

ADVANCE AUTO PARTS INC  
Form 10-Q  
August 27, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 18, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-16797

\_\_\_\_\_  
ADVANCE AUTO PARTS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

54-2049910  
(I.R.S. Employer  
Identification No.)

5008 Airport Road, Roanoke, Virginia 24012  
(Address of Principal Executive Offices)  
(Zip Code)

(540) 362-4911  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report).

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 24, 2009, the registrant had outstanding 95,449,171 shares of Common Stock, par value \$0.0001 per share (the only class of common stock of the registrant outstanding).

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## PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF  
ADVANCE AUTO PARTS, INC. AND SUBSIDIARIESAdvance Auto Parts, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
July 18, 2009 and January 3, 2009  
(in thousands, except per share data)  
(unaudited)

Assets	July 18, 2009	January 3, 2009
Current assets:		
Cash and cash equivalents	\$ 126,391	\$ 37,358
Receivables, net	89,393	97,203
Inventories, net	1,635,754	1,623,088
Other current assets	43,848	49,977
Total current assets	1,895,386	1,807,626
Property and equipment, net of accumulated depreciation of \$862,592 and \$817,428	1,067,432	1,071,405
Assets held for sale	1,382	2,301
Goodwill	34,603	34,603
Intangible assets, net	26,921	27,567
Other assets, net	19,247	20,563
	\$ 3,044,971	\$ 2,964,065
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank overdrafts	\$ 76	\$ 20,588
Current portion of long-term debt	758	1,003
Financed vendor accounts payable	78,679	136,386
Accounts payable	875,987	791,330
Accrued expenses	413,009	372,510
Other current liabilities	52,916	43,177
Total current liabilities	1,421,425	1,364,994
Long-term debt	278,835	455,161
Other long-term liabilities	81,623	68,744
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, nonvoting, \$0.0001 par value, 10,000 shares authorized; no shares issued or outstanding	-	-
Common stock, voting, \$0.0001 par value, 200,000 shares authorized; 103,910 shares issued and 95,417 outstanding at July 18, 2009 and 103,000 shares issued and 94,852 outstanding at January 3, 2009	10	10
Additional paid-in capital	374,513	335,991

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Treasury stock, at cost, 8,493 and 8,148 shares	(305,483 )	(291,114 )
Accumulated other comprehensive loss	(8,034 )	(9,349 )
Retained earnings	1,202,082	1,039,628
Total stockholders' equity	1,263,088	1,075,166
	\$ 3,044,971	\$ 2,964,065

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries  
Condensed Consolidated Statements of Operations  
For the Twelve and Twenty-Eight Week Periods Ended  
July 18, 2009 and July 12, 2008  
(in thousands, except per share data)  
(unaudited)

	Twelve Week Periods Ended		Twenty-Eight Week Periods Ended	
	July 18, 2009	July 12, 2008	July 18, 2009	July 12, 2008
Net sales	\$ 1,322,844	\$ 1,235,783	\$ 3,006,480	\$ 2,761,915
Cost of sales, including purchasing and warehousing costs	670,194	649,501	1,531,842	1,450,778
Gross profit	652,650	586,282	1,474,638	1,311,137
Selling, general and administrative expenses	517,875	458,323	1,182,281	1,038,900
Operating income	134,775	127,959	292,357	272,237
Other, net:				
Interest expense	(5,480 )	(7,250 )	(13,091 )	(19,575 )
Other income (expense), net	250	(92 )	146	(64 )
Total other, net	(5,230 )	(7,342 )	(12,945 )	(19,639 )
Income before provision for income taxes	129,545	120,617	279,412	252,598
Provision for income taxes	49,215	45,231	105,497	95,126
Net income	\$ 80,330	\$ 75,386	\$ 173,915	\$ 157,472
Basic earnings per share	\$ 0.84	\$ 0.79	\$ 1.83	\$ 1.65
Diluted earnings per share	\$ 0.83	\$ 0.78	\$ 1.82	\$ 1.64
Average common shares outstanding	94,868	95,008	94,642	94,996
Average common shares outstanding - assuming dilution	95,745	95,663	95,247	95,630

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
For the Twenty-Eight Week Periods Ended  
July 18, 2009 and July 12, 2008  
(in thousands)  
(unaudited)

	Twenty-Eight Week Periods Ended	
	July 18, 2009	July 12, 2008
Cash flows from operating activities:		
Net income	\$ 173,915	\$ 157,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	79,568	78,692
Amortization of deferred debt issuance costs	194	191
Share-based compensation	9,419	10,007
Loss on property and equipment, net	6,236	610
Provision (benefit) for deferred income taxes	11,384	(1,827 )
Excess tax benefit from share-based compensation	(2,114 )	(4,629 )
Net decrease (increase) in:		
Receivables, net	7,810	(4,886 )
Inventories, net	(12,666 )	(156,528 )
Other assets	7,253	11,490
Net increase in:		
Accounts payable	84,657	195,976
Accrued expenses	55,688	56,504
Other liabilities	12,460	6,952
Net cash provided by operating activities	433,804	350,024
Cash flows from investing activities:		
Purchases of property and equipment	(90,837 )	(105,983 )
Proceeds from sales of property and equipment	2,117	4,146
Other	-	(3,413 )
Net cash used in investing activities	(88,720 )	(105,250 )
Cash flows from financing activities:		
Decrease in bank overdrafts	(20,512 )	(30,000 )
Decrease in financed vendor accounts payable	(57,707 )	(207 )
Dividends paid	(17,118 )	(17,397 )
Payments on note payable	(340 )	(331 )
Borrowings under credit facilities	173,400	239,700
Payments on credit facilities	(349,900 )	(292,100 )
Proceeds from the issuance of common stock, primarily exercise of stock options		
	28,112	18,166
Excess tax benefit from share-based compensation	2,114	4,629
Repurchase of common stock	(14,369 )	(162,429 )
Other	269	-
Net cash used in financing activities	(256,051 )	(239,969 )



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Net increase in cash and cash equivalents	89,033	4,805
Cash and cash equivalents, beginning of period	37,358	14,654
Cash and cash equivalents, end of period	\$ 126,391	\$ 19,459

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows - (Continued)  
For the Twenty-Eight Week Periods Ended  
July 18, 2009 and July 12, 2008  
(in thousands)  
(unaudited)

	Twenty-Eight Week Periods Ended	
	July 18, 2009	July 12, 2008
Supplemental cash flow information:		
Interest paid	\$ 12,525	\$ 19,041
Income tax payments	61,494	74,826
Non-cash transactions:		
Accrued purchases of property and equipment	19,265	19,075
Repurchases of common stock not settled	-	3,377
Changes in other comprehensive income (loss)	1,315	(736 )

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries  
Notes to the Condensed Consolidated Financial Statements  
For the Twelve and Twenty-Eight Week Periods Ended July 18, 2009 and July 12, 2008  
(in thousands, except per share data)  
(unaudited)

1. Basis of Presentation:

The accompanying condensed consolidated financial statements include the accounts of Advance Auto Parts, Inc. and its wholly owned subsidiaries, or the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheets as of July 18, 2009 and January 3, 2009, the condensed consolidated statements of operations for the twelve and twenty-eight week periods ended July 18, 2009 and July 12, 2008, and the condensed consolidated statements of cash flows for the twenty-eight week periods ended July 18, 2009 and July 12, 2008, have been prepared by the Company. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements for the fiscal year ended January 3, 2009.

The results of operations for the interim periods are not necessarily indicative of the operating results to be expected for the full fiscal year.

Use of Estimates

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

Vendor Incentives

The Company receives incentives in the form of reductions to amounts owed and/or payments from vendors related to cooperative advertising allowances, volume rebates and other promotional considerations. The Company accounts for vendor incentives in accordance with Emerging Issues Task Force, or EITF, No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." Many of these incentives are under long-term agreements (terms in excess of one year), while others are negotiated on an annual basis or less (short-term). Both cooperative advertising allowances and volume rebates are earned based on inventory purchases and initially recorded as a reduction to inventory. These deferred amounts are included as a reduction to cost of sales as the inventory is sold since these payments do not represent reimbursements for specific, incremental and identifiable costs. Total deferred vendor incentives included in Inventory, net were \$46,593 and \$50,527 at July 18, 2009 and January 3, 2009, respectively.

Similarly, the Company recognizes other promotional incentives earned under long-term agreements as a reduction to cost of sales. However, these incentives are recognized based on the cumulative net purchases as a percentage of total estimated net purchases over the life of the agreement. The Company's margins could be impacted positively or negatively if actual purchases or results from any one year differ from its estimates; however, the impact over the life of the agreement would be the same. Short-term incentives (terms less than one year) are generally recognized as a reduction to cost of sales over the duration of any short-term agreements.

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Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue in the accompanying condensed consolidated balance sheets. Management's estimate of the portion of deferred revenue that will be realized within one year of the balance sheet date has been included in Other current liabilities in the accompanying condensed consolidated balance sheets. Earned amounts that are receivable from vendors are included in Receivables, net except for that portion expected to be received after one year, which is included in Other assets, net on the accompanying condensed consolidated balance sheets.

Preopening Expenses

Preopening expenses, which consist primarily of payroll and occupancy costs related to the opening of new stores, are expensed as incurred.

Warranty Liabilities

The warranty obligation on the majority of merchandise sold by the Company with a manufacturer's warranty is the responsibility of the Company's vendors. However, the Company has an obligation to provide customers free replacement of merchandise or merchandise at a prorated cost if under a warranty and not covered by the manufacturer. Merchandise sold with warranty coverage by the Company primarily includes batteries but may also include other parts such as brakes and shocks. The Company estimates its warranty obligation based on the historical return experience of the product sold and records any change as income or expense in the period the product is sold.

Sales Returns and Allowances

The Company's accounting policy for sales returns and allowances consists of establishing reserves for estimated returns at the time of sale. The Company estimates returns based on current sales levels and the Company's historical return experience on a specific product basis. The Company's reserve for sales returns and allowances was not material at July 18, 2009 and January 3, 2009.

Financed Vendor Accounts Payable

The Company is party to a short-term financing program with a bank allowing it to extend its payment terms on certain merchandise purchases. The substance of the program is for the Company to borrow money from the bank to finance purchases from vendors. The Company records any discount given by the vendor to its inventory and accretes this discount to the resulting short-term payable to the bank through interest expense over the extended term. At July 18, 2009 and January 3, 2009, \$78,679 and \$136,386, respectively, was payable to the bank by the Company under this program and is included in the accompanying condensed consolidated balance sheets as Financed vendor accounts payable.

The balance in Financed vendor accounts payable continues to diminish as the Company transitions its merchandise vendors to customer-managed services arrangements.



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Cost of Sales and Selling, General and Administrative (“SG&A”) Expenses

The following table illustrates the primary costs classified in each major expense category:

Cost of Sales	SG&A
<p>Total cost of merchandise sold including:</p> <ul style="list-style-type: none"> <li>– Freight expenses associated with moving merchandise inventories from our vendors to our distribution center,</li> <li>– Vendor incentives, and</li> <li>– Cash discounts on payments to vendors;</li> </ul> <p>Inventory shrinkage;</p> <p>Defective merchandise and warranty costs;</p> <p>Costs associated with operating our distribution network, including payroll and benefit costs, occupancy costs and depreciation; and Freight and other handling costs associated with moving merchandise inventories through our supply chain</p> <ul style="list-style-type: none"> <li>– From our distribution centers to our retail store locations, and</li> <li>– From certain of our larger stores which stock a wider variety and greater supply of inventory, or HUB stores, and Parts Delivered Quickly warehouses, or PDQs®, to our retail stores after the customer has special-ordered the merchandise.</li> </ul>	<p>Payroll and benefit costs for retail and corporate team members;</p> <p>Occupancy costs of retail and corporate facilities;</p> <p>Depreciation related to retail and corporate assets;</p> <p>Advertising;</p> <p>Costs associated with our commercial delivery program, including payroll and benefit costs, and transportation expenses associated with moving merchandise inventories from our retail stores to our customer locations;</p> <p>Self-insurance costs;</p> <p>Professional services; and</p> <p>Other administrative costs, such as credit card service fees, supplies, travel and lodging.</p>

Please see Note 2 for a discussion of a change in accounting principle for costs included in inventory.

