

ADVANCE AUTO PARTS INC  
Form 10-Q  
August 24, 2011  
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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 16, 2011

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 ☐

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 Regulation 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 ☒ 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 August 22, 2011, the registrant had outstanding 73,734,169 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  
July 16, 2011, January 1, 2011 and July 17, 2010  
(in thousands, except per share data)  
(unaudited)

|                                                                                                  | July 16,<br>2011 | January 1,<br>2011 | July 17,<br>2010 |
|--------------------------------------------------------------------------------------------------|------------------|--------------------|------------------|
| Assets                                                                                           |                  |                    |                  |
| Current assets:                                                                                  |                  |                    |                  |
| Cash and cash equivalents                                                                        | \$68,820         | \$59,209           | \$160,818        |
| Receivables, net                                                                                 | 122,188          | 124,227            | 114,885          |
| Inventories, net                                                                                 | 2,091,913        | 1,863,870          | 1,816,998        |
| Other current assets                                                                             | 59,245           | 76,965             | 48,669           |
| Total current assets                                                                             | 2,342,166        | 2,124,271          | 2,141,370        |
| Property and equipment, net of accumulated depreciation of<br>\$965,442, \$927,564 and \$936,671 | 1,172,132        | 1,143,170          | 1,098,901        |
| Assets held for sale                                                                             | 707              | 1,472              | 1,472            |
| Goodwill                                                                                         | 34,387           | 34,387             | 34,387           |
| Intangible assets, net                                                                           | 24,839           | 25,360             | 25,834           |
| Other assets, net                                                                                | 29,237           | 25,557             | 26,763           |
|                                                                                                  | \$3,603,468      | \$3,354,217        | \$3,328,727      |
| Liabilities and Stockholders' Equity                                                             |                  |                    |                  |
| Current liabilities:                                                                             |                  |                    |                  |
| Current portion of long-term debt                                                                | \$991            | \$973              | \$1,075          |
| Financed vendor accounts payable                                                                 | —                | 31,648             | 43,442           |
| Accounts payable                                                                                 | 1,570,320        | 1,292,113          | 1,266,244        |
| Accrued expenses                                                                                 | 396,187          | 404,086            | 452,490          |
| Other current liabilities                                                                        | 118,537          | 119,229            | 82,963           |
| Total current liabilities                                                                        | 2,086,035        | 1,848,049          | 1,846,214        |
| Long-term debt                                                                                   | 565,420          | 300,851            | 301,254          |
| Other long-term liabilities                                                                      | 187,735          | 165,943            | 114,809          |
| 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                                                                       | 479,055          | 456,645            | 432,264          |
| Treasury stock, at cost                                                                          | (1,542,794)      | (1,028,612)        | (848,547)        |
| Accumulated other comprehensive income (loss)                                                    | 1,614            | (1,597)            | (4,465)          |
| Retained earnings                                                                                | 1,826,392        | 1,612,927          | 1,487,187        |
| Total stockholders' equity                                                                       | 764,278          | 1,039,374          | 1,066,450        |
|                                                                                                  | \$3,603,468      | \$3,354,217        | \$3,328,727      |

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 16, 2011 and July 17, 2010  
(in thousands, except per share data)  
(unaudited)

