ADVANCE AUTO PARTS INC
Form 10-Q
November 16, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 8, 2011
OR
o 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	54-2049910
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 14, 2011, the registrant had outstanding 72,445,870 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 SUBSIDIARIES

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
October 8, 2011, January 1, 2011 and October 9, 2010
(in thousands, except per share data)
(unaudited)

Assets	October 8, 2011	January 1, 2011	October 9, 2010
Current assets:			
Cash and cash equivalents	$65,929	$59,209	$194,502
Receivables, net	131,409	124,227	115,731
Inventories, net	2,109,721	1,863,870	1,839,498
Other current assets	67,063	76,965	51,931
Total current assets	2,374,122	2,124,271	2,201,662
Property and equipment, net of accumulated depreciation of $963,845, $927,564 and $906,296	1,191,453	1,143,170	1,104,380
Assets held for sale	707	1,472	1,472
Goodwill	51,378	34,387	34,387
Intangible assets, net	29,122	25,360	25,583
Other assets, net	31,286	25,557	26,841
	$3,678,068	$3,354,217	$3,394,325
Liabilities and Stockholders' Equity			
Current liabilities:			
Current portion of long-term debt	$949	$973	$1,176
Financed vendor accounts payable	—	31,648	50,310
Accounts payable	1,586,058	1,292,113	1,255,608
Accrued expenses	390,283	404,086	429,262
Other current liabilities	128,338	119,229	91,508
Total current liabilities	2,105,628	1,848,049	1,827,864
Long-term debt	599,438	300,851	301,043
Other long-term liabilities	195,376	165,943	123,380
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, nonvoting, $0.0001 par value	—	—	—
Common stock, voting, $0.0001 par value	11	11	11
Additional paid-in capital	485,242	456,645	443,595
Treasury stock, at cost	(1,642,807)	(1,028,612)	(869,256)
Accumulated other comprehensive income (loss)	7,621	(1,597)	(2,080)
Retained earnings	1,927,559	1,612,927	1,569,768
Total stockholders' equity	777,626	1,039,374	1,142,038
	$3,678,068	$3,354,217	$3,394,325

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 Forty Week Periods Ended
October 8, 2011 and October 9, 2010
(in thousands, except per share data)
(unaudited)

	Twelve Week Periods Ended		Forty Week Periods Ended	
	October 8, 2011	October 9, 2010	October 8, 2011	October 9, 2010
Net sales	$1,464,988	$1,406,511	$4,842,890	$4,655,073
Cost of sales, including purchasing and warehousing costs	740,485	698,726	2,424,338	2,321,243
Gross profit	724,503	707,785	2,418,552	2,333,830
Selling, general and administrative expenses	546,683	560,563	1,865,828	1,832,834
Operating income	177,820	147,222	552,724	500,996
Other, net:				
Interest expense	(8,150)	(7,002)	(25,876)	(20,134)
Other expense, net	(614)	(293)	(771)	(1,471)
Total other, net	(8,764)	(7,295)	(26,647)	(21,605)
Income before provision for income taxes	169,056	139,927	526,077	479,391
Provision for income taxes	63,503	52,329	197,834	181,451
Net income	$105,553	$87,598	$328,243	$297,940
Basic earnings per share	$1.43	$1.04	$4.27	$3.41
Diluted earnings per share	$1.41	$1.03	$4.19	$3.37
Average common shares outstanding	73,381	83,695	76,595	87,011
Average common shares outstanding - assuming dilution	74,730	84,802	78,058	87,953

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 Changes in Stockholders' Equity
For the Forty Week Periods Ended
October 8, 2011 and October 9, 2010
(in thousands, except per share data)
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock, at cost		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount		Shares	Amount			
Balance, January 1, 2011	—	$—	105,682	$11	$456,645	23,726	$(1,028,612)	$ (1,597)	$1,612,927	$1,039,374
Net income									328,243	328,243
Changes in net unrecognized other postretirement benefit costs, net of $224 tax								(350)		(350)
Unrealized gain on hedge arrangement, net of $3,056 tax								4,759		4,759
Amortization of unrecognized losses on interest rate swaps, net of $3,644 tax								4,809		4,809
Comprehensive income										337,461
Issuance of shares upon the exercise of stock options			438		7,475					7,475
Tax benefit from share-based compensation					5,064					5,064
Issuance of restricted stock, net of forfeitures			3							—
Amortization of restricted stock balance					5,452					5,452
Share-based compensation					8,780					8,780
Stock issued under employee stock purchase			29		1,745					1,745

