WEST PHARMACEUTICAL SERVICES INC
Form DEF 14A
March 21, 2012

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

West Pharmaceutical Services, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Title of each class of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

101 Gordon Drive
Lionville, Pennsylvania 19341

NOTICE OF 2012 ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder,

The 2012 Annual Meeting of Shareholders of West Pharmaceutical Services, Inc. will be held at our headquarters, 101 Gordon Drive, Lionville, Pennsylvania 19341, on Tuesday, May 1, 2012, at 9:30 AM. The items of business at the meeting are:

1. to elect the ten directors nominated by our Board of Directors and named in the proxy statement;

2. to conduct an advisory vote to approve named executive officer compensation;

3. to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the 2012 year; and

4. to transact any other business that may properly come before the meeting and any adjournment or postponement.

The Board of Directors unanimously recommends a vote FOR proposals 1, 2 and 3.

Only shareholders of record as of the close of business on March 9, 2012 may vote at the meeting.

On March 21, 2012, we began mailing a Notice of Internet Availability of Proxy Materials (Notice) to all shareholders of record as of the close of business on March 9, 2012. The Notice contains instructions on how to access an electronic copy of our proxy materials, including the proxy statement and our Annual Report. The Notice also contains instructions on how to request a paper copy of the proxy statement.

Your vote is important. Please vote your shares promptly. You can vote your shares electronically via the Internet or by completing and returning the proxy card or voting instruction card. You may also vote in person at the Annual Meeting. You can revoke a proxy at any time prior to its exercise at the Annual Meeting by following the instructions in this proxy statement.

By Order of the Board of Directors,

JOHN R. GAILEY III
Vice President, General Counsel and Secretary

March 21, 2012

Important Notice Regarding the Internet Availability of Proxy Materials for

the Shareholder Meeting on May 1, 2012:

Our proxy statement and annual report are available at http://www.westpharma.com/na/en/Investors/Pages/ProxyMaterials.aspx

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2012 PROXY STATEMENT

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2012 Proxy Summary

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.

Annual Meeting of Shareholders

- Time and Date 9:30 a.m., May 1, 2012
- Place West Pharmaceutical Services, Inc.
  101 Gordon Dr.
  Lionville, PA 19341
- Record date March 9, 2012
- Voting Shareholders as of the close of business on the record date are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the proposals to be voted on.

Meeting Agenda

- Election of ten directors
- Advisory vote on named executive officer compensation
- Ratification of PwC as independent auditors for 2012

Voting Matters

	Board Vote Recommendation	**Page Reference (for more detail)**
Election of Directors	FOR Each Director Nominee	3
Advisory Vote on Named Executive Officer Compensation	FOR	54
Ratification of PwC as Independent Auditor for 2012	FOR	56

Board Nominees

Each director nominee is elected annually by a majority of votes cast. The following table provides summary information about each director nominee. Additional detail about directors and their qualifications is included in the proxy statement beginning on page 5.

Name	Age	Director Since	Occupation	Qualifications	Independent	Committee Memberships AC	CC	NCGC	ITC	Other Current Public Company Boards
Mark A. Buthman	51	2011	CFO, Kimberly-Clark	• Financial • International • Leadership	X	C/F		M		
William F. Feehery	41	2012	Global Business Director, DuPont Photovoltaic Solutions	• International • Leadership • Technology	X					
Thomas W. Hofm		245								

Share-based compensation	1,324	1,472
Deferred income taxes	219	790
Amortization of deferred financing costs	61	
Excess tax benefits from share-based payment arrangements		(237)
Changes in operating assets and liabilities:		
Accounts receivable	(1,990)	802
Inventory	2,296	(7,926)
Prepaid expense and other current assets	(187)	(865)
Other noncurrent assets		(81)
Accounts payable and accrued expenses	(477)	7,639
Other current liabilities	(338)	1,218
Other noncurrent liabilities	258	317
Net cash provided by operating activities	7,421	9,317
Investing activities		
Additions to property and equipment	(7,221)	(6,293)
Purchases of intangibles	(48)	(1,001)
Changes in restricted cash	319	
Proceeds from sale of	400	4,236

marketable securities			
Purchases of marketable securities	(13)		(17,984)
Purchases of company-owned life insurance	(281)		(250)
Proceeds from purchase price adjustment	787		
Net cash used in investing activities	(6,057)		(21,292)
Financing activities			
Payments made on long-term debt	(3,000)		
Changes in book overdraft	152		
Payments of short-term financing	(74)		
Payments of debt financing costs	(53)		
Excess tax benefits from share-based payment arrangements			237
Proceeds from exercise of stock options	255		658
Net cash (used in) provided by financing activities	(2,720)		895
Effect of exchange rate changes on cash	10		26
Net change in cash and cash equivalents	(1,346)		(11,054)
Cash and cash equivalents, beginning of period	17,595		26,251
Cash and cash equivalents, end of period	$ 16,249	$	15,197
Supplemental disclosure of non-cash investing and financing			

activities:				
Accrued asset purchases	$	1,572	$	571
Property acquired under capital lease		32		
Unrealized gain on investments		27		66
Supplemental disclosure of cash flow information:				
Cash paid during the period for income taxes	$	9	$	87
Cash paid during the period for interest		611		

See accompanying notes to unaudited condensed consolidated financial statements.