|                                                           | Twelve Week Periods Ended |                  | Twenty-Eight Week Periods Ended |                  |
|-----------------------------------------------------------|---------------------------|------------------|---------------------------------|------------------|
|                                                           | July 16,<br>2011          | July 17,<br>2010 | July 16,<br>2011                | July 17,<br>2010 |
| Net sales                                                 | \$1,479,839               | \$1,417,956      | \$3,377,902                     | \$3,248,562      |
| Cost of sales, including purchasing and warehousing costs | 743,991                   | 702,688          | 1,683,853                       | 1,622,517        |
| Gross profit                                              | 735,848                   | 715,268          | 1,694,049                       | 1,626,045        |
| Selling, general and administrative expenses              | 546,921                   | 543,666          | 1,319,145                       | 1,272,271        |
| Operating income                                          | 188,927                   | 171,602          | 374,904                         | 353,774          |
| Other, net:                                               |                           |                  |                                 |                  |
| Interest expense                                          | (8,007                    | ) (7,176         | ) (17,726                       | ) (13,132        |
| Other expense, net                                        | (212                      | ) (1,702         | ) (157                          | ) (1,178         |
| Total other, net                                          | (8,219                    | ) (8,878         | ) (17,883                       | ) (14,310        |
| Income before provision for income taxes                  | 180,708                   | 162,724          | 357,021                         | 339,464          |
| Provision for income taxes                                | 67,601                    | 61,813           | 134,331                         | 129,122          |
| Net income                                                | \$113,107                 | \$100,911        | \$222,690                       | \$210,342        |
| Basic earnings per share                                  | \$1.48                    | \$1.18           | \$2.85                          | \$2.37           |
| Diluted earnings per share                                | \$1.46                    | \$1.16           | \$2.79                          | \$2.34           |
| Average common shares outstanding                         | 75,979                    | 85,394           | 77,973                          | 88,433           |
| Average common shares outstanding - assuming dilution     | 77,426                    | 86,410           | 79,484                          | 89,303           |

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 Twenty-Eight Week Periods Ended  
July 16, 2011 and July 17, 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                  |                                               |                   |                                       |
| Balance, January 1, 2011                                                         | —               | \$—          | 105,682                    | \$11,456,645            | 23,726                                        | \$(1,028,612)     | \$ (1,597 ) \$ 1,612,927 \$ 1,039,374 |
| Net income                                                                       |                 |              |                            |                         |                                               | 222,690           | 222,690                               |
| Changes in net unrecognized other postretirement benefit costs, net of \$157 tax |                 |              |                            |                         |                                               | (245 )            | (245 )                                |
| Amortization of unrecognized losses on interest rate swaps, net of \$2,515 tax   |                 |              |                            |                         |                                               | 3,456             | 3,456                                 |
| Comprehensive income                                                             |                 |              |                            |                         |                                               |                   | 225,901                               |
| Issuance of shares upon the exercise of stock options                            |                 | 378          |                            | 6,454                   |                                               |                   | 6,454                                 |
| Tax benefit from share-based compensation                                        |                 |              |                            | 4,745                   |                                               |                   | 4,745                                 |
| Issuance of restricted stock, net of forfeitures                                 |                 | 2            |                            |                         |                                               |                   | —                                     |
| Amortization of restricted stock balance                                         |                 |              |                            | 3,756                   |                                               |                   | 3,756                                 |
| Share-based compensation                                                         |                 |              |                            | 6,236                   |                                               |                   | 6,236                                 |
| Stock issued under employee stock purchase plan                                  |                 | 19           |                            | 1,145                   |                                               |                   | 1,145                                 |
| Treasury stock purchased                                                         |                 |              |                            | 8,283                   | (514,182 )                                    |                   | (514,182 )                            |
| Cash dividends                                                                   |                 |              |                            |                         |                                               | (9,225 )          | (9,225 )                              |
| Other                                                                            |                 |              |                            | 74                      |                                               |                   | 74                                    |

