of the following:

	2008	2007
Current	\$426	\$ —
Deferred		4,241,259
<b>Income tax provision</b>	<b><u>\$426</u></b>	<b><u>\$4,241,259</u></b>

## 10. SHAREHOLDERS' EQUITY

In October 2002, a shareholders' agreement was entered into by the Company, Riverside, and all investors, as defined. This agreement restricts the transfer of shares by Riverside and the investors to specific methods and prices.

Pursuant to the credit agreement, dated October 3, 2003, and the credit agreement, dated June 25, 2002, the Company issued to National City Capital Corporation warrants to purchase 3,235 and 7,049 shares of its common stock at an exercise price of \$0.01 per share. The warrants are immediately exercisable through June 25, 2012. The warrants can be put back to the Company after an initial public offering of the Company's stock at the time of a change in control or upon the occurrence of an event of default, as defined. The proceeds from the credit agreement were allocated between the term notes and the

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warrants, with the initial value attributed to the warrants accounted for as a debt discount. The initial value of the warrants was \$162,000 and \$243,000, respectively, based upon an estimate of the Company's fair value at the time the warrants were originally issued. As discussed within the "Notes Payable" footnote, these warrants were acquired in fiscal year 2009 by the investing shareholders in connection with the extinguishment of the related National City Capital Corporation debt.

On October 3, 2003, Riverside, certain banks, and a minority shareholder purchased 60,000 common shares of the Company for \$6 million. For the year ended December 31, 2005, certain employees of the Company purchased or were granted 500 common shares of the Company for a total of \$50,000. For the year ended December 27, 2008, certain employees of the Company purchased 9,300 common shares of the Company for a total of \$930,000, including a \$750,000 long-term note receivable as described below.

The Company allowed certain employees to borrow money to purchase company stock. The total notes receivable outstanding is \$1,989,302 at December 27, 2008, and \$1,239,302 at December 29, 2007. The promissory notes are recorded as contra-equity.

#### **11. EMPLOYEE BENEFIT PLAN**

The Company has a 401(k) retirement savings plan. This plan is available to substantially all employees the first of the month following their date of hire. Under the plan, employees may elect to contribute up to 20% of base compensation up to Internal Revenue Service limits. The Company will match 20% up to the first 6% of the employees' elective contributions. The Company's liability for this plan, relating to the final payroll period of the year, was approximately \$3,487 and \$3,500 as of December 27, 2008 and December 29, 2007, respectively, representing the Company's contributions for each year then ended.

#### **12. CONTINGENT LIABILITIES**

The Company is party to various legal proceedings arising from normal business activities. The Company has been named as defendant in class action lawsuits related to the alleged sale of merchandise containing asbestos. Amounts paid by the Company to date have not been significant and they are not expected to have a material effect on the financial statements. The Company's product liability insurance will cover any significant potential exposure and legal fees from these lawsuits.

#### **13. SUBSEQUENT EVENT**

On May 14, 2009, the Company entered into a three-year, \$26 million credit facility with PNC Bank for the purpose of retiring all existing senior debt. All debt in Note 7, outstanding as of May 14, 2009, other than the subordinate promissory note payable to a minority shareholder, was retired. This credit agreement includes a \$12.75 million revolving loan, a \$13.25 million term loan, and letters of credit. Interest is determined based on the Company's senior debt to EBITDA ratio at the end of each quarter. There is an unconditional security interest in all property of the Company, including inventory, receivables, and fixed assets. As of December 27, 2008, the Company is in compliance with the financial covenants related to the 2007 and 2008 "Adjusted EBITDA" amounts (as defined within this debt agreement).

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**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET**  
*(in thousands, except share data and per share data)*

	<u>July 3, 2010</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 105
Accounts receivable, net	1,379
Inventory	12,360
Other current assets	<u>3,423</u>
Total current assets	17,267
Property and equipment, net	18,884
Trademarks and trade names	5,200
Goodwill	4,101
Other non-current assets	<u>276</u>
Total assets	<u>\$ 45,728</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current liabilities:	
Revolving line of credit	\$ 7,518
Accounts payable	21,907
Accrued expenses	5,588
Current portion of long-term notes payable and debt in default	15,324
Other current liabilities	<u>1,053</u>
Total current liabilities	51,390
Other non-current liabilities	<u>89</u>
Total liabilities	51,479
Commitments and contingencies	
Stockholders' equity (deficit):	
Preferred shares, \$0.01 par value — 200,000 shares authorized; issued 188,647 shares	18,354
Common shares, \$0.01 par value — 1,000,000 shares authorized; issued 332,230 shares	3
Additional paid-in capital	33,656
Notes receivable — shareholders	(750)
Accumulated deficit	(56,616)
Treasury stock, 5,030 shares at cost	<u>(398)</u>
Total stockholders' equity (deficit)	(5,751)
Total liabilities and stockholders' equity (deficit)	<u>\$ (45,728)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(in thousands)*

	Twenty-six Weeks Ended July 3, 2010	Twenty-seven Weeks Ended July 4, 2009
Net sales	\$ 65,162	\$ 66,601
Cost of sales	44,021	42,983
Gross profit	21,141	23,618
Operating expenses:		
Marketing	13,464	14,103
General and Administrative	6,323	8,715
Fulfillment	2,967	2,733
Technology	1,716	1,589
Amortization of intangibles	—	103
Impairment loss	6,394	—
Total operating expenses	30,864	27,243
Loss from operations	(9,723)	(3,625)
Other income (expense):		
Gain on extinguishment of debt	—	4,148
Interest expense, net	(873)	(750)
Total other (expense) income	(873)	3,398
Net loss	\$ (10,596)	\$ (227)

See accompanying notes to unaudited condensed consolidated financial statements.