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U.S. AUTO PARTS NETWORK, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

U.S. Auto Parts Network, Inc. (collectively with its subsidiaries, the Company) is a distributor of aftermarket auto parts and accessories and was established in 1995. The Company entered the e-commerce sector by launching its first website in 2000 and currently derives the majority of its revenues from online sales channels. The Company sells its products to individual consumers through a network of websites and online marketplaces. Our flagship websites are located at *www.autopartswarehouse.com, www.partstrain.com*, *www.jcwhitney.com, www.stylintrucks.com* and our corporate website is located at *www.usautoparts.net*.

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

The Company is a Delaware C corporation and is headquartered in Carson, California. The Company also has employees located in, Kansas, Virginia, Illinois and Ohio, as well as in the Philippines.

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to U.S. Securities and Exchange Commission (SEC) Form 10-Q and Article 10 of SEC Regulation S-X. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company as of July 2, 2011 and January 1, 2011, and the consolidated results of operations for the thirteen and twenty-six weeks ended July 2, 2011 and July 3, 2010, and cash flows for the twenty-six weeks ended July 2, 2011 and July 3, 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. The Company s results of operations for the thirteen and twenty-six weeks ended July 2, 2011 are not necessarily indicative of those to be expected for the entire year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended January 1, 2011 (fiscal 2010), which was filed with the SEC on March 17, 2011.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Significant estimates made by management include, but are not limited to, the valuation of investments, valuation of inventory, valuation of deferred tax assets and liabilities, and valuation of intangible assets, including goodwill. Actual results could differ from these estimates.

Segment Data

The Company manages its operations on a consolidated basis for purposes of assessing performance and making operating decisions. Accordingly, the Company operates in one reportable segment and reporting revenues by product line or geographic location is impracticable.

U.S. AUTO PARTS NETWORK, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29), an update to Accounting Standards Codification (ASC) Topic 805, *Business Combinations* (ASC 805). The amendments in ASU 2010-29 specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in ASU 2010-29 also expand the supplemental pro forma disclosures under ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company will apply the provisions of ASU 2010-29 to future acquisitions which occur after January 2, 2011. The Company believes that the adoption will not have a material effect on the Company s consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), an update to ASC Topic 820, *Fair Value Measurement* (ASC 820). The amendments in ASU 2011-04 are the result of joint efforts by the FASB and International Accounting Standards Board (IASB) to develop a single, converged fair value framework and provide converged guidance on how to measure fair value and on what disclosures to provide about fair value measurements. While ASU 2011-04 is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands ASC 820 s existing disclosure requirements for fair value measurements and makes other amendments. Many of these amendments were made to eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards (IFRSs). However, some could change how the fair value measurement guidance in ASC 820 is applied. For public entities, amendments are effective for interim and annual periods beginning after December 15, 2011. The Company will adopt the provisions of ASU 2011-04 on January 1, 2012, the starting date of its fiscal year ending December 29, 2012. The Company believes that this adoption will not have a material effect on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), an update to ASC Topic 220, *Comprehensive Income* (ASC 220). The amendments in ASU 2011-05 revise the manner in which entities present comprehensive income in their financial statements by removing the presentation options in ASC 220 and requiring entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendments in ASU 2011-5 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company will adopt the provisions of ASU 2011-05 on January 1, 2012, the starting date of its fiscal year ending December 29, 2012. This adoption will have an impact on the presentation of other comprehensive income on the Company s consolidated financial statements.

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U.S. AUTO PARTS NETWORK, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Investments

As of July 2, 2011, the Company held the following securities and investments, recorded at fair value (in thousands):

		Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Auction rate preferred securities in municipal and state agencies [1]	$ 3,825	$	$ (59)	$ 3,766
Mutual funds and money market funds [2]	1,118		(6)	1,112
Total	$ 4,943	$	$ (65)	$ 4,878

As of January 1, 2011, the Company held the following securities and investments, recorded at fair value (in thousands):

		Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Auction rate preferred securities in municipal and state agencies [1]	$ 4,225	$	$ (84)	$ 4,141
Mutual funds [2]	1,070		(8)	1,062
Total	$ 5,295	$	$ (92)	$ 5,203

(1) Auction rate preferred securities (ARPS) issued by municipal and state agencies have a maturity of 15 to 30 years and are classified as long-term investments available-for-sale. As of July 2, 2011 and January 1, 2011, all of these securities were held in three tax-exempt municipal bonds managed under closed-end funds and had been in a continuous loss position for more than twelve months.