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|                                                                                  |   |     |         |      |           |        |               |             |             |             |
|----------------------------------------------------------------------------------|---|-----|---------|------|-----------|--------|---------------|-------------|-------------|-------------|
| Balance, July 16, 2011                                                           | — | \$— | 106,081 | \$11 | \$479,055 | 32,009 | \$(1,542,794) | \$ 1,614    | \$1,826,392 | \$764,278   |
| Balance, January 2, 2010                                                         | — | \$— | 104,251 | \$10 | \$392,962 | 10,628 | \$(391,176 )  | \$ (6,699 ) | \$1,287,268 | \$1,282,365 |
| Net income                                                                       |   |     |         |      |           |        |               |             | 210,342     | 210,342     |
| Changes in net unrecognized other postretirement benefit costs, net of \$144 tax |   |     |         |      |           |        |               | (224 )      |             | (224 )      |
| Unrealized gain on hedge arrangement, net of \$1,257 tax                         |   |     |         |      |           |        |               | 2,458       |             | 2,458       |
| Comprehensive income                                                             |   |     |         |      |           |        |               |             |             | 212,576     |
| Issuance of shares upon the exercise of stock options                            |   | 887 | 1       |      | 26,094    |        |               |             |             | 26,095      |
| Tax benefit from share-based compensation                                        |   |     |         |      | 817       |        |               |             |             | 817         |
| Amortization of restricted stock balance                                         |   |     |         |      | 5,055     |        |               |             |             | 5,055       |
| Share-based compensation                                                         |   |     |         |      | 6,288     |        |               |             |             | 6,288       |
| Stock issued under employee stock purchase plan                                  |   | 23  |         |      | 981       |        |               |             |             | 981         |
| Treasury stock purchased                                                         |   |     |         |      |           | 10,325 | (457,371 )    |             |             | (457,371 )  |
| Cash dividends                                                                   |   |     |         |      |           |        |               |             | (10,423 )   | (10,423 )   |
| Other                                                                            |   |     |         |      | 67        |        |               |             |             | 67          |
| Balance, July 17, 2010                                                           | — | \$— | 105,161 | \$11 | \$432,264 | 20,953 | \$(848,547 )  | \$ (4,465 ) | \$1,487,187 | \$1,066,450 |

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 16, 2011 and July 17, 2010  
(in thousands)  
(unaudited)

|                                                                                   | Twenty-Eight Week Periods Ended |                  |
|-----------------------------------------------------------------------------------|---------------------------------|------------------|
|                                                                                   | July 16,<br>2011                | July 17,<br>2010 |
| Cash flows from operating activities:                                             |                                 |                  |
| Net income                                                                        | \$222,690                       | \$210,342        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                  |
| Depreciation and amortization                                                     | 92,973                          | 86,933           |
| Share-based compensation                                                          | 9,992                           | 11,343           |
| Loss on property and equipment, net                                               | 2,179                           | 3,082            |
| Other                                                                             | 495                             | 778              |
| Provision (benefit) for deferred income taxes                                     | 25,962                          | (2,118 )         |
| Excess tax benefit from share-based compensation                                  | (4,780 )                        | (2,809 )         |
| Net decrease (increase) in:                                                       |                                 |                  |
| Receivables, net                                                                  | 2,057                           | (22,325 )        |
| Inventories, net                                                                  | (228,043 )                      | (185,131 )       |
| Other assets                                                                      | 17,162                          | 14,229           |
| Net increase in:                                                                  |                                 |                  |
| Accounts payable                                                                  | 278,207                         | 299,970          |
| Accrued expenses                                                                  | 41,922                          | 78,094           |
| Other liabilities                                                                 | 8,734                           | 3,112            |
| Net cash provided by operating activities                                         | 469,550                         | 495,500          |
| Cash flows from investing activities:                                             |                                 |                  |
| Purchases of property and equipment                                               | (151,595 )                      | (99,327 )        |
| Proceeds from sales of property and equipment                                     | 1,028                           | 104              |
| Net cash used in investing activities                                             | (150,567 )                      | (99,223 )        |
| Cash flows from financing activities:                                             |                                 |                  |
| (Decrease) increase in bank overdrafts                                            | (7,820 )                        | 3,099            |
| (Decrease) increase in financed vendor accounts payable                           | (31,648 )                       | 11,350           |
| Issuance of senior unsecured notes                                                | —                               | 298,761          |
| Payment of debt related costs                                                     | (3,561 )                        | (4,530 )         |
| Early extinguishment of debt                                                      | —                               | (200,000 )       |
| Borrowings under credit facilities                                                | 1,076,400                       | 75,000           |
| Payments on credit facilities                                                     | (811,400 )                      | (75,000 )        |
| Dividends paid                                                                    | (14,155 )                       | (16,010 )        |
| Proceeds from the issuance of common stock, primarily exercise of stock options   | 7,673                           | 27,142           |
| Excess tax benefit from share-based compensation                                  | 4,780                           | 2,809            |
| Repurchase of common stock                                                        | (529,176 )                      | (457,371 )       |
| Other                                                                             | (465 )                          | (727 )           |
| Net cash used in financing activities                                             | (309,372 )                      | (335,477 )       |
| Net increase in cash and cash equivalents                                         | 9,611                           | 60,800           |
| Cash and cash equivalents, beginning of period                                    | 59,209                          | 100,018          |
| Cash and cash equivalents, end of period                                          | \$68,820                        | \$160,818        |



