

1 LERACH COUGHLIN STOIA GELLER  
RUDMAN & ROBBINS LLP  
2 DARREN J. ROBBINS (168593)  
DAVID C. WALTON (167268)  
3 CATHERINE J. KOWALEWSKI (216665)  
655 West Broadway, Suite 1900  
4 San Diego, CA 92101-3301  
Telephone: 619/231-1058  
5 619/231-7423 (fax)  
darrenr@lerachlaw.com  
6 davew@lerachlaw.com  
katek@lerachlawcom  
7 - and -  
8 PAUL J. GELLER  
JONATHAN M. STEIN  
120 East Palmetto Park Road, Suite 500  
9 Boca Raton, FL 33432  
Telephone: 561/750-3000  
10 561/750-3364 (fax)  
pgeller@lerachlaw.com  
11 jstein@lerachlaw.com

12 Attorneys for Plaintiff

13 UNITED STATES DISTRICT COURT  
14 CENTRAL DISTRICT OF CALIFORNIA  
15 WESTERN DIVISION

16 PATRICIA JOHNSON, Individually )  
and on Behalf of All Others Similarly )  
17 Situated, )

18 Plaintiff, )

19 vs. )

20 U.S. AUTO PARTS NETWORK, INC., )  
SOL KHAZANI, MEHRAN NIA, )  
21 MICHAEL J. McCLANE, RICHARD )  
E. PINE, ROBERT J. MAJTELES, )  
22 FREDRIC W. HARMAN, ELLEN F. )  
SIMINOFF, RBC CAPITAL )  
23 MARKETS CORPORATION, )  
THOMAS WEISEL PARTNERS LLC, )  
24 PIPER JAFFRAY & CO. and JMP )  
SECURITIES LLC, )

25 Defendants. )

**VIA FAX**

No.

**CLASS ACTION**

**COMPLAINT FOR VIOLATION OF  
THE FEDERAL SECURITIES LAWS**

**DEMAND FOR JURY TRIAL**

27  
28

1 **JURISDICTION AND VENUE**

2 1. The claims asserted herein arise under and pursuant to §§11 and 15 of the  
3 Securities Act of 1933 (“1933 Act”) [15 U.S.C. §§77k and 77o].

4 2. This Court has jurisdiction over the subject matter of this action pursuant  
5 to 28 U.S.C. §1331 and §22 of the 1933 Act.

6 3. Venue is proper in this District pursuant to 28 U.S.C. §1391(b), because  
7 the defendants maintain an office in this District and many of the acts and practices  
8 complained of herein occurred in substantial part in this District.

9 4. In connection with the acts alleged in this complaint, defendants, directly  
10 or indirectly, used the means and instrumentalities of interstate commerce, including,  
11 but not limited to, the mails, interstate telephone communications and the facilities of  
12 the national securities markets.

13 **NATURE OF THE ACTION**

14 5. This is a class action on behalf of all persons or entities who acquired the  
15 common stock of U.S. Auto Parts Network, Inc. (“U.S. Auto Parts” or the  
16 “Company”) pursuant to the Company’s false and misleading Registration Statement  
17 and Prospectus (collectively, the “Registration Statement”) issued in connection with  
18 its February 8, 2007 initial public offering (“IPO”), seeking to pursue remedies under  
19 the 1933 Act.

20 6. U.S. Auto Parts, a portfolio company of Oak Investment Partners, is an  
21 online provider of aftermarket auto parts, including body parts, engine parts,  
22 performance parts and accessories. The Company’s Web sites provide customers with  
23 a selection of approximately 550,000 stock keeping units (“SKUs”) with product  
24 descriptions and photographs. It has developed a product database that maps its  
25 550,000 SKUs to over 4.3 million product applications based on vehicle makes,  
26 models and years. The Company principally sells its products to individual  
27 consumers through its network of Web sites and online marketplaces. The  
28 Company’s online sales channel and relationships with suppliers enable it to eliminate

1 several intermediaries in the traditional auto parts supply chain, allowing the  
2 Company to acquire its products directly from manufacturers and sell them to  
3 customers.

4 7. On February 8, 2007, U.S. Auto Parts accomplished its IPO of 10 million  
5 shares at \$10.00 per share (including 8 million shares sold by U.S. Auto Parts and 2  
6 million shares sold by stockholders) for net proceeds of \$100 million, pursuant to the  
7 Registration Statement. The Registration Statement failed to disclose that U.S. Auto  
8 Parts was having difficulty with its acquisition of Partsbin – a company it acquired in  
9 May 2006 – which would adversely affect 4Q 2006 results and 1Q 2007 results.

10 8. Due to defendants' positive, but false statements, by March 2007 the  
11 stock was trading around \$11 per share.

12 9. Then on March 20, 2007, after the market closed, U.S. Auto Parts issued  
13 a press release announcing its 4Q 2006 and year-end 2006 results. The press release  
14 stated in part:

15 U.S. Auto Parts Network, Inc., a leading online provider of aftermarket  
16 auto parts and accessories, today reported its financial results for the  
17 fourth quarter and fiscal year ended December 31, 2006.