plan										
Treasury stock purchased						9,983	(614,195)			(614,195)
Cash dividends									(13,611)	(13,611)
Other					81					81
Balance, October 8, 2011	—	$—	106,152	$11	$485,242	33,709	$(1,642,807)	$ 7,621	$1,927,559	$777,626
Balance, January 2, 2010	—	$—	104,251	$10	$392,962	10,628	$(391,176)	$ (6,699)	$1,287,268	$1,282,365
Net income									297,940	297,940
Changes in net unrecognized other postretirement benefit costs, net of $205 tax								(320)		(320)
Unrealized gain on hedge arrangement, net of $1,257 tax								4,939		4,939
Comprehensive income										302,559
Issuance of shares upon the exercise of stock options			1,078	1	31,565					31,566
Tax benefit from share-based compensation					1,732					1,732
Issuance of restricted stock, net of forfeitures			(10)							—
Amortization of restricted stock balance					6,890					6,890
Share-based compensation					8,851					8,851
Stock issued under employee stock purchase plan			32		1,520					1,520
Treasury stock purchased						10,707	(478,080)			(478,080)
Cash dividends									(15,440)	(15,440)
Other					75					75
Balance, October 9, 2010	—	$—	105,351	$11	$443,595	21,335	$(869,256)	$ (2,080)	$1,569,768	$1,142,038

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 Forty Week Periods Ended
October 8, 2011 and October 9, 2010
(in thousands)
(unaudited)

	Forty Week Periods Ended	
	October 8, 2011	October 9, 2010
Cash flows from operating activities:		
Net income	$328,243	$297,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	134,480	125,441
Share-based compensation	14,232	15,741
Loss on property and equipment, net	3,357	4,782
Other	796	938
Provision for deferred income taxes	45,374	25,526
Excess tax benefit from share-based compensation	(5,099)	(3,965)
Net (increase) decrease in:		
Receivables, net	(6,854)	(23,171)
Inventories, net	(245,851)	(207,631)
Other assets	17,715	10,790
Net increase in:		
Accounts payable	293,609	289,334
Accrued expenses	14,720	58,164
Other liabilities	16,260	2,605
Net cash provided by operating activities	610,982	596,494
Cash flows from investing activities:		
Purchases of property and equipment	(207,505)	(147,158)
Business acquisition, net of cash acquired	(18,170)	—
Proceeds from sales of property and equipment	1,114	197
Net cash used in investing activities	(224,561)	(146,961)
Cash flows from financing activities:		
Decrease in bank overdrafts	(9,555)	(4,620)
(Decrease) increase in financed vendor accounts payable	(31,648)	18,218
Issuance of senior unsecured notes	—	298,761
Payment of debt related costs	(3,656)	(4,572)
Early extinguishment of debt	—	(200,000)
Borrowings under credit facilities	1,363,200	75,000
Payments on credit facilities	(1,064,000)	(75,000)
Dividends paid	(18,541)	(21,027)
Proceeds from the issuance of common stock, primarily exercise of stock options	9,301	33,160
Excess tax benefit from share-based compensation	5,099	3,965
Repurchase of common stock	(629,189)	(478,080)
Other	(712)	(854)
Net cash used in financing activities	(379,701)	(355,049)
Net increase in cash and cash equivalents	6,720	94,484
Cash and cash equivalents, beginning of period	59,209	100,018

Cash and cash equivalents, end of period	$65,929	$194,502

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Forty Week Periods Ended
October 8, 2011 and October 9, 2010
(in thousands)
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	Forty Week Periods Ended	
	October 8, 2011	October 9, 2010
Supplemental cash flow information:		
Interest paid	$24,901	$15,090
Income tax payments, net	114,277	136,379
Non-cash transactions:		
Accrued purchases of property and equipment	22,213	12,343
Contingent consideration accrued on acquisition	6,156	—
Changes in other comprehensive income	9,218	4,619