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Advance Auto Parts, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Cash Flows  
 For the Twenty-Eight Week Periods Ended  
 July 16, 2011 and July 17, 2010  
 (in thousands)  
 (unaudited)

|                                             | Twenty-Eight Week Periods Ended |                  |
|---------------------------------------------|---------------------------------|------------------|
|                                             | July 16,<br>2011                | July 17,<br>2010 |
| Supplemental cash flow information:         |                                 |                  |
| Interest paid                               | \$19,604                        | \$11,698         |
| Income tax payments, net                    | 49,217                          | 79,330           |
| Non-cash transactions:                      |                                 |                  |
| Accrued purchases of property and equipment | 16,158                          | 10,709           |
| Changes in other comprehensive income       | 3,211                           | 2,234            |

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 16, 2011 and July 17, 2010

(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., 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 July 16, 2011, January 1, 2011 and July 17, 2010, the condensed consolidated statements of operations for the twelve and twenty-eight week periods ended July 16, 2011 and July 17, 2010, the condensed consolidated statements of changes in stockholders' equity for the twenty-eight week periods ended July 16, 2011 and July 17, 2010 and the condensed consolidated statements of cash flows for the twenty-eight week periods ended July 16, 2011 and July 17, 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 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.

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

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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 16, 2011 and July 17, 2010

(in thousands, except per share data)

(unaudited)

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 July 16, 2011, January 1, 2011 and July 17, 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 \$9,111 for the twenty-eight weeks ended July 16, 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 \$27,239 for the twenty-eight weeks ended July 17, 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 July 16, 2011, January 1, 2011 and July 17, 2010 were as follows:

|                                          | July 16,<br>2011 | January 1,<br>2011 | July 17,<br>2010 |
|------------------------------------------|------------------|--------------------|------------------|
| Inventories at FIFO, net                 | \$1,974,213      | \$1,737,059        | \$1,692,502      |
| Adjustments to state inventories at LIFO | 117,700          | 126,811            | 124,496          |
| Inventories at LIFO, net                 | \$2,091,913      | \$1,863,870        | \$1,816,998      |

3. Goodwill and Intangible Assets:

Goodwill

The Company has goodwill recorded in both the Advance Auto Parts ("AAP") and Autopart International ("AI") segments. The AAP segment's goodwill balance was \$16,093 at July 16, 2011 and July 17, 2010. The AI segment's goodwill balance was \$18,294 at July 16, 2011 and July 17, 2010. The Company recorded no activity to its goodwill balance for the twelve and twenty-eight weeks ended July 16, 2011 and July 17, 2010, respectively.