**AUTOMOTIVE SPECIALTY ACCESSORIES AND PARTS, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**  
*(in thousands)*

	Twenty-six Weeks Ended July 3, 2010	Twenty-seven Weeks Ended July 4, 2009
<b>Operating activities</b>		
Net loss	\$ (10,596)	\$ (227)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	2,466	2,191
Goodwill impairment	6,394	—
Amortization of debt financing cost	72	12
Gain on extinguishment of debt	—	(4,148)
Bad debt expense	(72)	(69)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,693	1,441
Inventory	(1,278)	(68)
Other current and non-current assets	(1,336)	(155)
Accounts payable and accrued expenses	6,019	2,116
Other current and non-current liabilities	(559)	(840)
Net cash provided by operating activities	<u>2,803</u>	<u>253</u>
<b>Investing activities</b>		
Capital expenditures	(2,373)	(4,579)
Net cash used in investing activities	<u>(2,373)</u>	<u>(4,579)</u>
<b>Financing activities</b>		
Net proceed (payment) from revolving line of credit	1,051	(3,420)
Payment of long-term notes payables	(1,418)	(22,296)
Proceeds from long-term note payable	—	13,250
Debt issuance costs paid	—	(432)
Common shares issued	—	70
Preferred shares issued	—	18,354
Net cash (used in) provided by financing activities	<u>(367)</u>	<u>5,526</u>
Net increase in cash and cash equivalents	63	1,200
Cash and cash equivalents at beginning of period	42	106
Cash and cash equivalents at end of period	<u>\$ 105</u>	<u>\$ 1,306</u>
Supplemental disclosure of non-cash investing activities:		
Accrued asset purchases	\$ 463	\$ 868
Cash paid during the period for interest expense	\$ 1,019	\$ 1,023

See accompanying notes to unaudited condensed consolidated financial statements.

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## Notes to Unaudited Condensed Consolidated Financial Statements

### 1. Nature of the Business and Summary of Significant Accounting Policies

#### *Nature of the Business*

Automotive Specialty Accessories and Parts, Inc. ("WAG"), a Delaware corporation, is a direct marketer of automotive parts and accessories, formerly known as JCW Holding Company.

#### *Basis of Presentation*

The unaudited condensed consolidated financial statements of WAG have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of WAG as of July 3, 2010, and the consolidated results of operations for the 26 weeks ended July 3, 2010 and the 27 weeks ended July 4, 2009, and cash flows for the 26 weeks ended July 3, 2010 and the 27 weeks ended July 4, 2009. The Company's results of operations for the 26 weeks ended July 3, 2010 and the 27 weeks ended July 4, 2009 are not necessarily indicative of those to be expected for the entire year.

#### *Acquisition by Riverside*

WAG and its wholly owned subsidiaries, J. C. Whitney & Co. and Warshawsky Advertising were acquired by The Riverside Capital Appreciation Fund 2000 ("Riverside") and management shareholders on June 21, 2002. Including transaction-related expenses, the purchase price was approximately \$59.1 million. The acquisition has been accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their relative fair values at the date of acquisition. The purchase price exceeded the fair value of the net assets acquired by \$8.3 million, which has been recorded as goodwill in the accompanying consolidated balance sheets. In addition, \$4.8 million was allocated to customer relationships (amortizable) and \$13.5 million was allocated to trademarks and trade names (not amortizable). In November 2003, Warshawsky Advertising was dissolved.

#### *Acquisition by WAG*

On October 3, 2003, J.C. Whitney acquired Stylin' Concepts, Inc. for approximately \$29.5 million. Stylin' Concepts, Inc., located in Independence Ohio, is a direct marketer of sport truck accessories. Stylin' Concepts, Inc. sells its products through catalogs, the Internet, and a retail store. The acquisition has been accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their relative fair values at the date of acquisition. The purchase price exceeded the fair value of the net assets acquired by \$24.7 million, which has been recorded as goodwill in the accompanying consolidated balance sheets. In addition, \$0.8 million was allocated to customer relationships (amortizable) and \$2.6 million was allocated to trademarks and trade names (not amortizable). In 2004, the Company recorded an additional liability in connection with the acquisition of approximately \$0.6 million and increased goodwill accordingly.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of WAG and its wholly owned subsidiaries, J.C. Whitney & Co. and Stylin' Concepts, Inc. (collectively the "Company"). All intercompany transactions have been eliminated.

#### *Period-End*

The Company uses a fiscal year of 52 to 53 weeks ending on the Saturday closest to December 31. Fiscal year 2009 was a 53-week year ended on January 2, 2010, and fiscal year 2010 will be a 52-week year ending on January 1, 2011. The first half of fiscal year 2009 was a 27-week period ended July 4, 2009, and the first half of fiscal year 2010 was a 26-week period ended July 3, 2010.

#### *Accounting Standards Codification*

Effective with the financial statements for the year ending January 2, 2010, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "the Codification") 105-10, "Generally Accepted Accounting Principles," which became the single official source of authoritative, nongovernmental United States generally accepted accounting principles. The adoption of ASC 105-10 changed all references to authoritative accounting literature referenced in the Company's notes to the financial statements.