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 Forty Week Periods Ended October 8, 2011 and October 9, 2010
(in thousands, except per share data)
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1. Basis of Presentation:

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

The condensed consolidated balance sheets as of October 8, 2011, January 1, 2011 and October 9, 2010, the condensed consolidated statements of operations for the twelve and forty week periods ended October 8, 2011 and October 9, 2010, the condensed consolidated statements of changes in stockholders' equity for the forty week periods ended October 8, 2011 and October 9, 2010 and the condensed consolidated statements of cash flows for the forty week periods ended October 8, 2011 and October 9, 2010, 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, or GAAP, 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 1, 2011, or Fiscal 2010.

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for Fiscal 2010 (filed with the Securities and Exchange Commission, or SEC, on March 1, 2011).

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 GAAP 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.

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board, or FASB, issued ASU No. 2011-08 "Intangible-Goodwill and Other – Testing Goodwill for Impairment". ASU 2011-08 modifies the impairment test for goodwill and indefinite lived intangibles so that the fair value of a reporting unit is no longer required to be calculated unless the Company believes, based on qualitative factors, that it is more likely than not that the reporting unit's or indefinite lived intangible asset's fair value is less than the carrying value. ASU 2011-8 is effective for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 is not expected to have a material impact on the

Company's condensed consolidated financial statements.

In June 2011, the Financial Accounting Standards Board, or FASB, issued ASU No. 2011-05 "Comprehensive Income – Presentation of Comprehensive Income". ASU 2011-05 requires comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this update should be applied retrospectively and is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-05 is not expected to have a material impact on the Company's condensed consolidated financial statements.

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In January 2010, the Financial Accounting Standards Board, or FASB, issued ASU No. 2010-06 “Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements”. ASU 2010-06 requires new disclosures for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and the activity within Level 3 of the fair value hierarchy. The updated guidance also clarifies existing disclosures regarding the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the new Level 3 activity disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of ASU 2010-06 had no impact on the Company’s condensed consolidated financial statements.

2. Inventories, net:

Inventories are stated at the lower of cost or market. The Company used the LIFO method of accounting for approximately 95% of inventories at October 8, 2011, January 1, 2011 and October 9, 2010. 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 2011 and prior years. As a result of utilizing LIFO, the Company recorded an increase to cost of sales of $16,741 for the forty weeks ended October 8, 2011 due to an increase in supply chain costs and inflationary pressures affecting certain product categories. The Company recorded a reduction to cost of sales of $33,408 for the forty weeks ended October 9, 2010. Prior to Fiscal 2011, the Company’s overall costs to acquire inventory for the same or similar products generally decreased historically as the Company has been able to leverage its continued growth, execution of merchandise strategies and realization of supply chain efficiencies.

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 are based on management’s estimates of expected fiscal year-end inventory levels and costs.

Inventory balances at October 8, 2011, January 1, 2011 and October 9, 2010 were as follows:

	October 8, 2011	January 1, 2011	October 9, 2010
Inventories at FIFO, net	$1,999,651	$1,737,059	$1,708,833
Adjustments to state inventories at LIFO	110,070	126,811	130,665
Inventories at LIFO, net	$2,109,721	$1,863,870	$1,839,498

3. Goodwill and Intangible Assets:

Goodwill

The Company has goodwill recorded in both the Advance Auto Parts ("AAP") and Autopart International ("AI") segments. The following table reflects the carrying amount of goodwill pertaining to the Company's two segments and the changes in goodwill carrying amounts.

	AAP Segment	AI Segment	Total
Balance at January 1, 2011	$16,093	$18,294	$34,387
Fiscal 2011 activity	16,991	—	16,991
Balance at October 8, 2011	$33,084	$18,294	$51,378
Balance at January 2, 2010	$16,093	$18,294	$34,387
Fiscal 2010 activity	—	—	—
Balance at October 8, 2010	$16,093	$18,294	$34,387

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The Company's increase to its goodwill balance for the twelve and forty weeks ended October 8, 2011 was related to the acquisition of a technology company in support of the Company's e-commerce strategy.