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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 16, 2011 and July 17, 2010

(in thousands, except per share data)

(unaudited)

## Intangible Assets Other Than Goodwill

The gross and net carrying amounts of acquired intangible assets as of July 16, 2011, January 1, 2011 and July 17, 2010 are comprised of the following:

|                                          | Acquired intangible assets |       | Not Subject to<br>Amortization | Intangible Assets<br>(excluding<br>goodwill) |
|------------------------------------------|----------------------------|-------|--------------------------------|----------------------------------------------|
|                                          | Subject to Amortization    |       |                                |                                              |
|                                          | Customer<br>Relationships  | Other | Trademark and<br>Tradenames    |                                              |
| Gross:                                   |                            |       |                                |                                              |
| Gross carrying amount at January 1, 2011 | \$9,800                    | \$885 | \$20,550                       | \$31,235                                     |
| Additions                                | —                          | —     | —                              | —                                            |
| Gross carrying amount at July 16, 2011   | \$9,800                    | \$885 | \$20,550                       | \$31,235                                     |
| Gross carrying amount at January 2, 2010 | \$9,800                    | \$885 | \$20,550                       | \$31,235                                     |
| Additions                                | —                          | —     | —                              | —                                            |
| Gross carrying amount at July 17, 2010   | \$9,800                    | \$885 | \$20,550                       | \$31,235                                     |
| Net:                                     |                            |       |                                |                                              |
| Net carrying amount at January 1, 2011   | \$4,578                    | \$232 | \$20,550                       | \$25,360                                     |
| Additions                                | —                          | —     | —                              | —                                            |
| 2011 amortization                        | 517                        | 4     | —                              | 521                                          |
| Net book value at July 16, 2011          | \$4,061                    | \$228 | \$20,550                       | \$24,839                                     |
| Net carrying amount at January 2, 2010   | \$5,543                    | \$326 | \$20,550                       | \$26,419                                     |
| Additions                                | —                          | —     | —                              | —                                            |
| 2010 amortization                        | 517                        | 68    | —                              | 585                                          |
| Net book value at July 17, 2010          | \$5,026                    | \$258 | \$20,550                       | \$25,834                                     |

## Future Amortization Expense

The table below shows expected amortization expense for the next five years for acquired intangible assets recorded as of July 16, 2011:

| Fiscal Year       | Amount |
|-------------------|--------|
| Remainder of 2011 | \$446  |
| 2012              | 967    |
| 2013              | 967    |
| 2014              | 967    |
| 2015              | 751    |





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(unaudited)

## 4. Long-term Debt:

Long-term debt consists of the following:

|                                                                                                                                                                              | July 16,<br>2011 | January 1,<br>2011 | July 17,<br>2010 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------|------------------|
| Revolving Credit Facility at variable interest rates (1.79% at July 16, 2011) due May 27, 2016                                                                               | \$265,000        | \$—                | \$—              |
| 5.75% Senior Unsecured Notes (net of unamortized discount of \$1,124, \$1,176 and \$1,239 at July 16, 2011, January 1, 2011 and July 17, 2010, respectively) due May 1, 2020 | 298,876          | 298,824            | 298,785          |
| Other                                                                                                                                                                        | 2,535            | 3,000              | 3,544            |
|                                                                                                                                                                              | 566,411          | 301,824            | 302,329          |
| Less: Current portion of long-term debt                                                                                                                                      | (991)            | (973)              | (1,075)          |
| Long-term debt, excluding current portion                                                                                                                                    | \$565,420        | \$300,851          | \$301,254        |

## 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 July 16, 2011, the Company had \$265,000 outstanding under its revolving credit facility, and had letters of credit outstanding of \$93,287, which reduced the availability under the revolving credit facility to \$391,713. (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 July 16, 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.

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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.

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 will amortize to interest expense the remaining \$2,481 of previously recorded unrecognized loss in accumulated other comprehensive loss over the remaining life of the swaps which mature in October 2011. As of July 16, 2011, the Company had interest rate swaps with an aggregate notional value of \$275,000 at rates ranging from 4.01% to 4.98%.