18 Net sales for the fourth quarter ended December 31, 2006 were  
19 \$36.8 million, an increase of 134% from \$15.7 million in the prior year  
20 period. Net loss for the fourth quarter of fiscal 2006 was \$(0.02) million,  
21 or \$(0.00) per diluted share on approximately 22 million shares  
22 outstanding, compared to net income of \$2.1 million, or \$0.16 per  
23 diluted share on approximately 13 million shares outstanding. Adjusted  
24 EBITDA for the fourth quarter of 2006, which excludes share-based  
25 compensation expense related to option grants of \$0.3 million, was \$3.2  
26 million compared to Adjusted EBITDA of \$2.7 million in the prior year  
27 period.

28

1 Net sales for fiscal year 2006 were \$120.1 million, an increase of  
2 101% from \$59.7 million for fiscal year 2005. Net income for the fiscal  
3 year ended December 31, 2006 was \$3.5 million, or \$0.17 per diluted  
4 share on approximately 20.0 million shares outstanding, compared to net  
5 income of \$6.8 million, or \$0.52 per diluted share on approximately 13.2  
6 million shares outstanding. Adjusted EBITDA for fiscal year 2006,  
7 which excludes share-based compensation expense related to option  
8 grants of \$0.9 million, was \$13.3 million, an increase of 51% from \$8.8  
9 million for fiscal year 2005.

10 “2006 marked a year of many accomplishments,” said Mehran  
11 Nia, President and Chief Executive Officer. “We raised a significant  
12 amount of capital through debt and equity offerings, completed the  
13 acquisition of our largest competitor, as well as prepared the Company  
14 for its initial public offering. Through these events, we believe we have  
15 set the foundation for U.S. Auto Parts to accelerate growth and continue  
16 to gain market share. We achieved revenue growth in excess of 100%,  
17 driven by growth in our SKU count, as we expanded our product  
18 offering to include engine parts and performance parts and accessories,  
19 as well as growth in the number of unique visitors to our network of  
20 websites in 2006.”

21 Mr. Nia continued, “This is a very dynamic time in the fragmented  
22 aftermarket auto parts market, and we have a number of initiatives in  
23 place which we believe will enable us to profitably capitalize on these  
24 opportunities. We recently added several key members to our  
25 management team and we are confident that we have the leadership in  
26 place to execute on the many growth opportunities that lie ahead.”

27 Mr. Nia concluded, “We remain especially committed to  
28 increasing stockholder value as evidenced by our recent decision to

1 extend the lock-up agreements of our major shareholders, our executive  
2 team and our board of directors for an additional six months from the  
3 original lock-up period committed in order to further align ourselves  
4 with our stockholders and to focus on our long-term strategy.”

5 Michael McClane, Chief Financial Officer, added, “We saw  
6 growth in many of our key metrics during the year, validating the  
7 strength of our product offering and business model. Our recent initial  
8 public offering and subsequent repayment of debt has strengthened our  
9 financial position. While we are proud of these major accomplishments,  
10 we still have opportunities for improvement. Our entire team is focused  
11 on completing the integration of Partsbin, improving the technology and  
12 systems infrastructure, and increasing overall profitability.”

#### 13 Key Full Year and Q4 2006 Operating Metrics

- 14 \* Unique visitors - The number of monthly unique visitors in  
15 the fourth quarter of 2006 rose to 20.4 million, an increase  
16 of 35% compared to the fourth quarter of 2005 on a pro-  
17 forma basis after giving effect to the acquisition of  
18 Partsbin.
- 19 \* Conversion rate - The conversion rate in 2006 increased to  
20 1.2% from 1.1% in 2005.
- 21 \* Orders - The number of orders placed through our e-  
22 commerce websites rose to approximately 748,000 orders  
23 in 2006 from 288,000 in 2005, representing an increase of  
24 approximately 160%.
- 25 \* Average order value - The average order value of purchases  
26 on our websites remained stable at approximately \$120 in  
27 2006.

28

1           \*     Customer acquisition cost - The customer acquisition cost  
2                     in 2006 was \$10 per customer, compared to \$8 in 2005.

3           Mr. McClane concluded, “Looking ahead, we plan to continue to  
4     execute on our growth strategy while maintaining a strict focus on  
5     profitability through focusing on gross margin expansion and operating  
6     expense control. While we are confident we have the initiatives and  
7     people in place to achieve this goal, we believe it will require some time  
8     to fully implement, and the results will not be realized immediately. As a  
9     [sic] industry leader in the aftermarket auto parts space, we believe we  
10    are uniquely positioned to grow our market share and we are confident  
11    about our long-term prospects.”

12           Outlook for 2007

13           Expectations for the first quarter of 2007 are as follows:

14           \*     Net sales are expected to be in the range of \$39 million to  
15                     \$41 million.

16           \*     Operating expenses (including depreciation and  
17                     amortization of software and intangibles) as a percentage of  
18                     net sales are expected to be in the range of 31% to 33%.

19           \*     Net income per diluted share is expected to be in the range  
20                     of \$(0.02) to \$0.00 with approximately 26.7 million shares  
21                     outstanding.

22           \*     This includes the estimated impact of share-based  
23                     compensation expense of approximately \$0.02 per  
24                     diluted share or \$0.6 million.