Intangible Assets Other Than Goodwill

The gross and net carrying amounts of acquired intangible assets as of October 8, 2011, January 1, 2011 and October 9, 2010 are comprised of the following:

	Acquired intangible assets				
	Subject to Amortization			Not Subject to Amortization	
	Customer Relationships	Acquired Technology	Other	Trademark and Tradenames	Intangible Assets (excluding goodwill)
Gross:					
Gross carrying amount at January 1, 2011	$9,800	$—	$885	$20,550	$31,235
Additions	—	4,750	—	—	4,750
Gross carrying amount at October 8, 2011	$9,800	$4,750	$885	$20,550	$35,985
Gross carrying amount at January 2, 2010	$9,800	$—	$885	$20,550	$31,235
Additions	—	—	—	—	—
Gross carrying amount at October 9, 2010	$9,800	$—	$885	$20,550	$31,235
Net:					
Net carrying amount at January 1, 2011	$4,578	$—	$232	$20,550	$25,360
Additions	—	4,750	—	—	4,750
2011 amortization	738	244	6	—	988
Net book value at October 8, 2011	$3,840	$4,506	$226	$20,550	$29,122
Net carrying amount at January 2, 2010	$5,543	$—	$326	$20,550	$26,419
Additions	—	—	—	—	—
2010 amortization	738	—	98	—	836
Net book value at October 9, 2010	$4,805	$—	$228	$20,550	$25,583

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Advance Auto Parts, Inc. and Subsidiaries
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Future Amortization Expense

The table below shows expected amortization expense for the next five years for acquired intangible assets recorded as of October 8, 2011:

Fiscal Year	Amount
Remainder of 2011	$588
2012	2,550
2013	2,550
2014	1,942
2015	751

4. Long-term Debt:

Long-term debt consists of the following:

	October 8, 2011	January 1, 2011	October 9, 2010
Revolving Credit Facility at variable interest rates (1.81% at October 8, 2011) due May 27, 2016	$299,200	$—	$—
5.75% Senior Unsecured Notes (net of unamortized discount of $1,101, $1,176 and $1,198 at October 8, 2011, January 1, 2011 and October 9, 2010, respectively) due May 1, 2020	298,899	298,824	298,802
Other	2,288	3,000	3,417
	600,387	301,824	302,219
Less: Current portion of long-term debt	(949)	(973)	(1,176)
Long-term debt, excluding current portion	$599,438	$300,851	$301,043

Bank Debt

On May 27, 2011, the Company entered into a new $750,000 unsecured five-year revolving credit facility with Stores serving as the borrower. This new facility replaced the Company’s previous revolving credit facility. Proceeds from the new revolving credit facility were used to repay $165,000 of principal outstanding on the Company’s previous revolving credit facility. In conjunction with this refinancing, the Company incurred $3,561 of financing costs which it will amortize over the term of the new revolving credit facility. 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 matures on May 27, 2016.

As of October 8, 2011, the Company had $299,200 outstanding under its revolving credit facility, and had letters of credit outstanding of $96,154, which reduced the availability under the revolving credit facility to $354,646. (The letters of credit generally have a term of one year or less.)

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 1.5% and 0.5% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. A facility fee is charged on the total amount of the revolving credit facility, payable in arrears. The current facility fee rate is 0.25% per annum. Under the terms of the revolving credit facility, the interest rate and facility fee are based on the Company's credit rating.

The Company's revolving credit facility contains covenants restricting its ability to, among other things: (1) create, incur or assume additional debt, (2) incur liens or engage in sale-leaseback transactions, (3) make loans and investments (including acquisitions), (4) guarantee obligations, (5) engage in certain mergers and liquidations, (6) change the nature of the Company's business and the business conducted by its subsidiaries, (7) enter into certain hedging transactions, and (8) change Advance'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 its covenants in place at October 8, 2011 and January 1, 2011, respectively. The Company's revolving credit facility also provides for customary events of default, covenant defaults and cross-defaults to its other material indebtedness.