## Earnings per Share

The Company computes earnings per share in accordance with SFAS No. 128, "Earnings per Share" and FASB Staff Position ("FSP") EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." The Company adopted FSP EITF 03-6-1 effective January 4, 2009, which addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, need to be included in the earnings allocation when computing earnings per share under the two-class method as described in SFAS No. 128. In accordance with FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method.

Accordingly, earnings per share is determined using the two-class method and is computed by dividing net income attributable to the Company's common shareholders by the weighted-average common shares outstanding during the period. The two-class method is an earnings allocation formula that determines income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted income per common share reflects the more dilutive earnings per share amount calculated using the treasury stock method or the two-class method.



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New Accounting Pronouncements

Effective for the second quarter of fiscal 2009, the Company adopted the provisions of FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," on a prospective basis. This FSP amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures regarding fair value of financial instruments in interim financial statements, as well as in annual financial statements. The adoption had no impact on the Company's consolidated financial statements other than the additional disclosures.

Effective for the second quarter of fiscal 2009, the Company adopted the provisions of FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," on a prospective basis. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, "Fair Value Measurements" when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate if a transaction is not orderly (i.e., a forced liquidation or distressed sale). The adoption of the provisions of FSP FAS 157-4 did not have an impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 was effective for interim and annual periods ending after June 15, 2009, which included the Company's reporting period for the twelve weeks ended July 18, 2009. The Company evaluated all activity through August 27, 2009 (the issuance date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the related notes to the condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — A Replacement of FASB Statement No. 162." The FASB Accounting Standards Codification ("Codification") will become the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS No. 168 was not anticipated to change GAAP and the Company does not expect the adoption to have a material impact on the preparation of its consolidated financial statements.

2. Change in Accounting Principle:

Effective January 4, 2009, the Company implemented a change in accounting principle for costs included in inventory. Under the Company's historical accounting policy, freight and other handling costs (collectively "handling costs") associated with moving merchandise inventories from our distribution centers to our retail stores and handling costs associated with moving our merchandise inventories from our vendors to our distribution centers were capitalized as inventory and expensed in cost of sales as inventory was sold. However, handling costs associated with

moving merchandise inventories from our HUB stores and PDQs to our retail stores after a customer had special-ordered the merchandise were expensed as incurred in SG&A.

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The change relates to capitalizing handling costs associated with moving merchandise inventories from our HUB stores and PDQs to our retail stores, which are now treated as inventory product costs. Such costs are includable in inventory and expensed in cost of sales as inventory is sold because they related to the acquisition of goods for resale by the Company. The Company has determined that it is preferable to capitalize such handling costs into inventory because it better represents the costs incurred to prepare inventory for sale to the customer and it is consistent with the Company's treatment of other handling costs associated with moving merchandise inventories from our distribution centers to our retail stores.

In accordance with SFAS No. 154, "Accounting Changes and Error Corrections," the change in accounting principle has been retrospectively applied to all prior periods presented herein related to cost of sales and SG&A. However, because the inventory transferred is typically at the retail store for only one or two days until customer pick-up, the current and historical impact of this change on the consolidated balance sheets, consolidated net income, earnings per share, and consolidated statements of cash flows is not material and, as a result, Inventories, net was not adjusted. Accordingly, there is no impact on any financial statement line items other than cost of sales and SG&A, and there was no cumulative effect of the change in accounting principle on retained earnings. The change in accounting principle was initially reported in the Company's first quarter Form 10-Q for fiscal 2009. The tables below represent the impact of the accounting change on the current periods presented for the twelve and twenty-eight weeks ended July 18, 2009 and previously reported amounts for the comparable periods in fiscal 2008:

	Twelve week period ended July 18, 2009			Twenty-Eight week period ended July 18, 2009		
	Prior to Effect of Accounting			Prior to Effect of Accounting		
	Change	Adjustments	As Reported	Change	Adjustments	As Reported
Cost of sales, including purchasing and warehousing costs	\$654,393	\$ 15,801	\$670,194	\$1,497,205	\$ 34,637	\$1,531,842
Gross profit	\$668,451	\$ (15,801 )	\$652,650	\$1,509,275	\$ (34,637 )	\$1,474,638
Selling, general and administrative expenses	\$533,676	\$ (15,801 )	\$517,875	\$1,216,918	\$ (34,637 )	\$1,182,281
	Twelve week period ended July 12, 2008			Twenty-Eight week period ended July 12, 2008		
	As Previously			As Previously		
	Reported	Adjustments	As Adjusted	Reported	Adjustments	As Adjusted

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Cost of sales, including purchasing and warehousing costs	\$634,945	\$ 14,556	\$649,501	\$1,417,626	\$ 33,152	\$1,450,778
Gross profit	\$600,838	\$(14,556 )	\$586,282	\$1,344,289	\$(33,152 )	\$1,311,137
Selling, general and administrative expenses	\$472,879	\$(14,556 )	\$458,323	\$1,072,052	\$(33,152 )	\$1,038,900

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## 3. Store Closures and Impairment:

For fiscal 2009, the Company currently expects to divest a total of approximately 40 to 55 stores as part of its store divestiture plan. These store closures will be in addition to approximately 15 stores that will also be closed throughout 2009 as part of the Company's routine review and closure of underperforming stores at or near the end of their respective lease terms. The store divestiture plan consisted of a review of operating stores to identify locations for potential closing based on both financial and operating factors. These factors included cash flow, profitability, strategic market importance, store full potential and current lease rates.

The Company identified 36 stores during the first quarter to close as part of its store divestiture plan. During the twelve weeks ended July 18, 2009, the Company closed 21 stores, 20 of which were under the store divestiture plan. During the twenty-eight weeks ended July 18, 2009, the Company closed 30 stores, 24 of which were closed under the store divestiture plan.

During the twelve and twenty-eight weeks ended July 18, 2009, the Company recognized \$9,310 and \$15,106, respectively, of total expense associated with the 36 stores identified to be closed, or divestiture expense. For the twelve and twenty-eight weeks ended July 18, 2009, divestiture expense included closed store exit costs of \$9,310 and \$10,847, respectively. The closed store exit costs primarily included the establishment of the liability for future lease obligations as well as severance benefits in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Closed store liabilities primarily include the present value of the remaining lease obligations and management's estimate of future costs of insurance, property tax and common area maintenance (reduced by the present value of estimated revenues from subleases and lease buyouts). New provisions are established by a charge to SG&A in the accompanying consolidated statement of operations at the time the facilities actually close.

A summary of the Company's closed store liabilities, which are recorded in accrued expenses (current portion) and long-term liabilities (long-term portion) in the accompanying condensed consolidated balance sheet, are presented in the following table:

	Lease Obligations	Severance and Other Exit	Total
For the twelve weeks ended July 18, 2009:			
Closed Store Liabilities, April 25, 2009	\$ 5,126	\$ -	\$ 5,126
Reserves established	8,814	334	9,148
Change in estimates	231	-	231
Reserves utilized	(1,929 )	(334 )	(2,263 )
Closed Store Liabilities, July 18, 2009	\$ 12,242	\$ -	\$ 12,242

For the twenty-eight weeks ended July  
18, 2009:

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Closed Store Liabilities, January 3, 2009	\$ 5,067	\$ -	\$ 5,067
Reserves established	10,312	425	10,737
Change in estimates	(371 )	-	(371 )
Reserves utilized	(2,766 )	(425 )	(3,191 )
Closed Store Liabilities, July 18, 2009	\$ 12,242	\$ -	\$ 12,242

The Company's ending closed store liabilities at July 18, 2009, include \$9,737 related to the store divestiture plan.

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The Company also included impairment charges of \$4,259 in its total divestiture expense during the twenty-eight weeks ended July 18, 2009, all of which was recognized during the first quarter. The impairment charges were recognized in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and included in SG&A in the accompanying condensed consolidated statement of operations. This charge primarily consisted of the impairment of store assets contained in leased store locations where the carrying amount of those assets is not recoverable.

4. Inventories, net:

Merchandise Inventory

Inventories are stated at the lower of cost or market. The Company used the LIFO method of accounting for approximately 95% of inventories at both July 18, 2009 and January 3, 2009. Under LIFO, the Company's cost of sales reflects the costs of the most recently purchased inventories, while the inventory carrying balance represents the costs for inventories purchased in fiscal 2009 and prior years. Historically, the Company's overall costs to acquire inventory for the same or similar products have been decreasing due to the Company's significant growth. As a result of utilizing LIFO, the Company recorded a reduction to cost of sales of \$13,475 and \$10,894 for the twenty-eight weeks ended July 18, 2009 and July 12, 2008, respectively.

An actual valuation of inventory under the LIFO method is performed by the Company at the end of each fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected fiscal year-end inventory levels and costs.

Product Cores

The remaining inventories are comprised of product cores, which consist of the non-consumable portion of certain parts and batteries, which are valued under the first-in, first-out ("FIFO") method. Product cores are included as part of the Company's merchandise costs that are either passed on to the customer or returned to the vendor. Since product cores are not subject to frequent cost changes like the Company's other merchandise inventory, there is no material difference when applying either the LIFO or FIFO valuation method.

Inventory Overhead Costs

The Company capitalizes certain purchasing and warehousing costs into inventory. Purchasing and warehousing costs included in inventory, at FIFO, at July 18, 2009 and January 3, 2009, were \$102,423 and \$104,594, respectively.

Inventory Balances and Inventory Reserves

Inventory balances at July 18, 2009 and January 3, 2009 were as follows:

	July 18, 2009	January 3, 2009
Inventories at FIFO, net	\$ 1,541,062	\$ 1,541,871

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Adjustments to state inventories at LIFO	94,692	81,217
Inventories at LIFO, net	\$ 1,635,754	\$ 1,623,088



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Inventory quantities are tracked through a perpetual inventory system. The Company uses a cycle counting program in all distribution centers and PDQs® to ensure the accuracy of the perpetual inventory quantities of both merchandise and product core inventory. For our retail stores, the Company began completing physical inventories during its third quarter of fiscal 2008 in addition to cycle counting to ensure the accuracy of the perpetual inventory quantities of both merchandise and core inventory in these locations. The Company establishes reserves for estimated shrink based on results of completed physical inventories, actual results from recent cycle counts and historical results from the Company's cycle counting program.

The Company also establishes reserves for potentially excess and obsolete inventories based on (i) current inventory levels, (ii) the historical analysis of product sales and (iii) current market conditions. The Company provides reserves when less than full credit is expected from a vendor or when liquidating product will result in retail prices below recorded costs. The Company's reserves against inventory for these matters were \$39,000 and \$62,898 at July 18, 2009 and January 3, 2009, respectively. The reduction in the Company's inventory reserves during the twenty-eight weeks ended July 18, 2009 is primarily related to the utilization of its reserve for slow moving inventory primarily established during the fourth quarter of fiscal 2008 in connection with a change in inventory management approach for slow moving inventory.