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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 July 16, 2011, January 1, 2011 and July 17, 2010:

|                                                | Liability Derivatives<br>Balance Sheet<br>Location | Fair Value as of<br>July 16, 2011 | Fair Value as of<br>January 1, 2011 | Fair Value as of<br>July 17, 2010 |
|------------------------------------------------|----------------------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Derivatives designated as hedging instruments: |                                                    |                                   |                                     |                                   |
| Interest rate swaps                            | Accrued expenses                                   | \$2,888                           | \$9,321                             | \$11,502                          |
| Interest rate swaps                            | Other long-term liabilities                        | —                                 | —                                   | 2,626                             |
|                                                |                                                    | \$2,888                           | \$9,321                             | \$14,128                          |

The table below presents the effect of the Company's derivative financial instruments on the statement of operations for the twelve and twenty-eight weeks ended July 16, 2011 and July 17, 2010, respectively:

|                                                      | Amount of<br>Gain or<br>(Loss)<br>Recognized<br>in OCI on<br>Derivative,<br>net of tax<br>(Effective<br>Portion) | Location of Gain or<br>(Loss) Reclassified<br>from Accumulated<br>OCI into Income<br>(Effective Portion) | Amount of<br>Gain or (Loss)<br>Reclassified<br>from Accumulated<br>OCI into<br>Income, net of<br>tax (Effective<br>Portion) | Location of Gain or<br>(Loss) Recognized in<br>Income on Derivative<br>(Ineffective Portion<br>and Amount<br>Excluded<br>from Effectiveness<br>Testing) | Amount of<br>Gain or (Loss)<br>Recognized in<br>Income on<br>Derivative, net<br>of tax<br>(Ineffective<br>Portion and<br>Amount<br>Excluded from<br>Effectiveness<br>Testing) |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Interest rate swaps                                  |                                                                                                                  |                                                                                                          |                                                                                                                             |                                                                                                                                                         |                                                                                                                                                                               |
| For the Twelve Weeks<br>Ended July 16, 2011:         | \$—                                                                                                              | Interest expense                                                                                         | \$(1,340)                                                                                                                   | ) Other (expense)<br>income, net                                                                                                                        | \$—                                                                                                                                                                           |
| For the Twelve Weeks<br>Ended July 17, 2010:         | \$—                                                                                                              | Interest expense                                                                                         | \$(1,861)                                                                                                                   | ) Other (expense)<br>income, net                                                                                                                        | \$(775)                                                                                                                                                                       |
| For the Twenty-Eight<br>Weeks Ended July 16,<br>2011 | \$—                                                                                                              | Interest expense                                                                                         | \$(3,456)                                                                                                                   | ) Other (expense)<br>income, net                                                                                                                        | \$(200)                                                                                                                                                                       |
| For the Twenty-Eight<br>Weeks Ended July 17,<br>2010 | \$597                                                                                                            | Interest expense                                                                                         | \$(4,096)                                                                                                                   | ) Other (expense)<br>income, net                                                                                                                        | \$(664)                                                                                                                                                                       |

## 6. Fair Value Measurements:

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

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## 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 the Company's financial liabilities that were measured at fair value on a recurring basis as of July 16, 2011, January 1, 2011 and July 17, 2010:

|                       |          | Fair Value Measurements at Reporting Date Using |                   |              |
|-----------------------|----------|-------------------------------------------------|-------------------|--------------|
|                       |          | Level 1                                         | Level 2           | Level 3      |
|                       |          | Quoted Prices in                                | Significant Other | Significant  |
|                       |          | Active Markets for                              | Observable Inputs | Unobservable |
|                       |          | Identical Assets                                |                   | Inputs       |
| Fair Value            |          |                                                 |                   |              |
| As of July 16, 2011   |          |                                                 |                   |              |
| Interest rate swaps   | \$2,888  | \$—                                             | \$2,888           | \$—          |
| As of January 1, 2011 |          |                                                 |                   |              |
| Interest rate swaps   | \$9,321  | \$—                                             | \$9,321           | \$—          |
| As of July 17, 2010   |          |                                                 |                   |              |
| Interest rate swaps   | \$14,128 | \$—                                             | \$14,128          | \$—          |

The fair values of the Company's interest rate swaps represent the estimated amounts that the Company would receive or pay to terminate the agreements taking into consideration the difference between the contract rate of interest and rates currently quoted for agreements of similar terms and maturities (based on the forward yield curve).