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### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Inventories***

Inventories are valued at the lower of cost (first-in, first-out basis) or market. The Company receives vendor allowances as a result of meeting defined purchase levels. These allowances are accrued as a reduction of merchandise purchase price and result in a reduction of cost of sales as the merchandise is sold.

### ***Deferred Catalog Expenses***

Deferred catalog expenses consist of the third-party direct costs including primarily creative design, paper, printing, postage, and mailing costs for all Company direct response catalogs. Such costs are recorded as deferred catalog expenses and are amortized over their expected future benefit. Each catalog is fully amortized within nine months.

### ***Deferred Financing Costs***

Deferred financing costs are amortized over the term of the related loan with amortization included in interest expense.

### ***Internal-Use Software***

The Company expenses costs incurred in the preliminary project stage and, thereafter, capitalizes costs incurred in developing or obtaining internal use software and includes them in property and equipment, net. Certain costs, such as maintenance and training, are expensed as incurred. Capitalized costs are amortized over a period of three to five years using the straight-line method. In addition, direct internal and external costs associated with the development of the features and functionality of the Company's internet platform technology incurred during the application and infrastructure development phase have been capitalized and are included in property and equipment, net in the consolidated balance sheet. Typical capitalized costs include, but are not limited to, acquisition and development of software tools required for the development and operation of the internet platform technology, hardware, and costs incurred to develop the internet platform technology. These capitalized costs are amortized over the estimated useful life of three to five years using the straight-line method. Capitalized software costs are subject to impairment evaluation whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

### ***Property and Equipment***

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. Major repairs, which extend the useful life of an asset, are charged to the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The cost of property and equipment retired or sold, and the related accumulated depreciation are removed from the accounts and any related gain or loss is included in earnings.

Depreciation and amortization are provided over the following estimated service lives:

Building	39 years
Computer equipment and software	3-5 years
Machinery and equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of useful life or remaining lease term

The cost and accumulated amortization of property leased under capitalized leases are included in property and equipment and are charged to amortization expense over the life of the lease. Long-lived assets used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of an asset may not be recoverable.

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### ***Fair Value of Financial Instruments***

The carrying values of cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of fair value due to the short maturity of those items. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying amount.

### ***Intangible Assets***

Identifiable intangible assets, including customer relationships, trademarks, and trade names are valued based on third-party appraisals performed in connection with their acquisition by the Company. Customer relationships are amortized over their estimated useful lives of six years on an accelerated method. Trademarks and trade names have an indefinite useful life and, therefore, are not amortized. Goodwill represents the excess of the cost over the fair value of acquired assets at the date of acquisition, and is not amortized.

Indefinite lived intangibles (trademarks and trade names) and goodwill are tested at least annually for impairment. If the asset is determined to be impaired, an impairment loss would be recognized to reduce carrying value to fair value. The Company uses a discounted cash flow model for the assessment of impairment that requires assumptions about the timing and amount of future cash flows, risk, and the cost of capital and terminal values.

### ***Customers' Deposits***

Customers' deposits consist of cash received for orders for which delivery has not occurred as of the balance sheet date.

### ***Revenue Recognition***

The Company recognizes revenue when merchandise is received by the customer. The Company reduces revenue for anticipated returns based on historical experience. Revenue includes shipping and handling charges to customers, and cost of goods sold includes shipping and handling expenses incurred by the Company.

The Company generates other revenues primarily through two sources. These sources include royalty agreements for web advertising of other distributors or dealers and fees earned from a third-party service agreement in which the Company processes membership fee collections. These other sources of revenue are included in the "Net sales" on the Statement of Operations and revenue is recognized when earned.

### ***Reserve for Customer Return***

At the time of sale, the Company provides a reserve equal to the gross sales on projected merchandise returns based on its prior return experience. This reserve is recorded in accrued expenses.

### ***Income Taxes***

Income taxes are accounted for using the asset and liability method. Under this method, deferred taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements and from net operating loss carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in tax expense in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that a portion or all of the deferred income tax assets will not be realized, including deferred income tax assets attributed to net operating loss carryforwards.

### ***Uncertainty in Income Taxes***

In July 2006, the FASB issued ASC 740-10-25, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. ASC 740-10-25 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation is effective for the Company's 2009 fiscal year. The Company adopted the provisions of ASC 740-10-25 on January 1, 2009. Under ASC 740-10-25, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The implementation of ASC 740-10-25 had no impact on the Company's consolidated financial statements. The Company does not believe there are any unrecognized tax benefits that should be recorded. No interest or penalties were accrued as of January 1, 2009 as a result of the adoption of ASC 740-10-25. For the periods ended July 3, 2010 and July 4, 2009, there were no interest or penalties recorded or included in the consolidated statements of operations. The Company is open to examination by taxing authorities from fiscal year 1997 forward.

### Subsequent Events

In May 2009, the FASB issued ASC 855, "Subsequent Events" (ASC 855), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company adopted ASC 855 beginning April 1, 2009. The Company has evaluated subsequent events through October 28, 2010, the date the unaudited condensed consolidated financial statements were available to be issued. Refer to Note 11 for additional details on subsequent events.