#### 5. Goodwill and Intangible Assets:

##### Goodwill

The following table reflects the carrying amount of goodwill pertaining to the Company's two segments, and the changes in goodwill carrying amounts, for the twenty-eight weeks ended July 18, 2009:

	AAP Segment	AI Segment	Total
Balance at January 3, 2009	\$ 16,093	\$ 18,510	\$ 34,603
Fiscal 2009 activity	-	-	-
Balance at July 18, 2009	\$ 16,093	\$ 18,510	\$ 34,603

##### Intangible Assets Other Than Goodwill

The carrying amount and accumulated amortization of acquired intangible assets as of July 18, 2009 and January 3, 2009 are comprised of the following:

Acquired intangible assets			
Subject to Amortization	Not Subject to Amortization		
Customer Relationships	Other	Trademark and Tradenames	Intangible Assets, net
\$ 9,800	\$ 885	\$ 20,550	\$ 31,235

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Gross carrying amount at January 3, 2009				
Accumulated Amortization	3,234	434	-	3,668
Net book value at January 3, 2009				
	\$ 6,566	\$ 451	\$ 20,550	\$ 27,567
Gross carrying amount at July 18, 2009				
	\$ 9,800	\$ 885	\$ 20,550	\$ 31,235
Accumulated Amortization	3,814	500	-	4,314
Net book value at July 18, 2009				
	\$ 5,986	\$ 385	\$ 20,550	\$ 26,921

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	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 18, 2009	July 12, 2008	July 18, 2009	July 12, 2008
Amortization expense	\$ 274	\$ 274	\$ 646	\$ 609

## Future Amortization Expense

The table below shows expected amortization expense for the next five years for acquired intangible assets recorded as of July 18, 2009:

Fiscal Year		
Remainder of 2009	\$	500
2010		1,059
2011		967
2012		967
2013		967

## 6. Receivables, net:

Receivables consist of the following:

	July 18, 2009	January 3, 2009
Trade	\$ 19,515	\$ 17,843
Vendor	70,339	81,265
Other	4,344	3,125
Total receivables	94,198	102,233
Less: Allowance for doubtful accounts	(4,805)	(5,030)
Receivables, net	\$ 89,393	\$ 97,203

## 7. Derivative Instruments and Hedging Activities:

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 amends and expands the previous disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to provide more qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The Company adopted SFAS No. 161 as of January 4, 2009 on a prospective basis; accordingly, disclosures related to interim periods prior to the date of adoption have not been presented. The adoption had no impact on the Company's consolidated financial statements other than

the additional disclosures.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. The Company's derivatives that are designated as hedging instruments under SFAS No. 133 currently consist solely of interest rate swaps. Interest rate swaps are entered into to limit cash flow risk associated with the Company's floating-rate borrowings. The

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Company also utilizes forward commodity contracts to manage the risk of fluctuating fuel prices. The Company has elected to apply the normal purchase election allowed under SFAS No. 133 and therefore does not account for these contracts at fair value.

All derivative instruments designated as hedging instruments under SFAS No. 133 are classified as fair value, cash flow or net investment hedges. All derivatives (including those not designated as hedging instruments under SFAS No. 133) are recognized on the condensed consolidated balance sheet at fair value and classified based on the instruments' maturity dates. Changes in the fair value measurements of the effective portion of the derivative instruments designated as hedging instruments are reflected as adjustments to other comprehensive income, or OCI, with the remaining changes recorded through current earnings.

The Company seeks to manage and mitigate cash flow risk on its variable rate debt via receive variable/pay fixed interest rate swaps. Current outstanding interest rate swaps have fixed the Company's interest rate on an aggregate of \$275,000 of hedged debt at rates ranging from 4.01% to 4.98%. The Company elects to receive interest payments based on the 90-day adjusted LIBOR interest rate and has the intent and ability to continue to use this rate on its hedged borrowings. Accordingly, as allowed under Derivative Implementation Group Issue No. G7, "Cash Flow Hedges: Measuring the Ineffectiveness of a Cash Flow Hedge under Paragraph 30(b) When the Shortcut Method Is Not Applied," the Company does not recognize any ineffectiveness on the swaps. All of the Company's interest rate swaps expire in October 2011.

The fair value of these interest rate swaps are determined based on a forward yield curve and the contracted interest rates stated in the interest rate swap agreements. The fair value of the Company's interest rate swaps at July 18, 2009 and January 3, 2009, respectively, was an unrecognized loss of \$19,452 and \$21,979, which is reflected in Accumulated other comprehensive income (loss). Any amounts received or paid under these hedges are recorded in the statement of operations during the accounting period the interest on the hedged debt is paid. Based on the estimated current and future fair values of the hedge arrangements at July 18, 2009, the Company estimates amounts currently included in Accumulated other comprehensive income (loss) pertaining to the interest rate swaps that will be reclassified and recorded in the statement of earnings in the next 12 months will consist of a net loss of \$10,632.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the balance sheet as July 18, 2009:

		Liability Derivatives	
		As of July 18, 2009	
		Balance Sheet	
	Location	Fair Value	
Derivatives designated as hedging instruments under SFAS 133:			
Interest rate swaps	Accrued expenses	\$	10,632
Interest rate swaps	Other long-term liabilities		8,820
		\$	19,452



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The table below presents the effect of the Company's derivative financial instruments on the statement of operations for the twenty-eight weeks ended July 18, 2009:

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), net of tax	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives in SFAS 133 Cash Flow Hedging Relationships					

For the Twelve Weeks  
Ended July 18, 2009:

Interest rate swaps	\$ 605	Interest expense	\$ (605 )	Interest expense	\$ -
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For the Twenty-Eight  
Weeks Ended July 18, 2009:

Interest rate swaps	\$ 1,537	Interest expense	\$ (1,537 )	Interest expense	\$ -
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#### 8. Fair Value Measurements:

The Company adopted SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements. SFAS No. 157 defines fair value as the price that would be received from the sale of an asset, or paid to transfer a liability (an exit price), on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). In February 2008, the FASB deferred the effective date of SFAS No. 157 for one year for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). The Company adopted the required provisions of SFAS No. 157 related to derivatives as of December 30, 2007 and adopted the remaining required provisions for non-financial assets and liabilities as of January 4, 2009. The effect of adopting this standard was not significant in either period.

The Company's financial assets and liabilities measured at fair value are grouped in three levels. The levels prioritize the inputs used to measure the fair value of these assets or liabilities. These levels are:

- Level 1 – Unadjusted quoted prices that are available in active markets for identical assets or liabilities at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for assets and liabilities at the measurement date, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are less active, inputs other than quoted prices that are observable for the asset or liability or corroborated by other observable market data.
- Level 3 – Unobservable inputs for assets or liabilities that are not able to be corroborated by observable market data and reflect the use of a reporting entity's own assumptions. These values are



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generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following table sets forth our financial liabilities that were measured at fair value on a recurring basis during the twenty-eight week period ended July 18, 2009:

	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	
	Fair Value at July 18, 2009	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Interest rate swaps	\$ 19,452	\$ -	\$ 19,452	\$ -

The fair value of these interest rate swaps as of July 18, 2009, was an unrecognized loss of \$19,452. The fair value of the Company's interest rate swaps is mainly based on observable interest rate yield curves for similar instruments.

The carrying amount of the Company's cash and cash equivalents, accounts receivable, bank overdrafts, financed vendor accounts payable, accounts payable, accrued expenses and current portion of long term debt approximate their fair values due to the relatively short term nature of these instruments. As of July 18, 2009, the fair value of the Company's long-term debt with a carrying value of \$278,835, was approximately \$250,000, and was based on similar long-term debt issues available to the Company as of that date. The fair value of the Company's fixed rate debt was determined by using an assumed market interest rate commensurate with the Company's credit risk.

#### Non-Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At July 18, 2009, the Company had no significant non-financial assets or liabilities that had been adjusted to fair value subsequent to initial recognition. A majority of the Company's store assets that were subject to impairment in connection with its store divestiture plan had no remaining value and, as a result, were not subject to the fair value disclosure requirements.



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## 9. Long-term Debt:

Long-term debt consists of the following:

	July 18, 2009	January 3, 2009
Revolving facility at variable interest rates (1.38% and 4.81% at July 18, 2009 and January 3, 2009, respectively) due October 2011	\$ 75,000	\$ 251,500
Term loan at variable interest rates (1.64% and 3.02% at July 18, 2009 and January 3, 2009, respectively) due October 2011	200,000	200,000
Other	4,593	4,664
	279,593	456,164
Less: Current portion of long-term debt	(758 )	(1,003 )
Long-term debt, excluding current portion	\$ 278,835	\$ 455,161

## Bank Debt

The Company has a \$750,000 unsecured five-year revolving credit facility with the Company's wholly-owned subsidiary, Advance Stores Company, Incorporated, or Stores, serving as the borrower. The revolving credit facility also provides for the issuance of letters of credit with a sub limit of \$300,000, and swingline loans in an amount not to exceed \$50,000. The Company may request, subject to agreement by one or more lenders, that the total revolving commitment be increased by an amount not exceeding \$250,000 (up to a total commitment of \$1,000,000) during the term of the credit agreement. Voluntary prepayments and voluntary reductions of the revolving balance are permitted in whole or in part, at the Company's option, in minimum principal amounts as specified in the revolving credit facility. The revolving credit facility terminates on October 5, 2011.

As of July 18, 2009, the Company had \$75,000 outstanding under its revolving credit facility, and letters of credit outstanding of \$103,797, which reduced the availability under the revolving credit facility to \$571,203. (The letters of credit generally have a term of one year or less.) A commitment fee is charged on the unused portion of the revolver, payable in arrears. The current commitment fee rate is 0.150% per annum.

In addition to the revolving credit facility, the Company has borrowed \$200,000 under its unsecured four-year term loan as of July 18, 2009. The Company entered into the term loan with Stores serving as borrower. The proceeds from the term loan were used to repurchase shares of the Company's common stock under its stock repurchase program during fiscal 2008. The term loan terminates on October 5, 2011.

The interest rate on borrowings under the revolving credit facility is based, at the Company's option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 0.75% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. The Company has elected to use the 90-day adjusted LIBOR rate and has the ability and intent to continue to use this rate on its hedged borrowings. Under the terms of the revolving credit facility, the interest rate and commitment fee are based on the Company's credit rating.

The interest rate on the term loan is based, at the Company's option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 1.0% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. The Company has elected to use the 90-day adjusted

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LIBOR rate and has the ability and intent to continue to use this rate on its hedged borrowings. Under the terms of the term loan, the interest rate is based on the Company's credit rating.

## Other

As of July 18, 2009, the Company had \$4,593 outstanding under an economic development note and other financing arrangements.

## Guarantees and Covenants

The term loan and revolving credit facility are fully and unconditionally guaranteed by Advance Auto Parts, Inc. The Company's debt agreements collectively contain covenants restricting its ability to, among other things: (1) create, incur or assume additional debt (including hedging arrangements), (2) incur liens or engage in sale-leaseback transactions, (3) make loans and investments, (4) guarantee obligations, (5) engage in certain mergers, acquisitions and asset sales, (6) change the nature of the Company's business and the business conducted by its subsidiaries and (7) change the Company's status as a holding company. The Company is also required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. The Company was in compliance with these covenants at July 18, 2009 and January 3, 2009. The Company's term loan and revolving credit facility also provide for customary events of default, covenant defaults and cross-defaults to its other material indebtedness.

## 10. Warranty Liabilities:

The following table presents changes in the Company's warranty reserves:

	July 18, 2009 (28 weeks ended)	January 3, 2009 (53 weeks ended)
Warranty reserve, beginning of period	\$ 28,662	\$ 17,757
Additions to warranty reserves	17,844	38,459
Reserves utilized	(16,093 )	(27,554 )
Warranty reserve, end of period	\$ 30,413	\$ 28,662

## 11. Stock Repurchase Program:

During the twelve weeks ended July 18, 2009, the Company repurchased 345 shares of common stock at an aggregate cost of \$14,369, or an average price of \$41.71 per share. No shares were repurchased during the first quarter of fiscal 2009. These shares were repurchased in accordance with the Company's \$250,000 stock repurchase program authorized by its Board of Directors in the second quarter of fiscal 2008.

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During the twelve weeks ended July 12, 2008, the Company repurchased 201 shares of common stock at an aggregate cost of \$7,498, or an average price of \$37.22 per share. As of July 12, 2008, 92 shares remained unsettled at an aggregate cost of \$3,377. During the twenty-eight weeks ended July 12, 2008, the Company repurchased 4,765 shares of common stock at an aggregate cost of \$162,847, or an aggregate price of \$34.18 per share, of which 4,564 shares of common stock were repurchased under the previous \$500,000 stock repurchase program. Additionally, the Company settled \$2,959 on shares repurchased prior to the end of fiscal 2007.