(2) Mutual funds and money market funds are classified as short-term investments available-for-sale and recorded at fair market value, based on quoted prices of identical assets that are trading in active markets as of the end of the period for which the values are determined.

Proceeds from the sale of available-for-sale securities are disclosed separately in the accompanying unaudited condensed consolidated statements of cash flows. For the thirteen and twenty-six weeks ended July 2, 2011 and July 3, 2010, there were no recognized gross realized gain and losses.

The accumulated unrealized net loss on the securities and investments at July 2, 2011 and January 1, 2011 was $0.1 million.

Note 3 Fair Value Measurements

Fair value is defined as an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

Provisions of ASC 820 establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3 - Unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

U.S. AUTO PARTS NETWORK, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial Assets Valued on a Recurring Basis

As of July 2, 2011 and January 1, 2011, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included the Company s financial instruments, including investments associated with the ARPS. The Company measures the following financial assets at fair value on a recurring basis. The fair value of these financial assets was determined using the following inputs at July 2, 2011 and January 1, 2011 (in thousands):

	As of July 2, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents (1)	$ 16,249	$ 16,249	$	$
Short-term investments (2)	1,112	1,112		
Non-current investments available-for-sale (3)	3,766			3,766
	$ 21,127	$ 17,361	$	$ 3,766

	As of January 1, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents (1)	$ 17,595	$ 17,595	$	$
Short-term investments (2)	1,062	1,062		
Non-current investments available-for-sale (3)	4,141			4,141
	$ 22,798	$ 18,657	$	$ 4,141

(1) Cash and cash equivalents consists primarily of money market funds with original maturity dates of three months or less at the date of purchase, for which the Company determines fair value through quoted market prices.

(2) Short-term investments consist of mutual funds and money market funds. Short-term investments are classified as investments available-for-sale and recorded at fair market value, based on quoted prices of identical assets that are trading in active markets as of the end of the period for which the values are determined.

(3) As of July 2, 2011, the Company had invested $3,825 (par value in thousands) in ARPS, which are classified as available-for-sale securities and reflected at $3,766 (fair value in thousands), which includes an unrealized loss of $59 (in thousands). As of January 1, 2011, the Company had invested $ 4,225 (par value in thousands) in ARPS, which were classified as available-for-sale securities and reflected at $ 4,141 (fair value in thousands), which included an unrealized loss of $84 (in thousands). The Company has included its investments related to ARPS in the Level 3 category.

Before utilizing Level 3 inputs in fair value measurement, the Company considered significant Level 2 observable inputs of similar assets in active and inactive markets. The Company s broker dealer received estimated market values from an independent pricing service as of the balance sheet date and the anticipated future market for such investments. These investments consist solely of collateralized debt obligations supported by municipal and state agencies; do not include mortgage-backed securities or student loans; have redemption features that call for redemption at 100% of par value; and have a current credit rating of A or AAA. For the period between June 30, 2008 through July 2, 2011, the Company received partial redemptions at par on these investments totaling $3.9 million. The fact that there is not an active market to liquidate these investments was considered in classifying them as Level 3. Due to the uncertainty with regard to the short-term liquidity of these securities, the Company determined that it could not rely on par value to represent fair value. Therefore, the Company estimated the fair values

of these securities utilizing a discounted cash flow valuation model as of July 2, 2011 and January 1, 2011. This analysis considered the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation the security will have a successful auction or market liquidity. These securities were also compared, when possible, to other observable market data with similar characteristics to the securities held by the Company.

As a result of the temporary declines in fair value for the Company s ARPS, which the Company generally attributes to liquidity issues rather than credit issues, the Company recorded an unrealized loss of $59 and $84 (in thousands) to accumulated other comprehensive income as of July 2, 2011 and January 1, 2011, respectively. Due to the Company s belief that the market for these collateralized instruments may take in excess of twelve months to fully recover, the Company has classified these investments as noncurrent and has included them in investments on the unaudited condensed consolidated balance sheets at July 2, 2011 and January 1, 2011. As of July 2, 2011, the Company continued to earn interest on all of its ARPS instruments. Any future fluctuation in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to accumulated other comprehensive income. If the Company determined that any decrease in the value of the instruments was other-than-temporary, it would record a charge to earnings as appropriate. The Company is not certain how long it may be required to hold each security. However, given the Company s current cash position, liquid cash equivalents and expected cash provided by operations, it believes it has the ability to hold, and intends to continue to hold the ARPS as long-term investments until the market for such securities stabilizes.