### 2. Property and equipment

Property and equipment include the following (in thousands):

	July 3, 2010
Land	\$ 550
Building	11,023
Computer equipment and software	29,210
Machinery and equipment	2,155
Furniture and fixtures	1,393
Leasehold improvements	1,370
Less accumulated depreciation and amortization	(26,817)
Total	<u>\$ 18,884</u>

### 3. Intangible Assets

The intangible assets are as follows (in thousands):

	July 3, 2010	
	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets — customer relationships	\$ 5,625	\$ 5,625
Unamortizable intangible assets — trademarks and trade names	<u>\$ 5,200</u>	

At fiscal year-end of 2009, the Company recorded an impairment of \$10.9 million for trademarks and trade names.

The goodwill is as follows (in thousands):

	July 3, 2010
Beginning balance at January 2, 2010	\$10,495
Impairments	(6,394)
Ending balance	<u>\$ 4,101</u>

In the first half of fiscal year 2010 and the second half of fiscal 2009, the Company recorded a \$6.4 million and \$2.5 million, respectively, goodwill impairment charge related to the Stylin' Concepts, Inc. business, which resulted primarily from lower estimated future cash flows than previously expected. The fair value of that reporting unit was estimated using the expected present value of future cash flows. The impairment loss was then recorded for the difference between the implied fair value of the reporting unit's goodwill and the carrying value of the goodwill. As of July 3, 2010, the remaining goodwill balance for the J.C. Whitney & Co. and Stylin' Concepts, Inc. reporting units was \$4.1 million.

#### 4. Related-Party Transactions

The Company has entered into an advisory agreement with its majority shareholder, Riverside, whereby Riverside will provide financial and management consulting services to the Company for a fee of approximately \$0.5 million per year.

The Company has a note of \$5.0 million payable to a minority shareholder in connection with the acquisition of Stylin' Concepts, Inc. Interest on the unpaid portion commenced on March 31, 2004, and is to be paid quarterly.

The advisory agreement was terminated and the note payable was paid in full at the closing of the transactions contemplated by that certain Stock Purchase Agreement executed August 2, 2010 among Go Fido, Inc., WAG 2000 Riverside Capital Appreciation Fund, L.P. and the other stockholders of WAG.

#### 5. Leases

The Company leases its administrative office, and office equipment under operating lease agreements. Rent expense was \$0.6 million and \$0.7 million for the 26 weeks ended July 3, 2010 and the 27 weeks ended July 4, 2009, respectively. The Company's leases expire at various dates through 2016.

Future minimum payments under the Company's operating leases as of July 3, 2010, are as follows (in thousands):

<i>Period ending June</i>	
2010	\$ 308
2011	609
2012	568
2013	370
2014	368
Thereafter	770
<b>Total</b>	<b>\$2,993</b>

#### 6. Notes Payable

On October 3, 2003, the Company amended the existing credit agreements to provide additional funding related to the acquisition of Stylin' Concepts, Inc. The amended credit agreements included a revolving loan, two term loans, and letters of credit. The revolving credit note increased to \$19.0 million and supported the Company's direct borrowings and issuance of letters of credit to provide working capital. In November 2005, the lender provided temporary borrowing availability of additional \$2.5 million, gradually decreasing through July 31, 2006. Subsequently, in September 2006, the Company amended the existing credit agreement to provide additional availability of \$2.5 million. This additional availability revision expired in September 2007, but was subsequently extended until June 30, 2008. The remaining credit agreement was extended through May 31, 2009. This facility was in the form of a capital call agreement with individual investors and was subject to certain commitments as defined in the agreement. Interest was paid monthly. Effective October 3, 2003, interest was determined based on the Company's total funded debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA") ratio at the end of each quarter. The agreement included an unused commitment fee of 0.5% annually. There was an unconditional security interest in all property of the Company, including inventory, receivables, and property and equipment. As of December 27, 2008, the Company had direct borrowings of \$8.1 million along with letters of credit of \$0.3 million. The outstanding balance under this credit facility was refinanced with PNC Bank in May 2009.



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On October 3, 2003, the Company amended a term loan dated June 25, 2002, and entered into two term loans for \$11.5 million and \$6.5 million, which were used for the acquisition of Stylin' Concepts, Inc. The \$6.5 million term loan was subsequently paid off on September 30, 2005. Principal and interest were payable in quarterly installments. Interest was determined based on the ratio of Company's total funded debt to EBITDA ratio at the end of each quarter. In November 2005, the lender restructured the remaining term loan amortization schedule. The remaining facility expired in September 2008, but was subsequently extended until February 2009 and then extended through May 30, 2009. This term loan was secured by the Company's inventory, receivables, and property and equipment. At December 27, 2008, the Company had \$6.4 million outstanding on this facility. This loan was retired in 2009 using the proceeds of a new credit facility.

On October 3, 2003 and June 25, 2002, the Company entered into a senior subordinated debt agreement. This note carried interest payable quarterly at an annual rate of 12% and payable in kind interest of 4%. As of December 27, 2008, the principal balance was \$19.7 million. As discussed below, the outstanding balance under this debt agreement was retired in 2009 by using the proceeds from a preferred stock offering. In connection with the senior subordinated debt, a total of 3,235 and 7,049 warrants valued at \$0.2 million and \$0.2 million were issued on October 3, 2003 and June 25, 2002, respectively. These amounts were recorded as discounts on the debt which was accreted to interest expense over the scheduled term of the notes. As of December 27, 2008, the unamortized discount relating to the warrants was \$9,237, which was fully accreted in 2009. Each warrant was exercisable into one share of common stock for \$0.01 per share. As of December 28, 2008, all of the warrants remained outstanding. The warrants issued in connection with the senior subordinated debt provide the holders with a put option that is exercisable at the discretion of the holder. The warrants are classified as liabilities because they contain redemption rights that are not solely within the Company's control. The fair value of the warrants was determined using the Black-Scholes model. The fair value is a level 3 measurement due to unobservable inputs.