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As of July 18, 2009, the Company has \$174,552 remaining under its \$250,000 stock repurchase program, excluding related expenses.

## 12. Earnings per Share:

Certain of the Company's shares granted to employees in the form of restricted stock are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the twelve week periods ended July 18, 2009 and July 12, 2008, earnings of \$407 and \$299, respectively, were allocated to the participating securities. For the twenty-eight week periods ended July 18, 2009 and July 12, 2008, earnings of \$905 and \$518, respectively, were allocated to the participating securities.

Diluted earnings per share of common stock reflects the weighted-average number of shares of common stock outstanding, outstanding deferred stock units and the impact of outstanding stock options, and stock appreciation rights (collectively "share-based awards"). Diluted earnings per share are calculated by including the effect of dilutive securities. Share-based awards to purchase approximately 52 and 2,674 shares of common stock that had an exercise price in excess of the average market price of the common stock during the twelve week periods ended July 18, 2009 and July 12, 2008, respectively, were not included in the calculation of diluted earnings per share because they are anti-dilutive. Share-based awards to purchase approximately 1,539 and 2,870 shares of common stock that had an exercise price in excess of the average market price of the common stock during the twenty-eight week periods ended July 18, 2009 and July 12, 2008, respectively, were not included in the calculation of diluted earnings per share because they are anti-dilutive.

The following table illustrates the computation of basic and diluted earnings per share for the twelve and twenty-eight week periods ended July 18, 2009 and July 12, 2008, respectively:

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 18, 2009	July 12, 2008	July 18, 2009	July 12, 2008
Numerator				
Net income applicable to common shares	\$ 80,330	\$ 75,386	\$ 173,915	\$ 157,472
Participating securities' share in earnings	(407 )	(299 )	(905 )	(518 )
Net income applicable to common shares	79,923	75,087	173,010	156,954
Denominator				
Basic weighted average common shares	94,868	95,008	94,642	94,996
Dilutive impact of share based awards	877	655	605	634
Diluted weighted average common shares	95,745	95,663	95,247	95,630

## Basic earnings per common share

Net income applicable to common stockholders	\$ 0.84	\$ 0.79	\$ 1.83	\$ 1.65
----------------------------------------------	---------	---------	---------	---------

## Diluted earnings per common share

Net income applicable to common stockholders	\$ 0.83	\$ 0.78	\$ 1.82	\$ 1.64
----------------------------------------------	---------	---------	---------	---------

Earnings per share for the twelve weeks and twenty-eight weeks ended July 12, 2008 were adjusted retrospectively due to the applying the two-class method rather than the treasury method for the earnings per share calculation resulting from the adoption of FSP EITF 03-6-1 during the first quarter. As a result, diluted earnings per share were decreased by \$0.01 for both the twelve and twenty-eight week periods July 12, 2008.



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## 13. Postretirement Plan:

The Company provides certain health and life insurance benefits for eligible retired Team Members through a postretirement plan, or Plan. These benefits are subject to deductibles, co-payment provisions and other limitations. The Plan has no assets and is funded on a cash basis as benefits are paid. The Company's postretirement liability is calculated annually by a third-party actuary. The discount rate utilized at January 3, 2009 was 6.25%, and remained unchanged through the twenty-eight weeks ended July 18, 2009. The Company expects fiscal 2009 plan contributions to completely offset benefits paid, consistent with fiscal 2008.

The Company's net periodic postretirement benefit cost includes the amortization of a reduction in unrecognized prior service costs as a result of a plan amendment in fiscal 2004. The components of net periodic postretirement benefit cost for the twelve and twenty-eight weeks ended July 18, 2009, and July 12, 2008, respectively, are as follows:

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 18, 2009	July 12, 2008	July 18, 2009	July 12, 2008
Interest cost	\$ 105	\$ 115	\$ 245	\$ 268
Amortization of negative prior service cost	(134 )	(134 )	(313 )	(313 )
Amortization of unrecognized net gain	(22 )	(3 )	(51 )	(7 )
Net periodic postretirement benefit cost	\$ (51 )	\$ (22 )	\$ (119 )	\$ (52 )

## 14. Comprehensive Income:

The Company includes in comprehensive income the changes in fair value of the Company's interest rate swaps and changes in net unrecognized other postretirement benefit costs.

Comprehensive income for the twelve and twenty-eight weeks ended July 18, 2009 and July 12, 2008 is as follows:

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 18, 2009	July 12, 2008	July 18, 2009	July 12, 2008
Net income	\$ 80,330	\$ 75,386	\$ 173,915	\$ 157,472
Unrealized gain (loss) on hedge arrangements, net of tax	605	2,430	1,537	(541 )
Changes in net unrecognized other postretirement benefit cost, net of tax	(95 )	(84 )	(222 )	(195 )
Comprehensive income	\$ 80,840	\$ 77,732	\$ 175,230	\$ 156,736



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## 15. Segment and Related Information:

The Company has the following two reportable segments: Advance Auto Parts, or AAP, and Autopart International, or AI. The AAP segment is comprised of store operations within the United States, Puerto Rico and the Virgin Islands which operate under the trade names “Advance Auto Parts,” “Advance Discount Auto Parts” and “Western Auto.” These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks.

The AI segment consists solely of the operations of Autopart International, which operates as an independent, wholly-owned subsidiary. AI’s business serves the growing commercial market in addition to warehouse distributors and jobbers located throughout the Northeastern region of the United States.

The Company evaluates each of its segment’s financial performance-based on net sales and operating profit for purposes of allocating resources and assessing performance. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 1.

The following table summarizes financial information for each of the Company’s business segments for the twelve and twenty-eight weeks ended July 18, 2009 and July 12, 2008, respectively.

	Twelve Week Periods Ended		Twenty-Eight Week Periods Ended	
	July 18, 2009	July 12, 2008	July 18, 2009	July 12, 2008
<b>Net sales</b>				
AAP	\$ 1,274,051	\$ 1,195,016	\$ 2,901,869	\$ 2,676,068
AI	50,784	40,767	108,597	85,847
Eliminations (1)	(1,991 )	-	(3,986 )	-
Total net sales	\$ 1,322,844	\$ 1,235,783	\$ 3,006,480	\$ 2,761,915
<b>Income before provision for income taxes</b>				
AAP	\$ 126,066	\$ 118,278	\$ 274,574	\$ 250,524
AI	3,479	2,339	4,838	2,074
Total income before provision for income taxes	\$ 129,545	\$ 120,617	\$ 279,412	\$ 252,598
<b>Provision for income taxes</b>				
AAP	\$ 47,880	\$ 44,270	\$ 103,650	\$ 94,278
AI	1,335	961	1,847	848
Total provision for income taxes	\$ 49,215	\$ 45,231	\$ 105,497	\$ 95,126
<b>Segment assets</b>				

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AAP	\$ 2,868,005	\$ 2,816,317	\$ 2,868,005	\$ 2,816,317
AI	176,966	157,663	176,966	157,663
Total segment assets	\$ 3,044,971	\$ 2,973,980	\$ 3,044,971	\$ 2,973,980

(1) For the twelve weeks ended July 18, 2009, eliminations represent net sales of \$902 from AAP to AI and \$1,089 from AI to AAP. For the twenty-eight weeks ended July 18, 2009, eliminations represent net sales of \$1,762 from AAP to AI and \$2,224 from AI to AAP.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes to those statements that appear elsewhere in this report. Our first quarter consists of 16 weeks divided into four equal periods. Our remaining three quarters consist of 12 weeks with each quarter divided into three equal periods. Fiscal 2008 was an exception to this rule with the fourth quarter containing 13 weeks due to our 53-week fiscal year.

Certain statements in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are usually identified by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "position," "possible," "potential," "probable," "project," "projection," "should," "strategy," "will," or similar expressions. We intend for any forward-looking statements to be covered by, and we claim the protection under, the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are based upon assessments and assumptions of management in light of historical results and trends, current conditions and potential future developments that often involve judgment, estimates, assumptions and projections. Forward-looking statements reflect current views about our plans, strategies and prospects, which are based on information currently available.

Although we believe that our plans, intentions and expectations as reflected in or suggested by any forward-looking statements are reasonable, we do not guarantee or give assurance that such plans, intentions or expectations will be achieved. Actual results may differ materially from our anticipated results described or implied in our forward-looking statements, and such differences may be due to a variety of factors. Our business could also be affected by additional factors that are presently unknown to us or that we currently believe to be immaterial to our business.

Listed below and discussed in our Annual Report on Form 10-K for the year ended January 3, 2009 (filed with the SEC on March 4, 2009), or 2008 Form 10-K, are some important risks, uncertainties and contingencies which could cause our actual results, performance or achievements to be materially different from any forward-looking statements made or implied in this report. These include, but are not limited to, the following:

- a decrease in demand for our products;
- deterioration in general economic conditions, including unemployment, inflation, consumer debt levels, energy costs and unavailability of credit leading to reduced consumer spending on discretionary items;
  - our ability to develop and implement business strategies and achieve desired goals;
- our ability to expand our business, including locating available and suitable real estate for new store locations and the integration of any acquired businesses;
  - competitive pricing and other competitive pressures;
- our overall credit rating, which impacts our debt interest rate and our ability to borrow additional funds to finance our operations;
- deteriorating and uncertain credit markets could negatively impact our merchandise vendors, as well as our ability to secure additional capital at favorable (or at least feasible) terms in the future;
- bankruptcies of auto manufacturers, which will likely have an impact on the operations and cash flows of our auto parts suppliers;
  - our relationships with our vendors;
- our ability to attract and retain qualified Team Members;

- the occurrence of natural disasters and/or extended periods of unfavorable weather;
- our ability to obtain affordable insurance against the financial impacts of natural disasters and other losses;

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- high fuel costs, which impacts our cost to operate and the consumer's ability to shop in our stores;
- regulatory and legal risks, such as environmental or OSHA risks, including being named as a defendant in administrative investigations or litigation, and the incurrence of legal fees and costs, the payment of fines or the payment of sums to settle litigation cases or administrative investigations or proceedings;
  - adherence to the restrictions and covenants imposed under our revolving and term loan facilities; and
    - acts of terrorism.

We assume no obligations to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our other reports and documents filed with the Securities and Exchange Commission, or SEC, and you should not place undue reliance on those statements.

## Introduction

We primarily operate within the United States automotive aftermarket industry, which includes replacement parts (excluding tires), accessories, maintenance items, batteries and automotive chemicals for cars and light trucks (pickup trucks, vans, minivans and sport utility vehicles). We currently are the second largest specialty retailer of automotive parts, accessories and maintenance items to "do-it-yourself," or DIY, and Commercial customers in the United States, based on sales. Our Commercial customers consist of both walk-in and delivery customers. For delivery sales, we utilize our Commercial delivery fleet to deliver product from our store locations to our Commercial customers' place of business, including independent garages, service stations and auto dealers. At July 18, 2009, we operated a total of 3,407 stores.

We operate in two reportable segments: Advance Auto Parts, or AAP, and Autopart International, Inc., or AI. The AAP segment is comprised of our store operations within the United States, Puerto Rico and the Virgin Islands which operate under the trade names "Advance Auto Parts," "Advance Discount Auto Parts" and "Western Auto." At July 18, 2009, we operated 3,265 stores in the AAP segment, of which 3,237 stores operated under the trade names "Advance Auto Parts" and "Advance Discount Auto Parts" throughout 39 states in the Northeastern, Southeastern and Midwestern regions of the United States. These stores offer automotive replacement parts, accessories and maintenance items. In addition, we operated 28 stores under the "Western Auto" and "Advance Auto Parts" trade names, located in Puerto Rico and the Virgin Islands.