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U.S. AUTO PARTS NETWORK, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the twenty-six weeks ended July 2, 2011 and the fiscal year ended January 1, 2011, there were no transfers of Level 1 and Level 2 assets. The following tables present the Company s ARPS measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at July 2, 2011 and January 1, 2011 (in thousands):

	Long-Term Investments
Balance as of January 1, 2011	$ 4,141
Redemption	(400)
Unrealized gains included in other comprehensive income	25
Balance as of July 2, 2011	$ 3,766

	Long-Term Investments
Balance as of January 2, 2010	$ 4,264
Redemption	(125)
Unrealized gains included in other comprehensive income	2
Balance as of January 1, 2011	$ 4,141

Non-Financial Assets Valued on a Non-Recurring Basis

The Company s long-lived or indefinite-lived intangible assets are measured at fair value on a non-recurring basis. These assets are measured at cost but are written down to fair value, if necessary, as a result of impairment.

As of July 2, 2011 and January 1, 2011, the Company s long-lived and indefinite-lived intangible assets did not indicate a potential impairment under the provisions of ASC Topic 350, *Intangibles* and ASC Topic 360, *Property, Plant, and Equipment* and, as such, they were not measured at fair value.

Note 4 Inventory

Inventories consist entirely of finished goods and are stated at the lower of cost or market value, determined using the first in, first out (FIFO) method. The Company purchases inventory from suppliers both domestically and internationally, and routinely enters into supply agreements with U.S. based suppliers and its primary drop-ship vendors. The Company believes that its inventoried products are generally available from more than one supplier and seeks to maintain multiple sources for its products, both internationally and domestically.

Note 5 Business Combination

On August 12, 2010, the Company completed the purchase (the Acquisition) of all of the issued and outstanding shares of Automotive Specialty Accessories and Parts (WAG), a leader in the automobile aftermarket performance parts and accessories market. Assets acquired include intangible assets consisting of customer relationships, technology, and trade names, tangible assets such as furniture and fixtures, machinery and equipment, and a 350,000 square foot distribution center in LaSalle, Illinois with a headquarter office located in Chicago, Illinois. The final purchase price of WAG was $26.7 million in cash, including 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 Acquisition provided the Company with product line expansion into all terrain vehicles, recreational vehicles and motorcycles, as well as deep product knowledge into niche segments like Jeep, Volkswagen and truck enthusiasts. This expansion in its product

line has increased its customer reach in the do-it-yourself automobile and off-road accessories market. In addition, WAG s state-of-the-art facility located in Illinois, which was custom built for business-to-consumer distribution of auto parts, allowed the Company to complete a three-distribution center network. The Company believes that the combination of WAG s established brands and focus on the customer experience, coupled with the Company s capacity to compete online, creates opportunity for growth. These expected synergies from the Acquisition contributed to the goodwill associated with the Acquisition of $7.6 million. See the purchase price allocation table below for further details.

The Acquisition has been accounted for under the purchase method of accounting in accordance with ASC 805. Accordingly, the assets and liabilities of WAG have been recorded as of the acquisition date at their respective fair values, and combined with the Company s assets and liabilities. The determination of estimated fair value requires management to make significant estimates and assumptions. The results of operations of WAG and the estimated fair market values of the acquired assets and liabilities have been included in the consolidated financial statements from the date of the Acquisition.

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U.S. AUTO PARTS NETWORK, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes our allocation of the purchase price for the Acquisition to the estimated fair values of the assets acquired and liabilities assumed at the date of the Acquisition (in thousands):

Purchase price paid in cash (1)	$ 27,500
Purchase price adjustment (2)	(787)
Final purchase price	**$ 26,713**
Purchase price allocation is presented below:	
Assets:	
Accounts receivable	2,642
Inventory	12,366
Deferred income taxes	120
Property and equipment	16,430
Intangible assets	17,378
Other assets	2,287
Total assets	$ 51,223
Liabilities:	
Accounts payable	$ (23,542)
Accrued expenses	(4,534)
Deferred income taxes	(2,734)
Other liabilities	(1,272)
Total liabilities	$ (32,082)
Goodwill (3)	$ 7,572
Final purchase price	**$ 26,713**

(1) Represents the purchase price paid in cash at the closing of the Acquisition of $27.5 million.

(2) The purchase price adjustment of $787 (in thousands) represents the settlement amount that shareholders of WAG paid to USAP for the negative working capital amount of WAG on the date of the Acquisition. The net working capital of WAG on the date of the Acquisition was determined in accordance with the definitions and procedures set forth in the Purchase Agreement.