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 16, 2011, January 1, 2011 and July 17, 2010, the fair value of the Company's long-term debt with a carrying value of \$565,420, \$300,851 and \$301,254, respectively, was approximately \$594,000, \$316,000 and \$312,657, respectively. The fair value of the Company's senior unsecured notes was determined based on quoted market prices. The Company believes that the carrying value of its other long-term debt and certain long-term liabilities approximate fair value.

## 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 16, 2011, the Company had no significant non-financial assets or liabilities that had been adjusted to fair value subsequent to initial recognition.



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7. Stock Repurchase Program:

The Company's stock repurchase program allows it to repurchase its common stock on the open market or in privately negotiated transactions from time to time in accordance with the requirements of the SEC. During the twelve weeks ended July 16, 2011, the Company repurchased 3,974 shares of its common stock at an aggregate cost of \$239,698, or an average price of \$60.31 per share under its \$500,000 stock repurchase program authorized by its Board of Directors on February 8, 2011. During the twenty-eight weeks ended July 16, 2011, the Company repurchased 8,211 shares of its common stock at an aggregate cost of \$509,682, or an average price of \$62.07 per share. At July 16, 2011, the Company had \$111,880 remaining under the \$500,000 stock repurchase program.

Additionally, the Company repurchased 2 shares of its common stock at an aggregate cost of \$98 in connection with the net settlement of shares issued as a result of the vesting of restricted stock during the twelve weeks ended July 16, 2011. During the twenty-eight weeks ended July 16, 2011, the Company repurchased 72 shares of its common stock at an aggregate cost of \$4,500 in connection with the net settlement of shares issued as a result of the vesting of restricted stock.

During the twelve weeks ended July 17, 2010, the Company repurchased 3,367 shares of its common stock at an aggregate cost of \$167,789, or an average price of \$49.83 per share, under its \$500,000 stock repurchase program, authorized by its Board of Directors on February 16, 2010. During the twenty-eight weeks ended July 17, 2010, the Company repurchased 10,279 shares of its common stock at an aggregate cost of \$455,475, or an average price of \$44.31 per share. Additionally, the Company repurchased 3 shares of its common stock at an aggregate cost of \$155 in connection with the net settlement of shares issued as a result of the vesting of restricted stock during the twelve weeks ended July 17, 2010. During the twenty-eight weeks ended July 17, 2010, the Company repurchased 47 shares of its common stock at an aggregate cost of \$1,896 in connection with the net settlement of shares issued as a result of the vesting of restricted stock.

On August 9, 2011, the Company's Board of Directors authorized a new \$300,000 stock repurchase program which will replace the \$111,880 remaining under the Company's \$500,000 stock repurchase program.

8. 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 16, 2011 and July 17, 2010, earnings of \$292 and \$446, respectively, were allocated to the participating securities. For the twenty-eight week periods ended July 16, 2011 and July 17, 2010, earnings of \$645 and \$983, respectively, were allocated to the participating securities.

Diluted earnings per share are calculated by including the effect of dilutive securities. Share-based awards to purchase approximately 51 and 53 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 16, 2011 and July 17, 2010, respectively, were not included in the calculation of diluted earnings per share because they were anti-dilutive. Share-based awards to purchase approximately 49 and 45 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 16, 2011 and July 17, 2010, respectively, were not included in the calculation of diluted earnings per share because they are anti-dilutive.