25           \*     This includes the estimated impact of depreciation  
26                     and amortization of software and intangibles of  
27                     approximately \$0.09 per diluted share.  
28

1           \*     Adjusted EBITDA is expected to be in the range of \$2.5  
2                     million to \$3.0 million.

3           Expectations for the fiscal year ending December 31, 2007 are as  
4 follows.

5           \*     Net sales are expected to be in the range of \$170 million to  
6                     \$185 million.

7           \*     Operating expenses (including depreciation and  
8                     amortization of software and intangibles) as a percentage of  
9                     net sales are expected to be in the range of 30% to 33%.

10          \*     Diluted net income per share is expected to be in the range  
11                     of \$0.05 to \$0.17 assuming approximately 29.3 million  
12                     shares outstanding.

13          \*     This includes the estimated impact of share-based  
14                     compensation expense of \$0.09 per diluted share or  
15                     \$2.5 million.

16          \*     This includes the estimated impact of depreciation  
17                     and amortization of software and intangibles of  
18                     approximately \$0.31 per diluted share.

19          \*     Adjusted EBITDA is expected to be in the range of \$14  
20                     million to \$18 million.

21          10.    On this news, U.S. Auto Parts' stock price collapsed in one day from  
22 \$11.07 per share on March 20, 2007 to close at \$6.49 per share on March 21, 2007, on  
23 volume of 18 million shares (over 100 times the average previous trading volume for  
24 the stock). Previously, the Company's stock traded between \$10 and \$12.49 per share  
25 with an average trading volume of 183,000 shares.

26          11.    The true facts which were omitted from the Registration Statement were  
27 as follows:

28

1 (a) The Company was having difficulty with the integration of  
2 PartsBin due in large part to the different distribution methods utilized by U.S. Auto  
3 Parts and PartsBin to fill customer orders.

4 (b) PartsBin was suffering from certain internal control deficiencies  
5 which caused or led to at least the following problems for U.S. Auto Parts:

6 (i) The Company was having trouble filling customer orders  
7 under its drop-ship distribution system and was required to issue credits to its  
8 customers for out-of-stock products that it had previously recorded as sales. In the  
9 Fall of 2006, the Company was having difficulty with certain of its third-party  
10 distributors in getting all of its customers' orders filled, finding that certain of the  
11 orders were for parts that were currently out of stock. As a result, the customers  
12 subsequently terminated these orders. As the Company had previously recorded these  
13 orders as sales, the Company was required to issue credits to its customers for these  
14 out-of-stock products.

15 (ii) The products offered via the drop-ship distribution method  
16 generated lower product margins than the products offered under the stock-and-ship  
17 distribution method. In certain instances, the Company offered substantial discounts  
18 on certain parts in order to stimulate demand, in some cases selling products for  
19 below-market prices. This further eroded and would continue to erode U.S. Auto  
20 Parts' already suffering margins. Indeed, the Company's gross margin dropped from  
21 42% for the fiscal year ended December 31, 2005 to 35% for the fiscal year ended  
22 December 31, 2006.

23 (c) The Company had experienced a disastrous fourth quarter which  
24 would result in disappointing 2006 results.

## 25 **PARTIES**

26 12. Plaintiff Patricia Johnson acquired the common stock of U.S. Auto Parts  
27 pursuant or traceable to the IPO, as set forth in the accompanying certification, and  
28 has been damaged thereby.

1           13. Defendant U.S. Auto Parts is headquartered in Carson, California. Its  
2 stock trades in an efficient market on the NASDAQ.

3           14. Defendant Sol Khazani (“Khazani”) is co-founder of U.S. Auto Parts.  
4 Khazani has been Chairman of the Board of Directors of the Company since January  
5 2001. Khazani additionally served as Chief Financial Officer (“CFO”) from January  
6 2001 to April 2005 and as a Vice President from the Company’s inception in October  
7 1995 to January 2001. Khazani signed or authorized the signing of the false and  
8 misleading Registration Statement.

9           15. Defendant Mehran Nia (“Nia”) is co-founder of U.S. Auto Parts. Nia has  
10 been Chief Executive Officer (“CEO”), President and a director of the Company since  
11 the Company’s inception in October 1995. Additionally, Nia was CFO from October  
12 1995 to January 2001. Nia signed the false and misleading Registration Statement.

13           16. Defendant Michael J. McClane (“McClane”) has been CFO and  
14 Treasurer of U.S. Auto Parts since September 2005 and additionally has served as  
15 Executive Vice President, Finance since October 2006. McClane signed the false and  
16 misleading Registration Statement.

17           17. Defendant Richard E. Pine (“Pine”) has been has been Vice President,  
18 Strategic Planning of U.S. Auto Parts since May 2006 and a director since June 2006.  
19 Pine signed or authorized the signing of the false and misleading Registration  
20 Statement.

21           18. Defendant Robert J. Majteles (“Majteles”) is a director of U.S. Auto  
22 Parts. Majteles signed or authorized the signing of the false and misleading  
23 Registration Statement.

24           19. Defendant Fredric W. Harman (“Harman”) is a director of U.S. Auto  
25 Parts. Harman signed or authorized the signing of the false and misleading  
26 Registration Statement.