During fiscal year 2009, the Company re-evaluated the warrants and related put option pursuant to ASC 480-10, "Distinguishing Liabilities from Equity" and determined that the warrants should be classified as liabilities because they contain redemption rights that are not solely within the Company's control. At December 27, 2008, the Company incorrectly classified the warrants subject to put option as equity. As such, the Company recorded a prior period adjustment to correct the error in the Consolidated Statement of Shareholders' Equity to reclassify the warrants as liabilities.

On October 3, 2003, the Company entered into a \$5.0 million subordinate promissory note payable with a minority shareholder in connection with the acquisition of Stylin' Concepts, Inc. This note carries interest payable quarterly commencing on March 31, 2004, at a rate per annum of 7.0%. The unpaid portion was originally due in a lump sum on the earliest of October 3, 2010, or a change in control of the Company. The due date was extended to the earliest of November 14, 2012 or a change in control of the Company. The entire balance remains outstanding as of July 3, 2010.

The above agreements contained certain restrictive covenants, including minimum EBITDA, maximum total funded debt to EBITDA, maximum senior funded debt to EBITDA, minimum fixed charge coverage ratio, and maximum capital expenditures, all as defined in the agreements.

On December 30, 2008 (fiscal year 2009), Riverside and other common shareholders invested \$16.4 million into the Company. In return, Riverside and these shareholders received 163,536.5 shares of preferred stock at a \$100 per share stated price, 1,500 shares of common stock held by the senior subordinated debt holders, and the 10,284 warrants to purchase the Company's common shares previously-owned by the senior subordinated debt holders as described above. The Company used the proceeds from this offering to fully retire the senior subordinated debt and related accrued interest, aggregating to \$19.7 million. At the date of the transaction, the recorded value of the warrants was \$0.4 million. Accordingly, the Company recognized a \$4.1 million gain upon extinguishment of the senior subordinated debt and effective repurchase of the outstanding warrants. Commensurate with this transaction, the value of the outstanding warrants transferred to Riverside and the other common shareholders became de minimus because the existence of the newly-issued preferred stock rendered the value of the Company's common stock de minimus. As such, the entire \$16.4 million investment was allocated to the preferred stock and none was allocated to the transferred warrants. The value of the warrants was still de minimus as of January 2, 2010.

On May 14, 2009, the Company entered into a new three year, \$26.0 million credit facility with PNC Bank. Initial borrowings under this facility were used to retire the outstanding senior debt as described above. This credit agreement includes a \$12.8 million revolving line of

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credit, a \$13.3 million term loan payable in thirty-five equal and consecutive monthly principal payments of \$0.3 million each beginning on June 1, 2009 and letters of credit. Interest was determined based on the Company's senior debt to EBITDA ratio at the end of each quarter. There was an unconditional security interest in all property of the Company, including inventory, receivables and fixed assets. As of July 3, 2010, the Company had direct borrowings on the revolving line of credit of \$7.6 million, along with letters of credit of \$0.2 million. At July 3, 2010, the Company had \$10.2 million outstanding on the term loan.

The PNC facility contains certain restrictive covenants including minimum fixed charge coverage ratio, maximum senior funded debt to EBITDA and maximum capital expenditures. As of July 3, 2010 the Company was not in compliance with its debt covenants. As such, the outstanding debt is classified as current in the balance sheet.

The foregoing obligations were terminated in full at the closing of the transactions contemplated by that certain Stock Purchase Agreement executed August 2, 2010 among Go Fido, Inc., WAG 2000 Riverside Capital Appreciation Fund, L.P. and the other stockholders of WAG.

## **7. Income Taxes**

Deferred taxes result primarily from the use of accelerated methods to calculate depreciation on certain fixed assets for income tax purposes, the deferral of certain reserves for income tax purposes and the capitalization of the Company's net operating loss carryforwards for financial reporting purposes. Valuation allowances, if necessary, are provided against deferred tax assets, which are more likely than not expected to be realized.

As of July 3, 2010, the Company has \$21.7 million in net operating loss carryforwards expiring beginning in 2012, which may be offset against future taxable income. The Company also has alternative minimum tax and other credits available for carryforward of \$0.2 million at July 3, 2010.

## **8. Shareholders' Equity**

In October 2002, a shareholders' agreement was entered into by the Company, Riverside, and all investors, as defined. This agreement restricts the transfer of shares by Riverside and the investors to specific methods and prices.

The Company allowed certain employees to borrow money to purchase Company stock. In 2009, the former Chairman of the Board exchanged 12,393 of common shares and 18,737 of options for the forgiveness of a note receivable totaling \$1.2 million. The total notes receivable outstanding was \$0.8 million at July 3, 2010. This promissory note has an interest rate of 2.51%, is due in full on July 18, 2011, and is recorded as contra-equity.

On December 30, 2008 (fiscal year 2009), the Company issued 163,536.5 preferred shares, par value \$0.01 per share, to Riverside and other shareholders for \$100 per share. The Company issued an additional 20,000 preferred shares on December 18, 2009.

The holders of preferred stock are entitled to receive dividends in preference to any declaration or payment of any dividend on the common stock at the rate of 21 percent per annum, compounded quarterly and payable when declared by the Board. The total accumulated dividends payable when declared as of July 3, 2010 is \$3.7 million. For the periods ended July 3, 2010 and July 4, 2009, there were no dividends declared or paid by the Company.