The AI segment consists solely of the operations of AI, which operates as an independent, wholly-owned subsidiary. AI's business primarily serves the Commercial market from its store locations. In addition, its North American Sales Division services warehouse distributors and jobbers throughout North America. At July 18, 2009, we operated 142 stores in the AI segment under the "Autopart International" trade name. For additional information regarding our segments, see Note 15, Segments and Related Information, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

## Management Overview

During our second quarter and year-to-date for fiscal 2009, we produced favorable financial results primarily due to top-line sales growth and strong gross profit improvement resulting in earnings per diluted share of \$0.83 and \$1.82, respectively, compared to \$0.78 and \$1.64 for the second quarter and year-to-date 2008, respectively. Our earnings per diluted share for 2009 included the impact of a \$0.06 and \$0.10 charge related to expenses associated with our store divestiture plan for the second quarter and year-to-date, respectively. We also continued to make strategic investments in our four key strategies and paid down a significant portion of our bank debt.

## Change in Accounting Principle

We have retrospectively adjusted all comparable periods related to cost of sales and selling, general and administrative expenses, or SG&A, as a result of a change in accounting principle effective January 4, 2009. We changed our accounting for freight and other handling costs associated with transferring merchandise from certain of



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our larger stores which stock a wider selection and greater supply of inventory, or HUB stores, and Parts Delivered Quickly warehouses, or PDQs, to our retail stores from recording such costs as SG&A to recording such costs in cost of sales. This change, which had no impact to operating income or cash flows, more accurately reflects the nature of the expense.

We have retrospectively adjusted all comparable periods related to cost of sales and SG&A as a result of the change in accounting principle for freight and other handling costs. The net adjustment increasing cost of sales and decreasing SG&A for the twelve and twenty-eight weeks ended July 12, 2008 was \$14.6 million and \$33.2 million, respectively. For additional information regarding this change, see Note 2, Change in Accounting Principle, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

## Second Quarter Highlights

Highlights from our second quarter fiscal 2009 include:

### Financial

- Total sales during the second quarter increased 7% to \$1.32 billion as compared to the second quarter of fiscal 2008, primarily driven by a comparable store sales increase of 4.8%.
  - Our gross profit rate increased 189 basis points as compared to the second quarter of fiscal 2008.
- Our SG&A rate increased 206 basis points as compared to the second quarter of fiscal 2008 inclusive of 70 basis points of store divestiture expenses. We believe this increase can be directly linked to the strong sales and gross profit results through targeted investments we are making to support the initiatives within each of our four strategies.
- We generated operating cash flow of \$433.8 million through the second quarter, an increase of 24% over the comparable period in fiscal 2008, and used available operating cash to pay down \$176.5 million of outstanding debt on our revolving credit facility and repurchase 345 shares of our common stock at a cost of \$14.4 million.
- We opened 23 stores and closed 21 stores, 20 of which were closed under our store divestiture plan. For fiscal 2009, we currently expect to divest a total of approximately 40 to 55 stores that are strategically or financially delivering unacceptable results. These closures are in addition to an estimated 15 stores that we will close as part of our routine review and closure of underperforming stores at or near the end of their respective lease terms. During the twelve weeks ended July 18, 2009, we recognized expense of \$9.3 million comprised primarily of closed store exit costs in connection with the divestiture plan. Currently, we anticipate recognizing expenses of approximately \$0.15 to \$0.22 per diluted share for the entire year in connection with the closure of stores under the store divestiture plan. The majority of this expense is related to the estimated remaining lease obligations at the time of the anticipated closures.

### General

- After another successful quarter and near completion of our turnaround plan we are now working on the continued transformation of our Company to drive long-term profitable growth. Our turnaround plan consisted of the establishment of our four key strategies – Commercial Acceleration, DIY Transformation, Availability Excellence and Superior Experience; restoring focus on Company values; recruiting a world class leadership team; establishing goals aligned with the strategic vision of the Company; and building positive momentum.

- We made progress in many key initiatives during the quarter including the introduction of the Implementation Factory (a training and coaching program developed under our Superior Experience

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strategy), staffing of our global sourcing office located in Taiwan and ongoing development of our e-Commerce website that we plan to launch later this year.

- We received improved outlooks from both Moody's and S&P in July 2009 which moves us closer to achieving our goal of becoming investment grade in 2010.

### Update on Key Strategies

We continue to make significant investments in each of our key strategies with the ultimate focus on the customer and growth in our business. Although we believe our business is likely benefiting from the current economic crisis to some degree, we believe we are also experiencing improved results from the investments we have made over the last year. Updates from each of our four key strategies are provided below.

#### Ø Commercial Acceleration

Our Commercial comparable store sales increase was 14.8% during the second quarter, our sixth consecutive quarter of double-digit comparable store sales growth. Our Commercial sales, as a percentage of total sales, increased 279 basis points to 31.7% for the second quarter of fiscal 2009 as compared to the second quarter of the prior year. We believe our consistent growth in Commercial sales and market share is being driven in part by the investments we have made over the last year and continue to make under our Commercial Acceleration strategy. Specifically, our Commercial business has benefitted from the added parts and introduction of key brands, more parts professionals and an increase in delivery trucks and drivers. We continue to build a sales force with a focus on driving sales, including account managers who can reach Commercial opportunities through either acquiring new Commercial customers or increasing our share of existing customers' purchases.

#### Ø DIY Transformation

Our second quarter DIY comparable store sales increase of 0.7% marks our second consecutive positive increase and only our second positive increase over the last three years. It appears that our industry has realized improved DIY results during the first half of 2009 from increased customer traffic as consumers are saving money by maintaining their existing vehicles rather than replacing them. Industry data reported by The NPD Group indicates we maintained market share for the first half of 2009 although the market grew slightly faster than we did during the second quarter reminding us that we still have a lot work to do to achieve our goal of solid and consistent comparable sales increases every quarter.

We have initiatives underway to address both our conversion rate of existing customers as well as the consideration rate of potential customers. Conversion rate initiatives include the installation of traffic counters and updated phone systems to provide valuable information about the customer experience, targeting certain stores with specific research and development efforts to better solve our customers' problems and better leverage of the parts availability and merchandising improvements we are making in our stores. Regarding consideration rate, we are exploring changes and refinements to our marketing plan, including a more localized approach in relation to local market share, customer base and competition.

Our ability to achieve successful results in our Commercial Acceleration and DIY Transformation strategies is also dependent on our Availability Excellence and Superior Experience strategies.

#### Ø Availability Excellence

Our Availability Excellence strategy represents our commitment to enhance the breadth and depth of our parts availability in our stores, and the speed of our parts delivery, to better serve both our Commercial and DIY customers. In addition to our positive sales results, we believe our ongoing investments and initiatives under this strategy are driving our strong gross profit results. Our gross margin for the second quarter increased 189 basis points over the second quarter of last year. During the second quarter, we made significant progress in capabilities to help drive our sales and gross profit growth, including the addition of two PDQ's and 24 HUB stores to our supply

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chain network, the continued roll-out of a price optimization process and addition of our new custom mix capability for completing more product upgrades and re-assortments. Finally, we made progress in staffing our Asia sourcing operation during the second quarter and anticipate receiving orders during the third quarter. We expect this direct importing program will provide for gross margin improvement and allow us to more quickly source products that our customers want and need.

During the second quarter, we disposed of approximately \$20 million of the \$37.5 million of inventory identified and reserved in fiscal 2008 in connection with our change in inventory management approach for slow moving inventory. On a year-to-date basis, we have disposed of approximately \$26 million of inventory. All of this product will be disposed by the end of fiscal 2009. This change was intended to increase our inventory productivity by reducing the amount of slow moving inventory and utilizing vendor return privileges earlier in the life-cycle of our inventory which will allow us to add faster moving custom mix inventory.

We continue to manage our inventory productivity by removing unproductive inventory from our store assortments through utilizing markdown strategies and our vendor return privileges. We expect to manage more effectively the growth in our inventory as compared to our sales growth. As of July 18, 2009, our inventory decreased 3.0% over the ending balance from second quarter of last year as compared to our sales growth of 7.0% during the second quarter of this year. Excluding the impact of the \$37.5 million inventory write-down, our inventory decreased 0.8% over the ending balance from second quarter of last year.

Ø Superior Experience

Superior Experience is centered around our store operations and providing superior customer service. The feedback from our customer satisfaction surveys, coupled with our Team Member engagement surveys, provide the evidence of our continued focus and commitment to understand what our customers need and how to engage our team to fulfill that goal. More recently, we have launched the Implementation Factory, which will establish a new standard of excellence by providing our store Team Members training and coaching for strategic initiatives that have a broad impact over our entire store base. The Implementation Factory is led by a dedicated team of operations leaders to improve the speed, consistency and reduce the variability of initiatives we implement. Initiatives already rolled out include new battery warranty procedures, more disciplined commercial pricing and improved shrink controls.

Industry

Challenging macroeconomic conditions continue with the unemployment rate at a 26-year high and consumer confidence still at near all-time lows. However, recent financial results from the leading companies in the automotive aftermarket industry suggest that the entire industry is benefiting from the economic downturn because consumers are keeping their vehicles longer, which in turn increases the average age of vehicles and the need to repair and complete routine maintenance on those vehicles. Additionally, total miles driven have recently started to increase likely due to lower gas prices.

We are pleased with financial results for the first two quarters of fiscal 2009, but we recognize that we are still in the investment stage of our transformation to become the industry leader. We are committed to making the necessary investments to help ensure our long-term profitability and success.

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## Consolidated Operating Results and Key Statistics and Metrics

The following table highlights certain consolidated operating results and key statistics and metrics for the twelve and twenty-eight weeks ended July 18, 2009 and July 12, 2008, respectively, and fiscal years ended January 3, 2009 and December 29, 2007. We will use these key statistics and metrics to measure the financial progress of our four key strategies.

	Twelve Weeks Ended		Twenty-Eight Weeks Ended			
	July 18, 2009	July 12, 2008	July 18, 2009	July 12, 2008	FY 2008 (1)	FY 2007
<b>Operating Results:</b>						
Total net sales (in 000s)	\$ 1,322,844	\$ 1,235,783	\$ 3,006,480	\$ 2,761,915	\$ 5,142,255	\$ 4,844,404
Total commercial net sales (in 000s)	\$ 419,609	\$ 357,495	\$ 949,026	\$ 796,167	\$ 1,515,371	\$ 1,290,602
Comparable store net sales growth (2)	4.8%	2.9%	6.7%	1.6%	1.5%	0.7%
DIY comparable store net sales growth (2)	0.7%	(0.8%)	2.7%	(2.0%)	(2.3%)	(1.1%)
Commercial comparable store net sales growth (2)	14.8%	13.5%	16.3%	11.9%	12.1%	6.2%
Gross profit (3)(4)	49.3%	47.4%	49.0%	47.5%	46.7%	46.6%
SG&A (3)	39.1%	37.1%	39.3%	37.6%	38.6%	38.0%
Operating profit (5)	10.2%	10.4%	9.7%	9.9%	8.1%	8.6%
Diluted earnings per share (6)	\$ 0.83	\$ 0.78	\$ 1.82	\$ 1.64	\$ 2.49	\$ 2.28
<b>Key Statistics and Metrics:</b>						
Number of stores, end of period	3,407	3,325	3,407	3,325	3,368	3,261
Total store square footage, end of period (in 000s)	24,920	24,431	24,920	24,431	24,711	23,982
Total Team Members, end of period	49,427	47,050	49,427	47,050	47,582	44,141
Average net sales per square foot (7)(8)	\$ 215	\$ 207	\$ 215	\$ 207	\$ 211	\$ 207
Operating income per Team Member (in 000s) (7)(9)	\$ 9.02	\$ 9.42	\$ 9.02	\$ 9.42	\$ 9.02	\$ 9.40
SG&A expenses per store (in 000s) (3)(7)(10)	\$ 632	\$ 582	\$ 632	\$ 582	\$ 599	\$ 581
Gross margin return on inventory (3)(7)(11)	\$ 3.86	\$ 3.54	\$ 3.86	\$ 3.54	\$ 3.47	\$ 3.29

(1) Our fiscal year 2008 included 53 weeks.