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1 20. Defendant Ellen F. Siminoff (“Siminoff”) is a director U.S. Auto Parts.  
2 Siminoff signed or authorized the signing of the false and misleading Registration  
3 Statement.

4 21. The defendants referenced above in ¶¶14-20 are referred to herein as the  
5 “Individual Defendants.”

6 22. Certain of the Individual Defendants also sold shares of their U.S. Auto  
7 Parts stock at \$10.00 per share in the IPO as follows:

DEFENDANT	SHARES SOLD	GROSS PROCEEDS
KHAZANI	964,134	\$9,641,340
NIA	513,903	\$5,139,030
PINE	68,130	\$681,300
TOTAL	1,546,167	\$15,461,670

11  
12 The same Individual Defendants sold additional shares of their personally held U.S.  
13 Auto Parts stock shortly after the IPO on February 14, 2007 at \$9.30 per share:

DEFENDANT	SHARES SOLD	GROSS PROCEEDS
KHAZANI	1,687,234	\$15,691,276
NIA	899,329	\$8,363,760
PINE	119,228	\$1,108,820
TOTAL	2,705,791	\$25,163,856

14  
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17  
18 23. Defendant RBC Capital Markets Corporation (“RBC”) is an international  
19 corporate and investment bank that provides products and services to institutions,  
20 corporations, governments and high net worth clients around the world, and acts as an  
21 underwriter in the sale of corporate securities. RBC acted as financial advisor to U.S.  
22 Auto Parts in connection with the IPO, helping to draft and disseminate the offering  
23 documents.

24 24. Defendant Thomas Weisel Partners LLC (“Thomas Weisel”) is an  
25 investment bank specializing in the growth sectors of the economy, including the  
26 technology, healthcare and consumer sectors. Thomas Weisel acted as financial  
27 advisor to U.S. Auto Parts in connection with the IPO, helping to draft and  
28 disseminate the offering documents.





1 4.3 million product applications based on vehicle makes, models and years. The  
2 Company principally sells its products to individual consumers through its network of  
3 Web sites and online marketplaces. The Company's online sales channel and  
4 relationships with suppliers enable it to eliminate several intermediaries in the  
5 traditional auto parts supply chain, allowing the Company to acquire its products  
6 directly from manufacturers and sell them to the customers.

7 34. On May 19, 2006, U.S. Auto Parts acquired PartsBin for \$25 million in  
8 cash, promissory notes in the aggregate of \$5 million payable to the former  
9 shareholders of PartsBin and the issuance of nearly 2 million shares of U.S. Auto Parts  
10 stock. As a result of the acquisition, U.S. Auto Parts expanded its product offering  
11 and product catalog to include performance parts and accessories and additional  
12 engine parts.

13 35. U.S. Auto Parts and PartsBin utilize different distribution methods for  
14 filling customer orders. U.S. Auto Parts uses a stock-and-ship distribution method  
15 while PartsBin uses a drop-ship distribution method. Under a stock-and-ship system,  
16 a company will take physical delivery of a part and store it in one of its distribution  
17 centers until it is shipped to a customer. A company will fill customer orders from its  
18 own inventory. Under a drop-ship distribution system, parts are shipped directly to  
19 the customer from the supplier. Under this system a company will outsource its  
20 distribution and fulfillment operations to third parties. While a drop-ship system is  
21 less capital intensive than a traditional stock-and-ship system, it provides a company  
22 with less control over its operations as it is highly dependent upon third parties to  
23 properly maintain their inventory levels and to timely and accurately fill customer  
24 orders.

25 **THE FALSE AND DEFECTIVE REGISTRATION**  
26 **STATEMENT AND PROSPECTUS**

27 36. On or about January 22, 2007, U.S. Auto Parts filed with the SEC a Form  
28 S-1/A (the "IPO Registration Statement") for the IPO.



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**Our Solution**

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

- disintermediation of the traditional auto parts supply chain, which enables us to eliminate several intermediaries, allowing us to offer auto parts at competitive prices while maintaining higher profit margins;
- \* \* \*
- flexible fulfillment methods that allow us to offer a broad selection of products, while effectively managing our inventory and enhancing our overall profitability . . . .

\* \* \*

**Benefits to Customers**

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

- broad product selection and availability;
- competitive pricing;
- prompt order fulfillment . . . .

\* \* \*

**Our Growth Strategy**

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

- \* \* \*
- increase repeat customers . . . .

\* \* \*

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

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

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

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

1 \* \* \*

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

4 For a number of the products that we sell, we outsource the  
5 distribution and fulfillment operation and are dependent on our  
6 distributors to manage inventory, process orders and distribute those  
7 products to our customers in a timely manner. . . .

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

22 \* \* \*

23 *Recent Acquisition.* In May 2006, we completed the acquisition of  
24 Partsbin. As a result of this acquisition, we expanded our product  
25 offering and product catalog to include performance parts and  
26 accessories and additional engine parts, enhanced our ability to reach  
27 more customers and added a complementary, drop-ship order fulfillment  
28 method.

1 \* \* \*

2 **Overview**

3 \* \* \*

4 In May 2006, we acquired Partsbin, an online retailer focused on selling  
5 engine parts and performance parts and accessories. This acquisition  
6 significantly expanded our product offerings and enhanced our ability to  
7 reach more customers and attain greater flexibility in our fulfillment  
8 operations.