The liquidation preferences allow for holders of preferred stock entitlement to receive preference of any distribution of proceeds prior to the holders of common stock at an amount equal to the greater of (i) \$100 per share multiplied by 1.4 or (ii) \$100 per share plus all accrued but unpaid dividends on such shares. If upon a liquidation event, the proceeds distributed shall be insufficient to provide for the full preferential amounts to preferred shareholders then the proceeds legally available shall be distributed ratably amongst the holders of preferred stock in proportion to the full preferential amount each holder is otherwise entitled to receive based on the total original issue price of the shares held by the shareholder. If all distributions are made in full to preferred shareholders the remaining proceeds are distributed to common shareholders ratably based on the number of shares held by the holder.

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The preferred stock is non-redeemable and non-convertible and the holders of preferred stock are entitled to one vote on all matters submitted for a vote or consent of the stockholders of the Corporation.

In connection with the closing of the transactions contemplated by that certain Stock Purchase Agreement executed August 2, 2010 among Go Fido, Inc., WAG 2000 Riverside Capital Appreciation Fund L.P. and the other stockholders of WAG, Go Fido, Inc. (a wholly-owned subsidiary of U.S. Auto Parts Network, Inc.) acquired all of the outstanding stock of WAG.

**9. Employee Benefit Plan**

The Company has a 401(k) retirement savings plan. This plan is available to substantially all employees the first of the month following their date of hire. Under the plan, employees may elect to contribute up to 20% of base compensation up to Internal Revenue Service limits. The Company will match 20% up to the first 6% of the employees' elective contributions. The Company's contributions for this plan totaled \$87,637 and \$94,212 for the 26 weeks ended July 3, 2010 and the 27 weeks ended July 4, 2009, respectively.

**10. Contingent Liabilities**

The Company is party to various legal proceedings arising from normal business activities. The Company has been named as defendant in class action lawsuits related to the alleged sale of merchandise containing asbestos. Amounts paid by the Company to date have not been significant. The Company believes that the Company's product liability insurance will cover any significant potential exposure and legal fees from these lawsuits.

**11. Subsequent Events**

On August 12, 2010, Go Fido, Inc., a wholly-owned subsidiary of U.S. Auto Parts Network, Inc., acquired all of the Company's outstanding equity securities for \$27.5 million as may be adjusted pursuant to the terms of the purchase agreement. As part of the transaction, the Company paid off all outstanding debt in full as disclosed in Note 6.

**U.S. Auto Parts Network, Inc.**  
**Unaudited Pro Forma Condensed Combined Financial Statements**

On August 12, 2010, U.S. Auto Parts Network, Inc. and its subsidiaries (“USAP” or the “Company”) completed the purchase (the “Acquisition”) of all of the issued and outstanding shares of Automotive Specialty Accessories and Parts (“WAG”), the owner of Whitney Automotive Group and a leader in automobile aftermarket performance parts and accessories market. Assets acquired include intangible assets consisting of technology, trademarks and trade names, and a 350,000 square foot distribution center with offices located in La Salle, Illinois. The purchase price for WAG was \$27.5 million in cash, subject to certain adjustments as set forth in that certain Stock Purchase Agreement executed August 2, 2010 (the “Purchase Agreement”) among Go Fido, Inc., WAG, 2000 Riverside Capital Appreciation Fund, L.P. and the other stockholders of WAG. The pro forma adjustments set forth herein are preliminary and have been prepared to illustrate the estimated effect of the acquisition. Consequently, the amounts reflected in the unaudited pro forma combined condensed financial statements are subject to change, and the final amounts may differ substantially.

The unaudited pro forma condensed combined financial statements should be read in conjunction with:

- accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements;
- separate historical financial statements of USAP included in USAP’s Annual Report on Form 10-K for the 52 weeks ended January 2, 2010 (including, without limitation, the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”) and Form 10-Q for the 26 weeks ended July 3, 2010; and
- separate historical financial statements of WAG provided as Exhibits 99.1, 99.2 and 99.3.

The unaudited pro forma condensed combined balance sheet combines the historical consolidated balance sheets of USAP and WAG and is presented as if the acquisition had occurred on July 3, 2010. Such information was prepared using the purchase method of accounting with USAP treated as the acquiring entity. Accordingly, we have adjusted the historical consolidated financial information to give effect to the impact of the cash consideration issued in connection with the acquisition. In the unaudited pro forma condensed combined balance sheet, the Company’s cost to acquire WAG has been allocated to the assets acquired and liabilities assumed based upon estimates of their fair value.

The preliminary allocation of the purchase price used in the unaudited pro forma condensed combined financial statements is based upon an estimated valuation of certain assets and liabilities acquired as of the date of the Acquisition. The estimates and assumptions are subject to change upon the finalization of the valuation of the acquisition as of the actual acquisition date of August 12, 2010. The primary areas of the purchase price allocation which are not yet finalized relate to identifiable intangible assets and property and equipment, as well as the amount of resulting goodwill.

The unaudited pro forma combined statements of operations for the 26 weeks ended July 3, 2010 and for the 52 weeks ended January 2, 2010, combine the historical consolidated statements of operations of the Company and WAG and are presented as if the acquisition had occurred on January 1, 2009. Such information includes certain purchase accounting adjustments, such as amortization of intangible assets.