(2) Comparable store sales is calculated based on the change in net sales starting once a store has been open for 13 complete accounting periods (each period represents four weeks). Relocations are included in comparable store

sales from the original date of opening. Fiscal 2008 comparable store sales exclude sales from the 53rd week.

- (3) Effective first quarter 2009, the Company implemented a change in accounting principle for costs included in inventory. Accordingly, the Company has retrospectively applied the change in accounting principle to all prior periods presented herein related to cost of sales and SG&A.
- (4) Excluding the gross profit impact of the 53rd week of fiscal 2008 of approximately \$44.1 million and a \$37.5 million non-cash obsolete inventory write-down in the fourth quarter of fiscal 2008, gross profit was 47.3% for fiscal year 2008.
- (5) Excluding the operating income impact of the 53rd week of fiscal 2008 of approximately \$15.8 million and a \$37.5 million non-cash obsolete inventory write-down in the fourth quarter of fiscal 2008, operating profit was 8.6% for fiscal year 2008.
- (6) Excluding the net income impact of the 53rd week of fiscal 2008 of approximately \$9.6 million and a \$23.7 million non-cash obsolete inventory write-down in the fourth quarter of fiscal 2008, diluted earnings per share was \$2.64 for fiscal year 2008. Our diluted earnings per share reported for the twelve and twenty-eight week periods ended July 12, 2008 and FY 2008 have been reduced by \$0.01 as a result of the adoption of FSP EITF 03-6-1. Refer to Footnote 12 of our condensed consolidated financial statements for further discussion of this adoption.
- (7) These financial metrics presented for each quarter are calculated on an annual basis and accordingly reflect the last four fiscal quarters completed.
- (8) Average net sales per square foot is calculated as net sales divided by the average of the beginning and ending total store square footage for the respective period. Excluding the net sales impact of the 53rd week of fiscal 2008 of approximately \$89.0 million, average net sales per square foot in the second quarter of fiscal 2009 and fourth quarter and fiscal year of 2008 were \$215 and \$208, respectively.

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- (9) Operating income per Team Member is calculated as operating income divided by an average of beginning and ending number of team members. Operating income per team member in the second quarter of fiscal 2009 was \$9.78 excluding the impact of store divestitures for the twenty-eight week period ended July 18, 2009 of approximately \$15.1 million, impact of the 53rd week of fiscal 2008 and inventory write-down in fiscal 2008. Operating income per Team Member for fiscal year of 2008 was \$9.49 excluding the impact of the 53rd week of fiscal 2008 and inventory write-down in fiscal 2008.
- (10) SG&A per store is calculated as total SG&A divided by the average of beginning and ending store count. SG&A expenses per store in second quarter fiscal 2009 were \$620 excluding the impact of store divestitures for the twenty-eight week period ended July 18, 2009 of approximately \$15.1 million and impact of the 53rd week of fiscal 2008 of approximately \$28.4 million. SG&A expenses per store for fiscal year 2008 were \$590 excluding the impact of the 53rd week of fiscal 2008 of approximately \$28.4 million.
- (11) Gross margin return on inventory is calculated as gross profit divided by an average of beginning and ending inventory, net of accounts payable and financed vendor accounts payable. Excluding the impact of the 53rd week of fiscal 2008 and inventory write-down in the fourth quarter of fiscal 2008, gross margin return on inventory in second quarter fiscal 2009 and fiscal year 2008 was \$3.74 and \$3.37, respectively.

## Store Development by Segment

## UAAP Segment

At July 18, 2009, we operated 3,265 AAP stores within the United States, Puerto Rico and the Virgin Islands. We operated 3,237 stores throughout 39 states in the Northeastern, Southeastern and Midwestern regions of the United States. These stores operated under the “Advance Auto Parts” trade name except for certain stores in the state of Florida, which operated under the “Advance Discount Auto Parts” trade name. These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks. In addition, we operated 28 stores under the “Western Auto” and “Advance Auto Parts” trade names, located in Puerto Rico and the Virgin Islands.

The following table sets forth information about our AAP stores during the twelve and twenty-eight weeks ended July 18, 2009, including the number of new, closed and relocated stores and stores with Commercial programs that deliver products to our Commercial customers’ place of business. We lease approximately 81% of our AAP stores.

	Twelve Weeks Ended July 18, 2009	Twenty-Eight Weeks Ended July 18, 2009
Number of stores, beginning of period	3,270	3,243
New stores	16	51
Closed stores	(21 )	(29 )
Number of stores, end of period	3,265	3,265
Relocated stores	-	2
Stores with commercial programs	2,842	2,842

## AI Segment

At July 18, 2009, we operated 142 AI stores primarily in the Northeastern region of the United States under the “Autopart International” trade name. These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks, with a greater focus on imported parts. AI primarily serves the commercial market from its retail locations and additionally through



a wholesale distribution network.

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The following table sets forth information about our AI stores, including the number of new and closed stores, during the twelve and twenty-eight weeks ended July 18, 2009. We lease 100% of our AI stores.

	Twelve Weeks Ended July 18, 2009	Twenty-Eight Weeks Ended July 18, 2009
Number of stores, beginning of period	135	125
New stores	7	18
Closed stores	-	(1 )
Number of stores, end of period	142	142
Relocated stores	3	4
Stores with commercial programs	142	142

As previously disclosed in our 2008 Form 10-K, we anticipate that we will add a total of approximately 75 AAP and 30 AI stores during fiscal 2009 primarily through new store openings.

## Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Our discussion and analysis of the financial condition and results of operations are based on these financial statements. The preparation of these financial statements requires the application of accounting policies in addition to certain estimates and judgments by our management. Our estimates and judgments are based on currently available information, historical results and other assumptions we believe are reasonable. Actual results could differ materially from these estimates. During the twelve and twenty-eight weeks ended July 18, 2009, we consistently applied the critical accounting policies discussed in our 2008 Form 10-K. For a complete discussion regarding these critical accounting policies, refer to the 2008 Form 10-K.

## Components of Statement of Operations

## Net Sales

Net sales consist primarily of merchandise sales from our retail store locations to both our DIY and Commercial customers. Our total sales growth is comprised of both comparable store sales and new store sales. We calculate comparable store sales based on the change in store sales starting once a store has been opened for 13 complete accounting periods (approximately one year). We include sales from relocated stores in comparable store sales from the original date of opening. The comparable periods have been adjusted accordingly. Fiscal 2008 comparable store sales exclude the effect of the 53rd week.

## Cost of Sales

Our cost of sales consists of merchandise costs, net of incentives under vendor programs; inventory shrinkage, defective merchandise and warranty costs; and warehouse and distribution expenses. Gross profit as a percentage of net sales may be affected by (i) variations in our product mix, (ii) price changes in response to competitive factors and fluctuations in merchandise costs, (iii) vendor programs, (iv) inventory shrinkage, (v) defective merchandise and warranty costs and (v) warehouse and distribution costs. We seek to minimize fluctuations in merchandise costs and instability of supply by entering into long-term purchasing agreements, without minimum purchase volume requirements, when we believe it is advantageous. Our gross profit may not be comparable to those of our competitors due to differences in industry practice regarding the classification of certain costs.

See Note 1 to our condensed consolidated financial statements elsewhere in this report for additional discussion of these costs and Note 2 for additional discussion of a change in accounting principle for freight and other handling costs associated with transferring merchandise from HUB stores and PDQs to our retail stores from recording such costs as SG&A to recording such costs in cost of sales.

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## 0BSelling, General and Administrative Expenses

SG&A consists of store payroll, store occupancy (including rent and depreciation), advertising expenses, Commercial delivery expenses, other store expenses and general and administrative expenses, including salaries and related benefits of store support center Team Members, share-based compensation expense, store support center administrative office expenses, data processing, professional expenses, self-insurance costs and other related expenses. See Note 1 to our consolidated financial statements for additional discussion of these costs and Note 2 for additional discussion of a change in accounting principle.

## 1BResults of Operations

The following table sets forth certain of our operating data expressed as a percentage of net sales for the periods indicated.

	Twelve Week Periods Ended (unaudited)		Twenty-Eight Week Periods Ended (unaudited)	
	July 18, 2009	July 12, 2008	July 18, 2009	July 12, 2008
Net sales	100.0	100.0	100.0	100.0
Cost of sales, including purchasing and warehousing costs	50.7	52.6	51.0	52.5
Gross profit	49.3	47.4	49.0	47.5
Selling, general and administrative expenses	39.1	37.1	39.3	37.6
Operating income	10.2	10.4	9.7	9.9
Interest expense	(0.4 )	(0.6 )	(0.4 )	(0.7 )
Other (loss) income, net	0.0	(0.0 )	0.0	(0.0 )
Provision for income taxes	3.7	3.7	3.5	3.4
Net income	6.1 %	6.1 %	5.8 %	5.7 %

## Twelve Weeks Ended July 18, 2009 Compared to Twelve Weeks Ended July 12, 2008

Net sales for the twelve weeks ended July 18, 2009 were \$1,322.8 million, an increase of \$87.1 million, or 7.0%, as compared to net sales for the twelve weeks ended July 12, 2008. The net sales increase was due to an increase in comparable store sales of 4.8% and sales from the 82 net new AAP and AI stores opened during the last four quarters.

AAP produced net sales of \$1,274.1 million, an increase of \$79.0 million, or 6.6%, as compared to net sales for the twelve weeks ended July 12, 2008. AAP's net sales increase was primarily driven by a 4.5% comparable store sales increase and sales from the 62 net new stores opened during the last four quarters. The AAP comparable store sales increase was driven by an increase in average ticket sales and overall customer traffic. AI produced net sales of \$50.8 million, an increase of \$10.0 million, or 24.6% as compared to net sales for the twelve weeks ended July 12, 2008. AI's sales increase was primarily driven by a 12.4% comparable store sales increase and sales from 20 net new stores opened during the last four quarters.

Gross profit for the twelve weeks ended July 18, 2009 was \$652.7 million, or 49.3% of net sales, as compared to \$586.3 million, or 47.4% of net sales, for the twelve weeks ended July 12, 2008, or an increase of 189 basis points. The increase in gross profit as a percentage of net sales was primarily due to continued investments in pricing capabilities, merchandising capabilities and parts availability, decreased inventory shrink and better store execution

resulting from the impact of previous changes to better align Team Member incentives. These new capabilities are allowing us to be more targeted, with respect to our Commercial and DIY pricing strategies, and better positioned from a cost standpoint.

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SG&A increased to \$517.9 million, or 39.1% of net sales, for the twelve weeks ended July 18, 2009, from \$458.3 million, or 37.1% of net sales, for the twelve weeks ended July 12, 2008, or an increase of 206 basis points. The increase in SG&A as a percentage of sales was primarily due to:

- higher incentive compensation driven by a structural change we made to our incentive program for 2009 which is now based on growth rather than a fixed budget as well as a higher amount of fixed Commercial labor;
- store divestiture expenses associated with our store divestiture plan, primarily including closed store exit costs; and
- continued strategic capability investments, some of which we believe are beginning to drive favorable results such as improvement in our gross profit rate and growth in Commercial and DIY sales, although some of the expected benefits will be realized longer term.

These increases were partially offset by lower advertising expenses and occupancy expense leverage as a result of the Company's 4.8% comparable store sales increase.

Operating income for the twelve weeks ended July 18, 2009 was \$134.8 million, or 10.2% of net sales, as compared to \$128.0 million, or 10.4% of net sales, for the twelve weeks ended July 12, 2008, or a decrease of 17 basis points. This decrease in operating income, as a percentage of net sales, reflected higher SG&A as previously discussed partially offset by an increase in gross profit. AAP produced operating income of \$131.3 million, or 10.3% of net sales, for the twelve weeks ended July 18, 2009 as compared to \$125.7 million, or 10.5% of net sales, for the twelve weeks ended July 12, 2008. AI generated operating income of \$3.5 million for the twelve weeks ended July 18, 2009 as compared to \$2.3 million for the comparable period last year. AI's operating income increased primarily due to the positive sales results during the quarter and occupancy expense leverage as a result of the increase in sales.