9 \* \* \*

10 **Our Solution**

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

14 *Disintermediation of the Auto Parts Supply Chain*

15 We have developed an online sales channel that enables us to sell  
16 aftermarket auto parts to our customers while eliminating several  
17 intermediaries in the traditional auto parts supply chain. Traditional  
18 purchases of auto parts typically involve manufacturers, importers,  
19 wholesalers, distributors and retailers. We disintermediate the traditional  
20 auto parts supply chain by either obtaining products directly from  
21 manufacturers or sourcing products directly from wholesalers to fulfill  
22 customer orders. Disintermediating the traditional supply chain allows  
23 us to offer auto parts to our customers at competitive prices and allows  
24 us to more efficiently deliver products to our customers while generating  
25 higher profit margins.

26 \* \* \*

27 As an online retailer, we do not incur many of the costs associated  
28 with operating brick and mortar stores. We believe that our ability to

1 disintermediate the auto parts supply chain, combined with our efficient  
2 e-commerce platform, enables us to sell products at competitive prices  
3 while achieving higher operating margins and return on invested capital  
4 than many traditional automotive parts retailers.

5 *Flexible Fulfillment Methods*

6 We fulfill customer orders using two primary methods: (i) stock-  
7 and-ship, where we take physical delivery of a part and store it in one of  
8 our distribution centers until it is shipped to a customer, and (ii) drop-  
9 ship, where the part is shipped directly to the customer from the supplier.  
10 We believe that the flexibility of fulfilling orders via two different  
11 fulfillment methods allows us to offer a broader selection of products,  
12 optimize product inventory, determine optimal pricing and enhance  
13 overall business profitability.

14 \* \* \*

15 **Benefit to Customers**

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

- 18 • *Broad Product Selection and Availability.* Our proprietary  
19 product catalog provides our customers with the ability to select  
20 from approximately 550,000 SKUs that correlate to over 4.3  
21 million product applications, based on vehicle makes, models and  
22 years. A majority of our products are readily available and in  
23 stock, either in our distribution center or from our suppliers,  
24 providing convenient one-stop shopping for the customer.
- 25 • *Competitive Pricing.* We are able to offer our customers lower  
26 prices relative to OEM parts retailers and traditional aftermarket  
27 retailers by eliminating several intermediaries in the aftermarket  
28 auto parts supply chain, leveraging our long-term supplier

1 relationships and establishing an efficient online cost structure that  
2 capitalizes on relatively inexpensive labor.

- 3 • *Prompt Order Fulfillment.* Our proprietary order fulfillment  
4 system allows us to efficiently process and ship items from our  
5 distribution centers or from our suppliers, ensuring timely delivery  
6 of products to our customers. Additionally, our customers are  
7 generally provided with the option to receive standard ground or  
8 expedited shipping.

9 \* \* \*

### 10 **Our Growth Strategy**

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

14 \* \* \*

- 15 • *Increase Repeat Customers.* We intend to enhance and improve  
16 the overall customer shopping experience while offering a broad  
17 selection of products at competitive prices, which we believe is a  
18 key to increasing repeat customers. We plan to continue to invest  
19 in the training and development of our customer service  
20 personnel, focus on rapid and accurate fulfillment of orders and  
21 further enhance the features and functionality of our websites. We  
22 will also make greater efforts to mine our existing customer base  
23 through promotional discounts and programs.

24 \* \* \*

### 25 **Our Fulfillment Operations**

26 We fulfill customer orders using two primary methods: (i) stock-  
27 and-ship, where we have physical delivery of merchandise and store it in  
28 one of our distribution centers, and (ii) drop-ship, where merchandise is

1 shipped directly to customers from our drop-ship suppliers. We believe  
2 that the flexibility of fulfilling orders using two different fulfillment  
3 methods allows us to offer a broader product selection, optimize product  
4 inventory and enhance overall business profitability.

5 The selection of fulfillment methodology occurs at the time of  
6 order submission. When a customer submits an order, an invoice with an  
7 order number is created. Our fulfillment system then performs a check  
8 on the ordered item to determine if it is in stock at any of our distribution  
9 centers. Fulfillment teams in our distribution centers then process orders  
10 for in-stock products. Orders for non-stocked products are sent to our  
11 suppliers and processed via drop-ship. Our proprietary order processing  
12 technology allows us to monitor customer orders at each stage of the  
13 fulfillment process, from the time the customer places an order until the  
14 product is delivered, and provides us with real-time visibility into our  
15 inventory, logistics, procurement processes and sales activity.

#### 16 **Stock-and-Ship Fulfillment**

17 Our stock-and-ship products are sourced primarily from suppliers  
18 located in Asia and the U.S. and are stored in one of our distribution  
19 centers in Carson, California or Nashville, Tennessee. All products  
20 received into our distribution centers are entered into our proprietary  
21 inventory tracking system, allowing us to closely monitor inventory  
22 status on a real-time basis.

23 We consider a number of factors in determining which items to  
24 stock in our distribution centers, including which products can be  
25 purchased at a meaningful discount to domestic prices for similar items,  
26 which products have historically sold in high volumes, and which  
27 products may be out of stock when we attempt to fulfill via drop-ship.