(3) The goodwill resulting from the Acquisition is non-deductible for tax purposes.

Of the total purchase price, approximately $8.2 million has been allocated to trade name assets with an indefinite life and $9.2 million has been allocated to amortizable intangible assets acquired. The amortizable intangible assets are being amortized on a straight line basis over their respective useful lives except for internet platform intellectual property which is being amortized on an accelerated basis over 10 months based on the Company s estimated usage of the asset as follows:

	Weighted-Average Useful Life	Gross Carrying Amount (in thousands)
Intangible assets subject to amortization:		
Internet platform intellectual property	10 months	$ 4,300
Product design intellectual property	9 years	2,750
Customer relationships	4 years	2,050
Favorable leases	2.5 years	78
		9,178
Intangible assets not subject to amortization:		
Trade names	indefinite life	8,200
Total		$ 17,378

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U.S. AUTO PARTS NETWORK, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

WAG s financial results have been included in our consolidated statement of operations since the acquisition date of August 12, 2010. Therefore, pro forma information for the thirteen and twenty-six weeks ended July 2, 2011 has not been presented since the results of operations of WAG have been included in our actual consolidated results of operations for the entire period. The following pro forma financial information presents the results as if the Acquisition had occurred on January 3, 2010 (in thousands, except share and per share amounts):

	Thirteen Weeks Ended July 3, 2010	Twenty-six Weeks Ended July 3, 2010
Net sales	$ 89,524	$ 174,641
Net loss	(8,142)	(20,912)
Basic net loss per share	(0.27)	(0.69)
Diluted net loss per share	(0.27)	(0.69)
Weighted average shares used in computing basic net loss per common share	30,314,478	30,158,797
Weighted average shares used in computing diluted net loss per common share	30,314,478	30,158,797

Related to the Acquisition, the Company has incurred acquisition and integration related costs of $5.9 million, which have been recorded in general and administrative expenses.

Note 6 Goodwill and Intangibles

The following table summarizes the change in our goodwill during the twenty-six weeks ended July 2, 2011 as follows (in thousands):

Balance at January 1, 2011	$ 17,137
Change in goodwill	207
Balance at July 2, 2011	$ 17,344

During the thirteen weeks ended July 2, 2011, the Company recorded goodwill adjustments of $207 (in thousands) related to the settlement amount that the Company received from the shareholders of WAG for the negative working capital amount of WAG on the date of the Acquisition. During the twenty-six weeks ended July 2, 2011, no additional goodwill was recorded.

The Company evaluates goodwill for impairment on an annual basis or more frequently if events or circumstances occur that would indicate a reduction in fair value. As of October 31, 2010, the Company performed its annual impairment test and the excess of fair value estimates over carrying value for our reporting unit was approximately $187 million. Based on its analysis, there would have to be a 65% decrease in the fair value of the reporting unit to fail step 1. During the twenty-six weeks ended July, 2, 2011, there was no change to the Company s reporting unit and no events or circumstances occurred that would indicate a reduction in fair value. The accumulated impairment loss on goodwill was $4.4 million as of July 2, 2011 and January 1, 2011.

Intangibles subject to amortization are expensed on a straight-line basis. Amortization expense relating to intangibles totaled $1,363 and $2,990 (in thousands) for the thirteen and twenty-six weeks ended July 2, 2011, respectively. Amortization expense relating to intangibles totaled $124 and $245 (in thousands) for the thirteen and twenty-six weeks ended July 3, 2010, respectively. During the thirteen and twenty-six weeks ended July 2, 2011, the Company purchased certain domain and trade names for a purchase price of $22 (in thousands) and $48 (in thousands), respectively. All of these assets were allocated to intangible assets not subject to amortization.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangibles, excluding goodwill, consisted of the following at July 2, 2011 and January 1, 2011 (in thousands):

		July 2, 2011			January 1, 2011		
	Useful Life	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount	Gross Carrying Amount	Accum. Amort.	Net Carrying Amount
Intangible assets subject to amortization:							
Websites	5 years	$ 2,035	$ (798)	$ 1,237	$ 2,035	$ (594)	$ 1,441
Internet platform intellectual property [1]	10 months	4,300	(4,300)		4,300	(1,984)	2,316
Product design intellectual property [1]	9 years	2,750	(265)	2,485	2,750	(116)	2,634
Customer relationships [1]	4 years	2,050	(455)	1,595	2,050	(197)	1,853
Assembled workforce	7 years	483	(228)	255	478	(182)	296
Favorable lease [1]	2.5 years	78	(31)	47	78	(14)	64
Sub-Total		11,696	(6,077)	5,619	11,691	(3,087)	8,604
Intangible assets not subject to amortization:							
Domain and trade names [2]	Indefinite life	10,162		10,162	10,114		10,114
Total		$ 21,858	$ (6,077)	$ 15,781	$ 21,805	$ (3,087)	$ 18,718

(1) Includes the intangible assets acquired in connection with the Acquisition.
(2) Includes domain names assigned a value of $8.2 million purchased in connection with the Acquisition.