Interest expense for the twelve weeks ended July 18, 2009 was \$5.5 million, or 0.4% of net sales, as compared to \$7.3 million, or 0.6% of net sales, for the twelve weeks ended July 12, 2008. The decrease in interest expense as a percentage of sales is primarily a result of lower outstanding borrowings during the twelve weeks ended July 18, 2009 compared to the same period ended July 12, 2008.

Income tax expense for the twelve weeks ended July 18, 2009 was \$49.2 million, as compared to \$45.2 million for the twelve weeks ended July 12, 2008. Our effective income tax rate was 38.0% for the twelve weeks ended July 18, 2009 compared to 37.5% for the same period ended July 12, 2008.

We generated net income of \$80.3 million, or \$0.83 per diluted share, for the twelve weeks ended July 18, 2009, as compared to \$75.4 million, or \$0.78 per diluted share, for the twelve weeks ended July 12, 2008. As a percentage of net sales, net income for the twelve weeks ended July 18, 2009 and July 12, 2008 was 6.1%. The increase in diluted earnings per share was primarily due to growth in our operating income.

Twenty-Eight Weeks Ended July 18, 2009 Compared to Twenty-Eight Weeks Ended July 12, 2008

Net sales for the twenty-eight weeks ended July 18, 2009 were \$3,006.5 million, an increase of \$244.6 million, or 8.9%, as compared to net sales for the twenty-eight weeks ended July 12, 2008. The net sales increase was due to an increase in comparable store sales of 6.7% and sales from the 82 net new AAP and AI stores opened during the last four quarters.

AAP produced net sales of \$2,901.9 million, an increase of \$225.8 million, or 8.4% as compared to net sales for the twenty-eight weeks ended July 12, 2008. AAP's net sales increase was primarily driven by a 6.5% comparable store sales increase and sales from the 62 net new stores opened during the last four quarters. The AAP comparable store sales increase was driven by an increase in average ticket sales and overall customer traffic. AI produced net sales of \$108.6 million, an increase of \$22.8 million, or 26.5%, as compared to net sales for the twenty-eight weeks ended July

12, 2008. AI's sales increase was primarily driven by an 11.5% comparable store sales increase and sales from 20 net new stores opened during the last four quarters.

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Gross profit for the twenty-eight weeks ended July 18, 2009 was \$1,474 million, or 49.0% of net sales, as compared to \$1,311.1 million, or 47.5% of net sales, for the twenty-eight weeks ended July 12, 2008, or an increase of 158 basis points. The increase in gross profit as a percentage of net sales was primarily due to continued investments in pricing capabilities, merchandising capabilities and parts availability, decreased inventory shrink and better store execution resulting from the impact of previous changes to better align Team Member incentives.

SG&A increased to \$1,182.3 million, or 39.3% of net sales, for the twenty-eight weeks ended July 18, 2009, from \$1,038.9 million, or 37.6% of net sales, for the twenty-eight weeks ended July 12, 2008, or an increase of 171 basis points. The increase in SG&A as a percentage of sales was primarily due to:

- higher incentive compensation driven by a structural change we made to our incentive program for 2009 which is now based on growth rather than a fixed budget;
- store divestiture expenses associated with our store divestiture plan, primarily including closed store exit costs; and
- continued strategic capability investments, some of which we believe are beginning to drive favorable results such as improvement in our gross profit rate and growth in Commercial and DIY sales, although some of the expected benefits will be realized longer term.

These increases were partially offset by lower advertising expenses and occupancy expense leverage as a result of the Company's 6.7% comparable store sales increase.

Operating income for the twenty-eight weeks ended July 18, 2009 was \$292.4 million, or 9.7% of net sales, as compared to \$272.2 million, or 9.9% of net sales, for the twenty-eight weeks ended July 12, 2008, or a decrease of 13 basis points. This decrease in operating income, as a percentage of net sales, reflected higher SG&A as previously discussed partially offset by an increase in gross profit. AAP produced operating income of \$287.5 million, or 9.9% of net sales, for the twenty-eight weeks ended July 18, 2009 as compared to \$270.1 million, or 10.1% of net sales, for the twenty-eight weeks ended July 12, 2008. AI generated operating income of \$4.8 million for the twenty-eight weeks ended July 18, 2009 as compared to \$2.1 million operating income for the comparable period last year. AI's operating income increased primarily due to the positive sales results during the quarter and occupancy expense leverage as a result of the increase in sales.

Interest expense for the twenty-eight weeks ended July 18, 2009 was \$13.1 million, or 0.4% of net sales, as compared to \$19.6 million, or 0.7% of net sales, for the twenty-eight weeks ended July 12, 2008. The decrease in interest expense as a percentage of sales is primarily a result of lower outstanding borrowings during the twenty-eight weeks ended July 18, 2009 compared to the same period ended July 12, 2008.

Income tax expense for the twenty-eight weeks ended July 18, 2009 was \$105.5 million, as compared to \$95.1 million for the twenty-eight weeks ended July 12, 2008. Our effective income tax rate was 37.8% for the twenty-eight weeks ended July 18, 2009 compared to 37.7% for the same period ended July 12, 2008.

We generated net income of \$173.9 million, or \$1.82 per diluted share, for the twenty-eight weeks ended July 18, 2009, as compared to \$157.5 million, or \$1.64 per diluted share, for the twenty-eight weeks ended July 12, 2008. As a percentage of net sales, net income for the twenty-eight weeks ended July 18, 2009 and July 12, 2008 was 5.8% and 5.7%, respectively. The increase in diluted earnings per share was primarily due to growth in our operating income.



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### Liquidity and Capital Resources

#### Overview

Our primary cash requirements to maintain our current operations include payroll and benefits, the purchase of inventory, contractual obligations and capital expenditures as well as the payment of quarterly cash dividends. In addition, we have used available funds to repay borrowings under our revolving credit facility and periodically repurchase shares of common stock under our stock repurchase program. We have funded these requirements primarily through cash generated from operations, supplemented by borrowings under our credit facilities as needed. We believe funds generated from our expected results of operations, available cash and cash equivalents, and available borrowings under our revolving credit facility will be sufficient to fund our primary obligations for the next fiscal year.

At July 18, 2009, our cash and cash equivalents balance was \$126.4 million, an increase of \$89.0 million compared to January 3, 2009. This increase resulted from additional cash flow from operating activities (including higher earnings and reduction in working capital) and proceeds from common stock, partially offset by capital expenditures and the repayment of debt. Additional discussion of our cash flow results is set forth in the "Analysis of Cash Flows" section.

Our outstanding indebtedness was \$176.6 million lower at July 18, 2009 when compared to January 3, 2009 and consisted of borrowings of \$75.0 million under our revolving credit facility, \$200.0 million under our term loan, \$3.7 million outstanding on an economic development note and \$0.9 outstanding under other financing arrangements. Additionally, we had \$103.8 million in letters of credit outstanding, which reduced our total availability under the revolving credit facility to \$571.2 million. The letters of credit serve as collateral for our self-insurance policies and routine purchases of imported merchandise.

In light of the uncertainty in the credit markets, it is possible that one or more of the banks in our revolving credit facility syndicate may be unable to provide our remaining available credit. We have 15 lenders participating in our revolving credit facility, each with a commitment of not more than 15% of the total \$750 million commitment. All of these lenders have met their contractual funding commitments to us through July 18, 2009. An inability to obtain sufficient financing at cost-effective rates could have a materially adverse impact on our business, financial condition, results of operations and cash flows.

#### Capital Expenditures

Our primary capital requirements have been the funding of our continued store expansion program, including new store openings and store acquisitions, store relocations, maintenance of existing stores, the construction and upgrading of distribution centers, and the development of proprietary information systems and purchased information systems. Our capital expenditures were \$90.8 million for the twenty-eight weeks ended July 18, 2009, or \$15.1 million less than the comparable period of fiscal 2008. During the twenty-eight weeks ended July 18, 2009, we opened 69 stores, relocated 6 stores and remodeled 4 stores.

Our future capital requirements will depend in large part on the number of and timing for new stores we open or acquire within a given year and the investments we make in information technology and supply chain networks. As previously disclosed in our 2008 Form 10-K, we anticipate adding 75 new AAP and 30 new AI stores during fiscal 2009.

We also plan to make continued investments in the maintenance of our existing stores and supply chain network as well as investing in new information systems to support our turnaround strategies, including the implementation of a merchandising system over a multi-year timeframe. As previously disclosed in our 2008 Form 10-K, we anticipate

that our capital expenditures will be approximately \$180.0 million to \$200.0 million during fiscal 2009.

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### Vendor Financing Program

Historically, we have negotiated extended payment terms from suppliers that help finance inventory growth. We have a short-term financing program with a bank for certain merchandise purchases. In substance, the program allows us to borrow money from the bank to finance purchases from our vendors. This program allows us to further reduce our working capital invested in current inventory levels and finance future inventory growth. At July 18, 2009 and January 3, 2009, \$78.7 million and \$136.4 million, respectively, was payable to the bank by us under this program.

We are anticipating the balance in financed vendor accounts payable to diminish as we transition our merchandise vendors to customer-managed services arrangements, or vendor program. As of July 18, 2009, we had approximately \$107 million in outstanding payables under our vendor program. It is possible that any ongoing or worsening deterioration in the credit markets could adversely impact funding for the vendor program, which would reduce our anticipated savings, including but not limited to, causing us to increase our borrowings under our revolving credit facility.

### Stock Repurchase Program

During the twelve weeks ended July 18, 2009, we repurchased 0.3 million shares of common stock at an aggregate cost of \$14.4 million, or an average price of \$41.71 per share. No shares were repurchased during the first quarter of fiscal 2009. These shares were repurchased in accordance with our \$250 million stock repurchase program authorized by our Board of Directors in the second quarter of fiscal 2008.

During the twelve weeks ended July 12, 2008, we repurchased 0.2 million shares of common stock at an aggregate cost of \$7.5 million, or an average price of \$37.22 per share. As of July 12, 2008, 0.1 million shares remained unsettled at an aggregate cost of \$3.4 million. During the twenty-eight weeks ended July 12, 2008, we repurchased 4.8 million shares of common stock at an aggregate cost of \$162.8 million, or an aggregate price of \$34.18 per share, of which 4.6 million shares of common stock were repurchased under the previous \$500 million stock repurchase program. Additionally, we settled \$3.0 million on shares repurchased prior to the end of fiscal 2007.

As of July 18, 2009, we had \$174.6 million remaining under the \$250 million stock repurchase program, excluding related expenses.

### Dividend

During the twenty-eight weeks ended July 18, 2009, we paid \$17.1 million in quarterly cash dividends, \$5.7 million of which was declared during each of our first and second quarters of fiscal 2009. Subsequent to July 18, 2009, our Board of Directors declared a quarterly dividend of \$0.06 per share to be paid on October 9, 2009 to all common stockholders of record on September 25, 2009.

### Analysis of Cash Flows

A summary and analysis of our cash flows for the twenty-eight week period ended July 18, 2009 as compared to the twenty-eight week period ended July 12, 2008 is included below.

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TwentyEight Week Periods Ended  
July 18, 2009                      July 12, 2008  
(in millions)

Cash flows from operating activities	\$ 433.8	\$ 350.0
Cash flows from investing activities	(88.7 )	(105.2 )
Cash flows from financing activities	(256.1 )	(240.0 )
Net increase in cash and cash equivalents	\$ 89.0	\$ 4.8

**2BU**Operating Activities

For the twenty-eight weeks ended July 18, 2009, net cash provided by operating activities increased \$83.8 million to \$433.8 million, as compared to the twenty-eight weeks ended July 12, 2008. This net increase in operating cash was driven primarily by:

- an increase in net income of \$16.4 million during the twenty-eight weeks ended July 18, 2009 as compared to the comparable period in 2008;
- a \$32.5 million increase in cash flows from inventory, net of accounts payable, reflective of our slow down in inventory growth combined with the addition of vendors to our new vendor program (this increase is offset by the reduction of financed vendor account payable included under Financing Activities as a result of our vendor program transition);
  - a \$13.1 million reduction in other working capital; and
  - a \$13.2 million increase in provision for deferred income taxes.