#### 28 **Drop-Ship Fulfillment**

1           We have developed relationships with several U.S.-based  
2 automobile parts distributors that operate their own distribution centers  
3 and will deliver products directly to our customers. We have internally  
4 developed a proprietary distributor selection system, Auto-Vend, which  
5 combines product and pricing information provided by each of our drop-  
6 ship distributors to create an aggregated view of in-stock items and  
7 pricing at our distributors' fulfillment facilities.

8           Using the drop-ship method, a customer order for an item that is  
9 not in stock in our distribution center is automatically transmitted to the  
10 Auto-Vend system, which will seek to fill the order from our selection of  
11 distributors. The Auto-Vend system selects the distributor to fill the  
12 order based on [a] predetermined set of factors, including price of the  
13 item, discounts provided and shipping costs.

#### 14 **Suppliers**

15           We source our products from foreign manufacturers and importers  
16 located in Taiwan and China, and from U.S. manufacturers and  
17 distributors. We typically order stock-and-ship products from our Asian  
18 manufacturers and importers, and utilize our U.S. based manufacturers  
19 and distributors for our drop-ship orders. We generally place large-  
20 volume orders with these suppliers and, as a result, may receive volume  
21 discounts on ordered products. Our domestic suppliers offer direct-to-  
22 customer shipping, allowing us to save on fulfillment costs and offer a  
23 broader selection of products. We have developed application  
24 programming interfaces systems with several of these suppliers which  
25 allow us to have near real-time information regarding their inventory and  
26 pricing, allowing us to determine the optimal drop-ship vendor for each  
27 order. We are a significant customer for many of our drop-ship vendors  
28 and have long standing relationships with many of these suppliers. As a

1 result, we enjoy favorable pricing as well as volume rebates which we  
2 believe many of our competitors do not receive.

3 \* \* \*

#### 4 **Competition**

5 The auto parts industry is competitive and highly fragmented, with  
6 products distributed through multi-tiered and overlapping channels.

7 \* \* \*

8 We believe the principal competitive factors in our market are  
9 maintaining a proprietary product catalog which maps individual parts to  
10 relevant auto applications, product selection and availability, price,  
11 knowledgeable customer service, and rapid order fulfillment and  
12 delivery. We believe we compete favorably on the basis of these factors.

13 40. Both the IPO Registration Statement and IPO Prospectus were prepared  
14 and filed after the end of 4Q 2006, which ended December 31, 2006. Nonetheless,  
15 neither the IPO Registration Statement nor the IPO Prospectus disclosed that the  
16 Company would suffer a loss in 4Q 2006 or that the Company anticipated that it may  
17 also suffer a loss in 1Q 2007.

18 41. On March 20, 2007, the Company announced that its 4Q 2006 results and  
19 that its guidance for 2007 would be substantially below what the market was  
20 expecting:

21 U.S. Auto Parts Network, Inc., a leading online provider of aftermarket  
22 auto parts and accessories, today reported its financial results for the  
23 fourth quarter and fiscal year ended December 31, 2006.

24 Net sales for the fourth quarter ended December 31, 2006 were  
25 \$36.8 million, an increase of 134% from \$15.7 million in the prior year  
26 period. Net loss for the fourth quarter of fiscal 2006 was \$(0.02) million,  
27 or \$(0.00) per diluted share on approximately 22 million shares  
28 outstanding, compared to net income of \$2.1 million, or \$0.16 per

1 diluted share on approximately 13 million shares outstanding. Adjusted  
2 EBITDA for the fourth quarter of 2006, which excludes share-based  
3 compensation expense related to option grants of \$0.3 million, was \$3.2  
4 million compared to Adjusted EBITDA of \$2.7 million in the prior year  
5 period.

6 Net sales for fiscal year 2006 were \$120.1 million, an increase of  
7 101% from \$59.7 million for fiscal year 2005. Net income for the fiscal  
8 year ended December 31, 2006 was \$3.5 million, or \$0.17 per diluted  
9 share on approximately 20.0 million shares outstanding, compared to net  
10 income of \$6.8 million, or \$0.52 per diluted share on approximately 13.2  
11 million shares outstanding. Adjusted EBITDA for fiscal year 2006,  
12 which excludes share-based compensation expense related to option  
13 grants of \$0.9 million, was \$13.3 million, an increase of 51% from \$8.8  
14 million for fiscal year 2005.

15 “2006 marked a year of many accomplishments,” said Mehran  
16 Nia, President and Chief Executive Officer. “We raised a significant  
17 amount of capital through debt and equity offerings, completed the  
18 acquisition of our largest competitor, as well as prepared the Company  
19 for its initial public offering. Through these events, we believe we have  
20 set the foundation for U.S. Auto Parts to accelerate growth and continue  
21 to gain market share. We achieved revenue growth in excess of 100%,  
22 driven by growth in our SKU count, as we expanded our product  
23 offering to include engine parts and performance parts and accessories,  
24 as well as growth in the number of unique visitors to our network of  
25 websites in 2006.”