The unaudited pro forma condensed combined financial statements have been prepared for illustrative purposes only and are not intended to represent or be indicative of the consolidated financial position or results of operations in future periods or the results that actually would have been achieved had the Company and WAG been a combined company during the respective periods presented. The unaudited pro forma condensed combined financial statements do not reflect any operating efficiencies and/or cost savings that the Company may achieve with respect to the combined companies or costs of integration that the combined companies may incur. The unaudited pro forma condensed combined financial statements also do not include the effects of restructuring activities and post merger synergy, as management is in the process of assessing what, if any, future actions are necessary. Additional liabilities ultimately may be recorded for severance and/or other costs associated with removing redundant operations that could affect amounts in the unaudited pro forma condensed combined financial statements, and their effects may be material and would be reflected in the statement of operations.

The unaudited pro forma condensed combined financial statements represent a current estimate of the financial information based on available information from USAP and WAG and are subject to adjustment as additional information becomes available and as additional analyses are performed. To the extent there are significant changes to WAG’s business, the assumptions and estimates could change significantly.

Based on the Company’s review of WAG’s summary of significant accounting policies disclosed in its historical financial statements and related notes, the nature and amount of any adjustments to the historical financial statements of WAG to conform their accounting policies to those of the Company are not expected to be significant.

**U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEETS**  
*(in thousands)*

	As of July 3, 2010			
	USAP	WAG	Pro Forma Adjustments	Pro Forma Combined USAP
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 15,197	\$ 105	\$ (302)(a)	\$ 15,000
Short-term Investments	24,983	—	(24,983)(a)	—
Accounts receivable, net	2,581	1,379	—	3,960
Inventory	26,536	12,360	—	38,896
Deferred income taxes	1,513	—	—	1,513
Other current assets	4,013	3,423	(174)(e)	7,262
<b>Total current assets</b>	<b>74,823</b>	<b>17,267</b>	<b>(25,459)</b>	<b>66,631</b>
Property and equipment, net	14,920	18,884	199 (b)	34,003
Intangible assets, net	3,870	5,200	7,850 (c)	16,920
Goodwill	9,772	7,744	(3,021)(d)	14,495
Deferred income taxes	10,065	—	—	10,065
Investments	4,165	—	—	4,165
Other noncurrent assets	435	276	(276)(e)	435
<b>Total assets</b>	<b>\$118,050</b>	<b>\$ 49,371</b>	<b>\$ (20,707)</b>	<b>\$ 146,714</b>
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities:				
Revolving line of credit	\$ —	\$ 7,518	\$ (7,518)(e)	\$ —
Accounts payable	17,173	21,907	232 (e)	39,312
Accrued expenses	9,623	5,588	(205)(e)	15,006
Current portion of long-term notes payable and debt in default	—	15,324	(15,324)(e)	—
Other current liabilities	3,736	1,053	—	4,789
<b>Total current liabilities</b>	<b>30,532</b>	<b>51,390</b>	<b>(22,815)</b>	<b>59,107</b>
Other non-current liabilities	317	89	—	406
<b>Total liabilities</b>	<b>30,849</b>	<b>51,479</b>	<b>(22,815)</b>	<b>59,513</b>
Commitments and contingencies				
Stockholders' equity:				
Preferred stock	—	18,354	(18,354)(k)	—
Common stock	30	3	(3)(k)	30
Additional paid-in capital	152,510	33,656	(33,656)(k)	152,510
Notes receivable — shareholders	—	(750)	750 (k)	—
Accumulated other comprehensive (loss) income	163	—	—	163
Accumulated deficit	(65,502)	(52,973)	52,973 (k)	(65,502)
Treasury stock	—	(398)	398 (k)	—
<b>Total stockholders' equity</b>	<b>87,201</b>	<b>(2,108)</b>	<b>2,108</b>	<b>87,201</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$118,050</b>	<b>\$ 49,371</b>	<b>\$ (20,707)</b>	<b>\$ 146,714</b>

See accompanying notes to unaudited pro forma condensed combined financial statements.

**U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS**  
*(in thousands, except share and per share data)*

	Twenty-six Weeks Ended July 3, 2010			
	USAP	WAG	Pro Forma Adjustments	Pro Forma Combined USAP
Net sales	\$ 109,479	\$65,162	\$	\$ 174,641
Cost of sales	71,275	44,021		115,296
Gross profit	38,204	21,141		59,345
Operating expenses:				
Operating expenses	34,826	24,470	(672)(f)	58,624
Impairment loss	—	2,751		2,751
Amortization of intangibles	245	—	682 (g)	927
Total operating expenses	35,071	27,221	10	62,302
Income (loss) from operations	3,133	(6,080)	(10)	(2,957)
Interest income (expense), net	51	(873)	873 (h)	51
Income (loss) before income taxes	3,184	(6,953)	863	(2,906)
Income tax provision (benefit)	1,175	—	(2,375)(i)	(1,200)
Net income (loss)	\$ 2,009	\$ (6,953)	\$ 3,238	\$ (1,706)
Basic net income (loss) per share	\$ 0.07			\$ (0.06)
Diluted net income (loss) per share	\$ 0.06			\$ (0.06)
Shares used in computation of basic net income (loss) per share	30,158,797			30,158,797
Shares used in computation of diluted net income (loss) per share	31,723,316			30,158,797

See accompanying notes to unaudited pro forma condensed combined financial statements.