The following table summarizes the future estimated amortization expense for these assets over the next five years (in thousands):

2011	$ 675
2012	1,344
2013	1,281
2014	881
2015	303
Thereafter	1,135
Total	$ 5,619

Note 7 Borrowings

In August 2010, the Company executed a Loan and Security Agreement (the Loan Agreement) and other definitive documentation for a $35 million secured credit facility (the Facility). Silicon Valley Bank (Bank) is the lender under the Facility. The Facility is comprised of a term loan in the original principal amount of $25 million and a revolving line of credit with availability up to $10 million. The Facility has a final maturity date of June 30, 2014, and borrowings under the Facility bear interest, at the election of the Company, at LIBOR (with a floor of 1.25%) plus a margin of from 2.00% to 3.00% per annum, or at the Wall Street Journal Prime Rate plus a margin of from 1.00% to 2.00% per annum, based upon the Company s maximum funded debt ratio. An unused revolving line fee of 0.375% per annum is payable on the undrawn committed amount of the revolving line of credit. Interest on outstanding borrowings under the term loan and the revolving line of credit is payable no less

than quarterly and the outstanding principal of the term loan is amortized over four years and payable quarterly, with any outstanding amount under the Facility to be paid in full on the final maturity date. Borrowings under the Facility are secured by liens over all assets of the Company, including shares of stock in each of the Company s subsidiaries. Ten of the Company s subsidiaries are acting as co-borrowers under the Facility.

The Loan Agreement requires the Company to comply with a number of restrictive covenants, including financial covenants related to maximum funded debt to consolidated EBITDA, liquidity, and consolidated fixed charge coverage ratios; negative pledge requirements; requirements

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to deliver quarterly and annual consolidated financial statements; requirements to maintain adequate insurances; prohibitions on changes in the business and disposition of the Company s assets; and other customary covenants. The Loan Agreement also requires the Company to obtain a prior written consent from the Bank when the Company determines to pay any dividends on or make any distribution related to its common stock. The Loan Agreement includes usual and customary events of default and remedies for facilities of this nature. In February 2011, the Company and the Bank entered into Amendment No. 1 to Loan and Security Agreement and Limited Waiver (Amendment). The Amendment waived the Company s lack of compliance with the consolidated fixed charge coverage ratio covenant in the Loan Agreement as of January 1, 2011. The Amendment also amended the definitions of Baseline Liquidity and Consolidated EBITDA to more readily accommodate the Company s integration of the WAG acquisition. For the thirteen and twenty-six weeks ended July 2, 2011, the Company was in compliance with all covenants under the credit facility.

The Loan Agreement, as amended by the Amendment, contains the following financial covenants:

Maximum funded debt to consolidated EBITDA. A ratio of aggregate credit extensions outstanding to trailing 12 month consolidated EBITDA of not greater than the following:

2.25:1.00 from effective date through quarter ending September 30, 2010

2.00:1.00 for quarters ending December 31, 2010 through June 30, 2011

1.50:1.00 for quarters ending September 30, 2011 through June 30, 2012

1.00:1.00 for each quarter ending thereafter

Consolidated fixed charge coverage ratio for the period set forth below of not less than the ratio set forth below:

1.10:1.00 for two quarters ending December 31, 2010

1.25:1.00 for three quarters ending March 31, 2011

1.25:1.00 for four quarters ending June 30, 2011, September 30, 2011 and December 31, 2011

1.50:1.00 for each quarter ending thereafter

Liquidity as follows:

Unrestricted cash and cash equivalents (less outstanding advances) should be greater than $7,500,000 plus integration capital expenditures added back.

The Company s financial covenant ratios under the Loan Agreement as of July 2, 2011 were 1.16:1.00 for maximum funded debt to consolidated EBITDA and 1.58:1.00 for consolidated fixed charge coverage. As of July 2, 2011, the Company s required liquidity under the Loan Agreement was $11,400,000, and adding back the integration capital expenditures, the Company s liquidity was $17,362,000.