26 Mr. Nia continued, “This is a very dynamic time in the fragmented  
27 aftermarket auto parts market, and we have a number of initiatives in  
28 place which we believe will enable us to profitably capitalize on these

1 opportunities. We recently added several key members to our  
2 management team and we are confident that we have the leadership in  
3 place to execute on the many growth opportunities that lie ahead.”

4 Mr. Nia concluded, “We remain especially committed to  
5 increasing stockholder value as evidenced by our recent decision to  
6 extend the lock-up agreements of our major shareholders, our executive  
7 team and our board of directors for an additional six months from the  
8 original lock-up period committed in order to further align ourselves  
9 with our stockholders and to focus on our long-term strategy.”

10 Michael McClane, Chief Financial Officer, added, “We saw  
11 growth in many of our key metrics during the year, validating the  
12 strength of our product offering and business model. Our recent initial  
13 public offering and subsequent repayment of debt has strengthened our  
14 financial position. While we are proud of these major accomplishments,  
15 we still have opportunities for improvement. Our entire team is focused  
16 on completing the integration of Partsbin, improving the technology and  
17 systems infrastructure, and increasing overall profitability.”

#### 18 Key Full Year and Q4 2006 Operating Metrics

- 19 \* Unique visitors - The number of monthly unique visitors in  
20 the fourth quarter of 2006 rose to 20.4 million, an increase  
21 of 35% compared to the fourth quarter of 2005 on a pro-  
22 forma basis after giving effect to the acquisition of  
23 Partsbin.
- 24 \* Conversion rate - The conversion rate in 2006 increased to  
25 1.2% from 1.1% in 2005.
- 26 \* Orders - The number of orders placed through our e-  
27 commerce websites rose to approximately 748,000 orders  
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in 2006 from 288,000 in 2005, representing an increase of approximately 160%.

- \* Average order value - The average order value of purchases on our websites remained stable at approximately \$120 in 2006.
- \* Customer acquisition cost - The customer acquisition cost in 2006 was \$10 per customer, compared to \$8 in 2005.

Mr. McClane concluded, “Looking ahead, we plan to continue to execute on our growth strategy while maintaining a strict focus on profitability through focusing on gross margin expansion and operating expense control. While we are confident we have the initiatives and people in place to achieve this goal, we believe it will require some time to fully implement, and the results will not be realized immediately. As a [sic] industry leader in the aftermarket auto parts space, we believe we are uniquely positioned to grow our market share and we are confident about our long-term prospects.”

Outlook for 2007

Expectations for the first quarter of 2007 are as follows:

- \* Net sales are expected to be in the range of \$39 million to \$41 million.
- \* Operating expenses (including depreciation and amortization of software and intangibles) as a percentage of net sales are expected to be in the range of 31% to 33%.
- \* Net income per diluted share is expected to be in the range of \$(0.02) to \$0.00 with approximately 26.7 million shares outstanding.

1 \* This includes the estimated impact of share-based  
2 compensation expense of approximately \$0.02 per  
3 diluted share or \$0.6 million.

4 \* This includes the estimated impact of depreciation  
5 and amortization of software and intangibles of  
6 approximately \$0.09 per diluted share.

7 \* Adjusted EBITDA is expected to be in the range of \$2.5  
8 million to \$3.0 million.

9 Expectations for the fiscal year ending December 31, 2007 are as  
10 follows.

11 \* Net sales are expected to be in the range of \$170 million to  
12 \$185 million.

13 \* Operating expenses (including depreciation and  
14 amortization of software and intangibles) as a percentage of  
15 net sales are expected to be in the range of 30% to 33%.

16 \* Diluted net income per share is expected to be in the range  
17 of \$0.05 to \$0.17 assuming approximately 29.3 million  
18 shares outstanding.

19 \* This includes the estimated impact of share-based  
20 compensation expense of \$0.09 per diluted share or  
21 \$2.5 million.

22 \* This includes the estimated impact of depreciation  
23 and amortization of software and intangibles of  
24 approximately \$0.31 per diluted share.

25 \* Adjusted EBITDA is expected to be in the range of \$14  
26 million to \$18 million.

27 42. On this news, U.S. Auto Parts' stock price collapsed to as low as \$5.46  
28 per share before closing at \$6.49 per share on March 21, 2007.

1           43.    The true facts which were omitted from the Registration Statement were  
2 as follows:

3                   (a)    The Company was having difficulty with the integration of  
4 PartsBin due in large part to the different distribution methods utilized by U.S. Auto  
5 Parts and PartsBin to fill customer orders.

6                   (b)    PartsBin was suffering from certain internal control deficiencies  
7 which caused or led to at least the following problems for U.S. Auto Parts:

8                           (i)        The Company was having trouble filling customer orders  
9 under its drop-ship distribution system and was required to issue credits to its  
10 customers for out-of-stock products that it had previously recorded as sales. In the  
11 Fall of 2006, the Company was having difficulty with certain of its third-party  
12 distributors in getting all of its customers' orders filled, finding that certain of the  
13 orders were for parts that were currently out of stock. As a result, the customers  
14 subsequently terminated these orders. As the Company had previously recorded these  
15 orders as sales, the Company was required to issue credits to its customers for these  
16 out-of-stock products.