**U.S. AUTO PARTS NETWORK, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS**  
*(in thousands, except share and per share data)*

	Fifty-two Weeks Ended January 2, 2010			
	USAP	WAG	Pro Forma Adjustments	Pro Forma Combined USAP
Net sales	\$ 176,288	\$123,264	\$	\$ 299,552
Cost of sales	112,415	77,684		190,099
Gross profit	63,873	45,580		109,453
Operating expenses:				
Operating expenses	58,963	48,097	(1,520)(f)	105,540
Impairment loss	—	13,353		13,353
Amortization of intangibles	661	103	1,366 (g)	2,130
Total operating expenses	59,624	61,553	(154)	121,023
Income (loss) from operations	4,249	(15,973)	154	(11,570)
Other income (expense):				
Gain on extinguishment of debt	2	4,149	(4,149)(j)	2
Interest income (expense), net	189	(1,584)	1,584 (h)	189
Total other income (expense), net	191	2,565	(2,565)	191
Income (loss) before income taxes	4,440	(13,408)	(2,411)	(11,379)
income tax provision (benefit)	3,123	—	(6169)(i)	(3,046)
Net income (loss)	\$ 1,317	\$ (13,408)	\$ \$3,758	\$ (8,333)
Basic net income (loss) per share	\$ 0.04			\$ (0.28)
Diluted net income (loss) per share	\$ 0.04			\$ (0.28)
Shares used in computation of basic net income (loss) per share	29,851,873			29,851,873
Shares used in computation of diluted net income (loss) per share	30,809,111			29,851,873

See accompanying notes to unaudited pro forma condensed combined financial statements.

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## Notes to Unaudited Pro Forma Condensed Combined Financial Statements

### Note 1: Description of transaction and basis of presentation

On August 12, 2010, the Company completed the purchase of all of the issued and outstanding shares of WAG. Under the purchase method of accounting, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*, the assets and liabilities of WAG are recorded as of the acquisition date at their respective fair values, and combined with the Company's assets and liabilities.

### Note 2: Purchase Price

For the purposes of this pro forma analysis, the purchase price has been allocated based on an estimate of the fair value of assets and liabilities acquired as of the date of acquisition. The determination of estimated fair value requires management to make significant estimates and assumptions.

	<i>(in thousands)</i>
Purchase price paid in cash	\$ 27,500
Estimated purchase price adjustment	(2,216)
<b>Estimated purchase price</b>	<b><u>\$ 25,285</u></b>
Purchase price allocation is presented below:	
Assets:	
Accounts receivable	2,598
Inventory	11,948
Property and equipment	19,504
Intangible assets	13,050
Other assets	2,980
<b>Total assets</b>	<b><u>\$ 50,080</u></b>
Liabilities:	
Accounts payable	\$ (23,244)
Accrued expenses	(5,086)
Other liabilities	(1,188)
<b>Total liabilities</b>	<b><u>\$ (29,518)</u></b>
Goodwill	<u>\$ 4,723</u>
<b>Estimated purchase price</b>	<b><u>\$ 25,285</u></b>

### Note 3: Pro Forma Adjustments

(a) Reflects the impact of the following:

- (i) The purchase price paid in cash at the closing of the Acquisition of \$27.5 million.
- (ii) The estimated purchase price adjustment of \$2.2 million represents the amount that USAP believes the shareholders of WAG are obligated to pay to USAP for the negative working capital amount of WAG on the acquisition date determined in accordance with the Purchase Agreement. The Purchase Agreement sets forth the definitions of net working capital and includes procedures for WAG and USAP to conclude on the working capital amount of WAG on the acquisition date. The \$2.2 million estimate is based on USAP's calculation of the working capital of WAG on the acquisition date and, upon final determination of the working capital number in accordance with the Purchase Agreement, may materially change.



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- (b) To record the net adjustment made to WAG's property and equipment to reflect the estimated fair value of property and equipment acquired which may change upon finalization of appraisals and other valuation studies which are in the process of being completed.
  - (c) To increase identifiable intangible assets acquired by \$7.9 million to reflect the estimated fair value of \$13.1 million.
  - (d) To decrease WAG's historical goodwill by \$3.0 million to reflect the preliminary estimate of goodwill acquired of \$4.7 million. This is based upon an estimated valuation of certain assets and liabilities acquired as of the date of the acquisition. The estimates and assumptions are subject to change upon the finalization of the valuation of the assets acquired.
  - (e) To adjust for the assets and liabilities mainly related to WAG's notes payable and revolving line of credit which were not transferred to USAP.
  - (f) To record the difference in book and estimated fair value depreciation of property and equipment. For the 26 weeks ended July 3, 2010, the book depreciation was \$2.1 million and the estimated fair value depreciation was \$1.4 million. For the 53 weeks ended January 2, 2010, the book depreciation was \$3.5 million and the estimated fair value depreciation was \$2.0 million.
  - (g) To record the estimated intangible amortization associated with the customer relationships, product design intellectual property and internet platform technology acquired from WAG using estimated useful life for each asset. These assets were fully amortized when acquired.
  - (h) To eliminate the historical interest expense related to WAG's notes payable and revolving line of credit which were repaid in full at the closing of the Acquisition.
  - (i) To record the tax effect related to the pro forma adjustments at the statutory tax rate of 39% .
  - (j) To eliminate the historical gain on extinguishment of debt of \$4.1 million which was not transferred to USAP in the Acquisition.
  - (k) To eliminate WAG's historical equity balances assumed by USAP.