The Company expects to be in compliance with the financial covenants in the Loan Agreement through the term of the Loan Agreement. However, it is possible that a default under certain financial covenants may occur in the future, should the Company s forecasted EBITDA levels not be achieved. If the Company defaults on any of the covenants under the Loan Agreement and is unable to obtain waivers from the Bank, the Bank will be able to exercise their rights and remedies under the Loan Agreement, including a call provision on outstanding debt, which would have a material adverse effect on the Company s business and financial condition.

At July 2, 2011, the LIBOR rate and the margin were 1.25% and 2.50% per annum, respectively. The Company had no borrowings on the revolving line of credit at July 2, 2011. The remaining term loan balance was $21 million as of July 2, 2011 and is to be repaid according to the following schedule (in thousands):

Payments Due by Period				
Total	**2011**	**2012**	**2013**	**2014**
$21,000	$3,125	$6,250	$6,875	$4,750

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of our long-term debt under the facility approximated its carrying amount as of July 2, 2011.

Note 8 Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC Topic 718, *Stock Compensation* (ASC 718). All stock options issued to employees are recognized as share-based compensation expense in the financial statements based on their respective grant date fair values, and are recognized within the statements of operations as general and administrative, marketing, fulfillment or technology expense, based on employee departmental classifications.

Under these guidelines, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. The Company currently uses the Black-Scholes option pricing model to estimate the fair value of share-based payment awards. The determination of the fair value of share-based payment awards utilizing the Black-Scholes option pricing model is affected by the Company s stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. As of July 2, 2011, the Company did not have an adequate history of market prices of its common stock as the Company recently became a public company, and as such, the Company estimates volatility using historical volatilities of similar public entities. The expected life of the awards is based on a simplified method which defines the life as the average of the contractual term of the options and the weighted average vesting period for all open tranches. Due to the limited period of time our equity shares have been publicly traded, we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of awards. The dividend yield assumption is based on the Company s expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company considers many factors when estimating expected forfeitures, including employee class, economic environment, and historical experience. Share-based compensation expense recognized in our financial statements is based on awards that are ultimately expected to vest. If factors change and we employ different assumptions, share-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested options, we may be required to accelerate, increase or cancel any remaining unrecognized share-based compensation expense.

The Company also accounts for equity instruments issued in exchange for board services rendered by non-employee directors in accordance with the provisions of ASC 718.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from non-employees in accordance with ASC 505-50, *Equity-Based Payments to Non-Employees.* Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration for other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services. Equity instruments awarded to non-employees are periodically re-measured as the underlying awards vest unless the instruments are fully vested, immediately exercisable and non-forfeitable on the date of grant.

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Under the Company s 2007 Omnibus Incentive Plan, the Company granted stock options to purchase 120,000 shares of common stock during the thirteen weeks ended July 2, 2011 at a weighted-average grant date fair value of $7.43. The Company granted stock options to purchase 660,000 shares of common stock during the twenty-six weeks ended July 2, 2011 at a weighted-average grant date fair value of $7.75. The Company had $3.4 million of unrecognized share-based compensation expense related to stock options outstanding as of July 2, 2011, which expense is expected to be recognized over a weighted-average period of 2.35 years. During the thirteen weeks ended July 2, 2011, options to purchase 40,991 shares were exercised and the total intrinsic value of the exercised options was $0.2 million. During the twenty-six weeks ended July 2, 2011, options to purchase 70,991 shares were exercised and the total intrinsic value of the exercised options was $0.3 million. The intrinsic value of stock options at the date of the exercise is the difference between the fair value of the stock at the date of exercise and the exercise price. At July 2, 2011, 2,585,395 shares of common stock were available for future grants under this plan.

Under the Company s 2007 New Employee Incentive Plan, there were no stock options granted during the twenty-six weeks ended July 2, 2011. The Company had $0.1 million of unrecognized share-based compensation expense related to stock options outstanding under this plan as of July 2, 2011, which expense is expected to be recognized over a weighted-average period of 1.26 years. During the twenty-six weeks ended July 2, 2011, there were no options exercised under this plan. At July 2, 2011, 750,000 shares of common stock were available for future grants under this plan.

Under the Company s 2006 Equity Incentive Plan, there were no stock options granted during the twenty-six weeks ended July 2, 2011. The Company had no unrecognized share-based compensation expense related to stock options outstanding under this plan as of July 2, 2011. During the twenty-six weeks ended July 2, 2011, there were no options exercised under this plan. As of July 2, 2011, there were 2,758,095 shares of common stock available for future grants under this plan.