17                           (ii)       The products offered via the drop-ship distribution method  
18 generated lower product margins than the products offered under the stock-and-ship  
19 distribution method. In certain instances, the Company offered substantial discounts  
20 on certain parts in order to stimulate demand, in some cases selling products for  
21 below-market prices. This further eroded and would continue to erode U.S. Auto  
22 Parts' already suffering margins. Indeed, the Company's gross margin dropped from  
23 42% for the fiscal year ended December 31, 2005 to 35% for the fiscal year ended  
24 December 31, 2006.

25                   (c)    The Company had experienced a disastrous fourth quarter which  
26 would result in disappointing 2006 results.

27  
28

1 **COUNT I**

2 **Violations of Section 11 of the 1933 Act**  
3 **Against All Defendants**

4 44. Plaintiff repeats and realleges each and every allegation contained above.

5 45. This Count is brought pursuant to §11 of the 1933 Act, 15 U.S.C. §77k,  
6 on behalf of the Class, against all defendants.

7 46. The Registration Statement for the IPO was inaccurate and misleading,  
8 contained untrue statements of material facts, omitted to state other facts necessary to  
9 make the statements made not misleading, and omitted to state material facts required  
10 to be stated therein.

11 47. U.S. Auto Parts is the registrant for the IPO. The defendants named  
12 herein were responsible for the contents and dissemination of the Registration  
13 Statement.

14 48. As issuer of the shares, U.S. Auto Parts is strictly liable to plaintiff and  
15 the Class for the misstatements and omissions.

16 49. None of the defendants named herein made a reasonable investigation or  
17 possessed reasonable grounds for the belief that the statements contained in the  
18 Registration Statement were true and without omissions of any material facts and were  
19 not misleading.

20 50. By reasons of the conduct herein alleged, each defendant violated, and/or  
21 controlled a person who violated, §11 of the 1933 Act.

22 51. Plaintiff acquired U.S. Auto Parts shares pursuant to the Registration  
23 Statement for the IPO.

24 52. Plaintiff and the Class have sustained damages. The value of U.S. Auto  
25 Parts common stock has declined substantially subsequent to and due to defendants'  
26 violations.

27 53. At the time of their purchases of U.S. Auto Parts shares, plaintiff and  
28 other members of the Class were without knowledge of the facts concerning the

1 wrongful conduct alleged herein and could not have reasonably discovered those facts  
2 prior to March 20, 2007. Less than one year has elapsed from the time that plaintiff  
3 discovered or reasonably could have discovered the facts upon which this complaint is  
4 based to the time that plaintiff filed this complaint. Less than three years elapsed  
5 between the time that the securities upon which this Count is brought were offered to  
6 the public and the time plaintiff filed this complaint.

7 **COUNT II**

8 **Violations of Section 15 of the 1933 Act**  
9 **Against the Individual Defendants**

10 54. Plaintiff repeats and realleges each and every allegation contained above.

11 55. This Count is brought pursuant to §15 of the 1933 Act against the  
12 Individual Defendants.

13 56. Each of the Individual Defendants was a control person of U.S. Auto  
14 Parts by virtue of his or her position as a director and/or senior officer of U.S. Auto  
15 Parts. The Individual Defendants each had a series of direct and/or indirect business  
16 and/or personal relationships with other directors and/or officers and/or major  
17 shareholders of U.S. Auto Parts.

18 57. Each of the Individual Defendants was a culpable participant in the  
19 violations of §11 of the 1933 Act alleged in the Count above, based on their having  
20 signed or authorized the signing of the Registration Statement and having otherwise  
21 participated in the process which allowed the IPO to be successfully completed.

22 **PRAYER FOR RELIEF**

23 WHEREFORE, plaintiff prays for relief and judgment, as follows:

24 A. Determining that this action is a proper class action and certifying  
25 plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil  
26 Procedure;

27 B. Awarding compensatory damages in favor of plaintiff and the other Class  
28 members against all defendants, jointly and severally, for all damages sustained as a

1 result of defendants' wrongdoing, in an amount to be proven at trial, including interest  
2 thereon;

3 C. Awarding plaintiff and the Class their reasonable costs and expenses  
4 incurred in this action, including counsel fees and expert fees;

5 D. Awarding rescission or a rescissory measure of damages; and

6 E. Such equitable/injunctive or other relief as deemed appropriate by the  
7 Court.

8 **JURY DEMAND**

9 Plaintiff hereby demands a trial by jury

10 DATED: March 27, 2007

LERACH COUGHLIN STOIA GELLER  
RUDMAN & ROBBINS LLP  
DARREN J. ROBBINS  
DAVID C. WALTON  
CATHERINE J. KOWALEWSKI

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12  
13  
14 \_\_\_\_\_  
15 DAVID C. WALTON

16 655 West Broadway, Suite 1900  
17 San Diego, CA 92101-3301  
Telephone: 619/231-1058  
619/231-7423 (fax)

18 LERACH COUGHLIN STOIA GELLER  
19 RUDMAN & ROBBINS LLP  
PAUL J. GELLER  
JONATHAN M. STEIN  
20 120 East Palmetto Park Road, Suite 500  
21 Boca Raton, FL 33432  
Telephone: 561/750-3000  
561/750-3364 (fax)

22 Attorneys for Plaintiff  
23  
24  
25  
26  
27  
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