**U**Investing Activities

For the twenty-eight weeks ended July 18, 2009, net cash used in investing activities decreased by \$16.5 million to \$88.7 million, as compared to the twenty-eight weeks ended July 12, 2008. The net decrease in cash used was primarily due to timing in store development expenditures and fewer stores opened and relocated partially offset by an increase in routine spending on our existing stores.

**3BU**Financing Activities

For the twenty-eight weeks ended July 18, 2009, net cash used in financing activities decreased by \$16.1 million to \$256.1 million, as compared to the twenty-eight weeks ended July 12, 2008.

Cash flows from financing activities increased primarily as result of:

- a decrease of \$148.1 million in repurchases of common stock under our stock repurchase program;
  - a \$9.5 million cash inflow resulting from the timing of bank overdrafts; and
- an \$9.9 million increase from the issuance of common stock, resulting from an increase in the exercise of stock options.

Cash flows from financing activities decreased primarily as result of:

- a \$124.1 million reduction in net borrowings, primarily under our revolving credit facility, reflective of our significant repayments made during 2009; and

- a \$57.5 million decrease in financed vendor accounts payable driven by the transition of our vendors from our vendor financing program to our new vendor program.

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### 4B Off-Balance-Sheet Arrangements

As of July 18, 2009, we had no off-balance-sheet arrangements as defined in Regulation S-K Item 303 of the SEC regulations. We include other off-balance-sheet arrangements in our contractual obligation table, including operating lease payments, interest payments on our credit facility and letters of credit outstanding.

### 5B Contractual Obligations

As of July 18, 2009, there were no material changes to our outstanding contractual obligations other than the reduction in our long-term debt. For information regarding our contractual obligations see "Contractual Obligations" in our 2008 Form 10-K.

### 9B Long-Term Debt

We have a \$750 million unsecured five-year revolving credit facility with Advance Stores Company, Incorporated, or Stores, serving as the borrower. The revolving credit facility also provides for the issuance of letters of credit with a sub limit of \$300 million, and swingline loans in an amount not to exceed \$50 million. We may request, subject to agreement by one or more lenders, that the total revolving commitment be increased by an amount not exceeding \$250 million (up to a total commitment of \$1 billion) during the term of the credit agreement. Voluntary prepayments and voluntary reductions of the revolving balance are permitted in whole or in part, at our option, in minimum principal amounts as specified in the revolving credit facility. The revolving credit facility terminates on October 5, 2011.

In addition to the revolving credit facility, we have outstanding a \$200 million unsecured four-year term loan with Stores serving as borrower. The proceeds from this term loan were used to repurchase shares of our common stock under our stock repurchase program during fiscal 2008. The term loan terminates on October 5, 2011. Voluntary prepayments and voluntary reductions of the term loan balance are permitted in whole or in part, at our option, in minimum principal amounts as specified in the term loan.

The interest rate on borrowings under the revolving credit facility is based, at our option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 0.75% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. We have elected to use the 90-day adjusted LIBOR rate and have the ability and intent to continue to use this rate on our hedged borrowings. Under the terms of the revolving credit facility, the interest rate and commitment fee are based on our credit rating.

The interest rate on the term loan is based, at our option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 1.00% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. We have elected to use the 90-day adjusted LIBOR rate and have the ability and intent to continue to use this rate on our hedged borrowings. Under the terms of the term loan, the interest rate is based on our credit rating.

At July 18, 2009, we had interest rate swaps in place that effectively fixed our interest rate on approximately 98% of our long-term debt as a result of the first quarter reduction in the revolver balance.

### Guarantees and Covenants

The term loan and revolving credit facility are fully and unconditionally guaranteed by Advance Auto Parts, Inc. Our debt agreements collectively contain covenants restricting our ability to, among other things: (1) create, incur or assume additional debt (including hedging arrangements), (2) incur liens or engage in sale-leaseback transactions, (3) make loans and investments, (4) guarantee obligations, (5) engage in certain mergers, acquisitions and asset sales, (6)

change the nature of our business and the business conducted by our subsidiaries and (7) change our status as a holding company. We are required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. We were in compliance with these covenants at July 18,

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2009 and January 3, 2009. Our term loan and revolving credit facility also provide for customary events of default, covenant defaults and cross-defaults to our other material indebtedness.

### Credit Ratings

At July 18, 2009, we had a credit rating from Standard & Poor's of BB+ and a credit rating of Ba1 from Moody's Investor Service, unchanged from January 3, 2009. Subsequent to July 18, 2009, we received an improved outlook from Standard & Poor's and Moody's from negative to stable and from stable to positive, respectively. This change in outlook does not affect our current credit ratings. The current pricing grid used to determine our borrowing rates under our term loan and revolving credit facility is based on our credit ratings. If these credit ratings decline, our interest expense may increase. Conversely, if these credit ratings improve, our interest expense may decrease. If our credit ratings decline, our access to financing may become more limited.

### Seasonality

Our business is somewhat seasonal in nature, with the highest sales occurring in the spring and summer months. In addition, our business can be affected by weather conditions. While unusually heavy precipitation tends to soften sales as elective maintenance is deferred during such periods, extremely hot or cold weather tends to enhance sales by causing automotive parts to fail at an accelerated rate.

### Recent Accounting Developments

We adopted several new accounting pronouncements as of the beginning of fiscal 2009 which are discussed below.

### Earnings per Share

We compute earnings per share in accordance with Statement of Financial Accounting Standards, or SFAS, No. 128, "Earnings per Share." Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the period. On January 4, 2009, we adopted FASB Staff Position ("FSP") EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." FSP EITF 03-6-1 addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, need to be included in the earnings allocation when computing earnings per share under the two-class method as described in SFAS No. 128.

In accordance with FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Certain of the Company's shares granted to employees in the form of restricted stock are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. Upon adoption, prior-period earnings per share data presented are adjusted retrospectively if applicable. Our diluted earnings per share decreased by \$0.01 for both the twelve and twenty-eight week periods July 12, 2008.

### Fair Value

We adopted SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements. SFAS No. 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability (an exit price), on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). In February 2008, the FASB deferred the effective date of SFAS No. 157 for one year for



certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). We adopted the required provisions of SFAS No. 157 related to debt and derivatives as of December 30, 2007 and adopted the remaining required

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provisions for non-financial assets and liabilities as of January 4, 2009. The effect of adopting this standard was not significant in either period.

### Disclosures of Derivative and Hedging Activities

In March 2008, the Financial Accounting Standards Board, or FASB, issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities.” SFAS No. 161 amends and expands the previous disclosure requirements of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” to provide more qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. We adopted SFAS No. 161 as of January 4, 2009 on a prospective basis; accordingly, disclosures related to interim periods prior to the date of adoption have not been presented. The adoption had no impact on our consolidated financial statements other than the additional disclosures.

### New Accounting Pronouncements

Effective for the second quarter of fiscal 2009, we adopted the provisions of FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” on a prospective basis. This FSP amends SFAS No. 107, “Disclosures about Fair Value of Financial Instruments,” to require disclosures regarding fair value of financial instruments in interim financial statements, as well as in annual financial statements. The adoption had no impact on our consolidated financial statements other than the additional disclosures.

Effective for the second quarter of fiscal 2009, we adopted the provisions of FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” on a prospective basis. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, “Fair Value Measurements” when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate if a transaction is not orderly (i.e., a forced liquidation or distressed sale). The adoption of the provisions of FSP FAS 157-4 did not have an impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events,” which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 was effective for interim and annual periods ending after June 15, 2009, which included our reporting period for the twelve weeks ended July 18, 2009. We evaluated all activity through August 27, 2009 (the issuance date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the related notes to the condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — A Replacement of FASB Statement No. 162.” The FASB Accounting Standards Codification (“Codification”) will become the source of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS No. 168 was not anticipated to change GAAP and we do not expect the adoption to have a material impact on the preparation of our consolidated financial statements.



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10BITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to cash flow risk due to changes in interest rates with respect to our long-term bank debt as a result of the movements in LIBOR. Our long-term bank debt consists of borrowings under a revolving credit facility and a term loan. While we cannot predict the impact interest rate movements will have on our bank debt, exposure to rate changes is managed through the use of hedging activities. Our cash flow risk decreased during the twenty-eight weeks ended July 18, 2009 as a result of paying down a significant portion of our revolving credit facility balance.

For additional information regarding market risk see “Item 7A. Quantitative and Qualitative Disclosures About Market Risks” in our 2008 Form 10-K.

Fuel Risk

We manage the risk of fluctuating fuel prices through fixed price commodity contracts for approximately 70% of our estimated diesel fuel consumption for fiscal 2009. We have applied the normal purchase election under SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” to exclude these contracts from fair value accounting.

10BITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report in accordance with Rule 13a-15(b) under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during the quarter ended July 18, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## 6BPART II. OTHER INFORMATION

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## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth the information with respect to repurchases of our common stock for the quarter ended July 18, 2009 (amounts in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs (2)(3)
April 26, 2009, to May 23, 2009	-	\$ -	-	\$ 188,911
May 24, 2009, to June 20, 2009	122	41.38	122	183,866
June 21, 2009, to July 18, 2009	223	41.84	223	174,552
Total	345	\$ 41.68	345	\$ 174,552

(1) Average price paid per share excludes related expenses paid on previous repurchases.

- (2) All of the above repurchases were made on the open market at prevailing market rates plus related expenses under our stock repurchase program, which authorized the repurchase of up to \$250 million in common stock. Our stock repurchase program was authorized by our Board of Directors and publicly announced on May 15, 2008.
- (3) The maximum dollar value yet to be purchased under our stock repurchase program excludes related expenses paid on previous purchases or anticipated expenses on future purchases.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our annual meeting of stockholders on May 20, 2009. The following matters were submitted to the vote of security holders at the meeting:

1. Election of nominees to our board of directors. All nominees were elected as indicated by the following vote counts:

Nominee	Votes For	Votes Withheld
John F. Bergstrom	73,090,478	6,863,313
John C. Brouillard	73,439,990	6,513,801
Darren R. Jackson	73,724,161	6,229,630
William S. Oglesby	73,240,315	6,713,476
Gilbert T. Ray	73,185,874	6,767,917
Carlos A. Saladrigas	73,690,294	6,263,497
Francesca M. Spinelli	73,274,128	6,679,663

2. The stockholders voted upon and approved the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for 2009. The vote on the proposal was as follows:

For	Against	Abstentions
79,927,125	13,826	12,840

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ITEM 6. EXHIBITS

3.1 Restated Certificate of Incorporation of Advance Auto Parts, Inc. ("Advance Auto")(as  
(1) amended on May 19, 2004).

3.2 Amended and Restated Bylaws of Advance Auto (effective August 12, 2009).  
(2)

31.1 Certification of Chief Executive Officer Pursuant to Section  
302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section  
302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial  
Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of  
2002.

(1) Filed on May 20, 2004 as an exhibit to Current Report on Form 8-K of Advance Auto.

(2) Filed on August 17, 2009 as an exhibit to Current Report on Form 8-K of Advance Auto.





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EXHIBIT INDEX

	Exhibit Description
3.1(1)	Restated Certificate of Incorporation of Advance Auto (as amended on May 19, 2004).
3.2(2)	Amended and Restated Bylaws of Advance Auto (effective August 12, 2009).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed on May 20, 2004 as an exhibit to Current Report on Form 8-K of Advance Auto.

(2) Filed on August 17, 2009 as an exhibit to Current Report on Form 8-K of Advance Auto.

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