On May 5, 2009, the Company issued warrants to purchase up to 30,000 shares of common stock, which warrants terminate seven years after their grant date. The warrants were issued in connection with the financial advisory services provided by a consultant to the Company. The warrants vest in thirty-six equal monthly increments of 833 shares each on the last calendar day of each calendar month commencing May 5, 2009. The re-measured fair value of these warrants was $5.87 per share at July 2, 2011. On April 27, 2010, the Company issued additional warrants to purchase up to 20,000 shares of common stock to the same holder in connection with the financial advisory services provided to the Company. The warrants vest in twenty-four equal monthly increments of 833 shares each on the last calendar day of each calendar month commencing April 27, 2010. The re-measured fair value of these warrants was $3.18 per share at July 2, 2011. The Company determined the fair value of the warrants using the Black-Scholes option pricing model based on the estimated fair value of the underlying common stock. There were no warrants exercised during the twenty-six weeks ended July 2, 2011.

Note 9 Income Taxes

For the thirteen weeks ended July 2, 2011 and July 3, 2010, the effective tax rate for the Company was (8.2)% and 32.8%, respectively. For the twenty-six weeks ended July 2, 2011 and July 3, 2010, the effective tax rate for the Company was (8.2)% and 36.9%, respectively. The Company s effective tax rate for the thirteen and twenty-six weeks ended July 2, 2011 differed from the U.S. federal statutory rate primarily due to an increase in valuation allowance against pre-tax operating losses and recording of provision for increasing long-term deferred tax liabilities associated with indefinite-lived intangibles which would not be offset with the operating losses. The increase in the valuation allowance was due to uncertainty regarding the future realization of the deferred tax assets established by the entity

As of July 2, 2011, the Company had no material unrecognized tax benefits, interest or penalties related to federal and state income tax matters. The Company s policy is to record accrued interest and penalties related to unrecognized tax benefits as income tax expense.

The Company is subject to U.S. federal income tax as well as income tax of foreign and state tax jurisdictions. The Company s foreign and state income tax returns are open to audit under the statute of limitations for the tax years 2006 through 2010. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Comprehensive (Loss) Income

The Company reports comprehensive (loss) income in accordance with ASC Topic 220, *Comprehensive Income*, which defines comprehensive (loss) income as net (loss) income affected by non-stockholder changes in equity. Comprehensive (loss) income for the thirteen and twenty-six weeks ended July 2, 2011 and July 3, 2010 was as follows (in thousands):

	Thirteen Weeks Ended July 2, 2011	Thirteen Weeks Ended July 3, 2010	Twenty-Six Weeks Ended July 2, 2011	Twenty-Six Weeks Ended July 3, 2010
Net (loss) income	$ (2,564)	$ 462	$ (2,810)	$ 2,009
Foreign currency translation adjustments	14	(75)	33	13
Unrealized gain (loss) in investments	16	75	27	66
Comprehensive (loss) income	$ (2,534)	$ 462	$ (2,750)	$ 2,088

Note 11 Net (Loss) Income Per Share

Basic net (loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is applicable only in periods of net income and is computed by dividing net income by the weighted average number of common shares outstanding for the period and potentially dilutive common stock equivalents outstanding for the period. Periods of net loss require the diluted computation to be the same as the basic computation. Due to the loss in the thirteen and twenty-six weeks ended July 2, 2011, 1,566,880 and 1,663,170 shares, respectively, have been excluded from the computation of diluted net (loss) income per share.

Net (loss) income per share has been computed in accordance with ASC Topic 260, *Earnings Per Share*. The following table sets forth the computation of basic and diluted net (loss) income per share (in thousands, except share and per share data):

	Thirteen Weeks Ended July 2, 2011	Thirteen Weeks Ended July 3, 2010	Twenty-Six Weeks Ended July 2, 2011	Twenty-Six Weeks Ended July 3, 2010
Net (Loss) Income Per Share				
Numerator:				
Net (loss) income	$ (2,564)	$ 462	$ (2,810)	$ 2,009
Denominator:				
Weighted-average common shares outstanding (basic)	30,543,037	30,314,478	30,496,558	30,158,797
Common equivalent shares from common stock options and warrants		1,679,969		1,564,519
Weighted-average common shares outstanding (diluted)	30,543,037	31,994,447	30,496,558	31,723,316
Basic net (loss) income per share	$ (0.08)	$ 0.02	$ (0.09)	$ 0.07
Diluted net (loss) income per share	$ (0.08)	$ 0.01	$ (0.09)	$ 0.06

Potentially dilutive securities were not included in the calculation of diluted net income per share because these securities would be anti-dilutive due to the Company s stock price. The related securities are as follows (in common equivalent shares):

	Thirteen Weeks Ended July 2, 2011	**Thirteen Weeks Ended July 3, 2010**	**Twenty-Six Weeks Ended July 2, 2011**	**Twenty-Six Weeks Ended July 3, 2010**
Warrants to purchase common stock	20,000	8,132	20,000	4,066
Options to purchase common stock	2,246,048&			