Senior Unsecured Notes

The Company's 5.75% senior unsecured notes, the Notes, were issued in April 2010 at 99.587% of the principal amount of $300,000 and are due May 1, 2020. The parent company, or Advance, served as the issuer of the Notes with each of Advance's domestic subsidiaries currently serving as a subsidiary guarantor. The terms of the Notes are governed by an indenture and supplemental indenture (collectively the "Indenture") among the Company, the subsidiary guarantors and Wells Fargo Bank, National Association, as Trustee.

The Notes bear interest at a rate of 5.75% per year payable semi-annually in arrears on May 1 and November 1 of each year. The Company may redeem some or all of the Notes at any time or from time to time, at the redemption price described in the Indenture. In addition, in the event of a Change of Control Triggering Event (as defined in the Indenture), the Company will be required to offer to repurchase the notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date. The Notes are currently fully and unconditionally guaranteed, jointly and severally, on an unsubordinated and unsecured basis by each of the subsidiary guarantors. The Company will be permitted to release guarantees without the consent of holders of the Notes under the circumstances described in the Indenture.

The Indenture contains customary provisions for events of default including for (i) failure to pay principal or interest when due and payable, (ii) failure to comply with covenants or agreements in the Indenture or the Notes and failure to cure or obtain a waiver of such default upon notice, (iii) a default under any debt for money borrowed by the Company or any of its subsidiaries that results in acceleration of the maturity of such debt, or failure to pay any such debt within any applicable grace period after final stated maturity, in an aggregate amount greater than $25,000 without such debt having been discharged or acceleration having been rescinded or annulled within 10 days after receipt by the Company of notice of the default by the Trustee or holders of not less than 25% in aggregate principal amount of the Notes then outstanding, and (iv) events of bankruptcy, insolvency or reorganization affecting the Company and certain of its subsidiaries. In the case of an event of default, the principal amount of the Notes plus accrued and unpaid interest may be accelerated. The Indenture also contains covenants limiting the ability of the Company and its subsidiaries to incur debt secured by liens and to enter into sale and lease-back transactions.

Debt Guarantees

Certain domestic subsidiaries of Stores, including its Material Subsidiaries (as defined in the revolving credit facility and Indenture, respectively) serve as guarantors of the Notes and revolving credit facility with Advance also serving as a guarantor of the revolving credit facility. The subsidiary guarantees related to the Company's Notes and revolving credit facility are full and unconditional and joint and several, and there are no restrictions on the ability of Advance to obtain funds from its subsidiaries. Also, Advance has no independent assets or operations, and the subsidiaries not guaranteeing the Notes and revolving credit facility are minor as defined by SEC regulations.

Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010
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(unaudited)

5. Derivative Instruments and Hedging Activities:

The Company had previously entered into interest rate swap agreements as a hedge to the variable rate interest payments on its bank debt. Effective April 24, 2010, the Company's outstanding interest rate swaps no longer qualified for hedge accounting as a result of the Company's intent to pay off its bank debt with the proceeds from the offering of the Notes. Accordingly, the Company has recorded all subsequent changes in the fair value of the interest rate swaps through earnings and amortized to interest expense the remaining balance of previously recorded unrecognized loss in accumulated other comprehensive loss over the remaining life of the swaps which matured on October 5, 2011.

On September 22, 2011, the Company executed two forward treasury rate locks that mature on December 7, 2011 for a notional amount totaling $300,000. The average rate under the treasury locks was 1.85%. These agreements, which are derivative instruments, have been designated as cash flow hedges to offset the Company's exposure to increases in the underlying U.S. Treasury benchmark rate. This rate is expected to be used to establish the fixed interest rate for debt that the Company anticipates issuing. The actual coupon rate of the debt will be comprised of the underlying U.S. Treasury benchmark rate, plus a credit spread premium at the date of issuance.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheet as of October 8, 2011, January 1, 2011 and October 9, 2010:

	Balance Sheet Location	Fair Value as of October 8, 2011	Fair Value as of January 1, 2011	Fair Value as of October 9, 2010
Derivatives designated as hedging instruments:				
Treasury rate locks	Other current assets			