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The following table illustrates the computation of basic and diluted earnings per share for the twelve and twenty-eight week periods ended July 16, 2011 and July 17, 2010, respectively:

|                                              | Twelve Weeks Ended |                  | Twenty-Eight Weeks Ended |                  |
|----------------------------------------------|--------------------|------------------|--------------------------|------------------|
|                                              | July 16,<br>2011   | July 17,<br>2010 | July 16,<br>2011         | July 17,<br>2010 |
| Numerator                                    |                    |                  |                          |                  |
| Net income applicable to common shares       | \$ 113,107         | \$ 100,911       | \$ 222,690               | \$ 210,342       |
| Participating securities' share in earnings  | (292)              | (446)            | (645)                    | (983)            |
| Net income applicable to common shares       | \$ 112,815         | \$ 100,465       | \$ 222,045               | \$ 209,359       |
| Denominator                                  |                    |                  |                          |                  |
| Basic weighted average common shares         | 75,979             | 85,394           | 77,973                   | 88,433           |
| Dilutive impact of share-based awards        | 1,447              | 1,016            | 1,511                    | 870              |
| Diluted weighted average common shares       | 77,426             | 86,410           | 79,484                   | 89,303           |
| Basic earnings per common share              |                    |                  |                          |                  |
| Net income applicable to common stockholders | \$ 1.48            | \$ 1.18          | \$ 2.85                  | \$ 2.37          |
| Diluted earnings per common share            |                    |                  |                          |                  |
| Net income applicable to common stockholders | \$ 1.46            | \$ 1.16          | \$ 2.79                  | \$ 2.34          |

## 9. Warranty Liabilities:

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

|                                       | July 16, 2011<br>(28 weeks ended) | January 1, 2011<br>(52 weeks ended) | July 17, 2010<br>(28 weeks ended) |
|---------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Warranty reserve, beginning of period | \$36,352                          | \$30,387                            | \$30,387                          |
| Additions to warranty reserves        | 18,454                            | 45,741                              | 19,420                            |
| Reserves utilized                     | (17,929)                          | (39,776)                            | (18,484)                          |
| Warranty reserve, end of period       | \$36,877                          | \$36,352                            | \$31,323                          |

The Company's warranty liabilities are included in Accrued Expenses in its condensed consolidated financial balance sheets.

## 10. Segment and Related Information:

The Company has the following two reportable segments: AAP and AI. The AAP segment is comprised of 3,424 stores as of July 16, 2011, which operated in the United States, Puerto Rico and the Virgin Islands 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.



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The AI segment consists solely of the operations of Autopart International, and operates stores under the “Autopart International” trade name. AI mainly serves the Commercial market from its 203 stores as of July 16, 2011 located in the Northeastern and Mid-Atlantic regions of the United States and Florida. In addition, its North American Sales Division services warehouse distributors and jobbers throughout North America.

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 generally the same as those used by the Company.

The following table summarizes financial information for each of the Company's business segments for the twelve and twenty-eight weeks ended July 16, 2011 and July 17, 2010, respectively.

|                                                | Twelve Week Periods Ended |               | Twenty-Eight Week Periods Ended |               |
|------------------------------------------------|---------------------------|---------------|---------------------------------|---------------|
|                                                | July 16, 2011             | July 17, 2010 | July 16, 2011                   | July 17, 2010 |
| Net sales                                      |                           |               |                                 |               |
| AAP                                            | \$1,409,284               | \$1,362,487   | \$3,223,641                     | \$3,128,056   |
| AI                                             | 74,320                    | 59,282        | 162,855                         | 128,111       |
| Eliminations <sup>(1)</sup>                    | (3,765)                   | (3,813)       | (8,594)                         | (7,605)       |
| Total net sales                                | \$1,479,839               | \$1,417,956   | \$3,377,902                     | \$3,248,562   |
| Income before provision for income taxes       |                           |               |                                 |               |
| AAP                                            | \$175,775                 | \$160,388     | \$350,443                       | \$336,274     |
| AI                                             | 4,933                     | 2,336         | 6,578                           | 3,190         |
| Total income before provision for income taxes | \$180,708                 | \$162,724     | \$357,021                       | \$339,464     |
| Provision for income taxes                     |                           |               |                                 |               |
| AAP                                            | \$65,558                  | \$61,010      | \$131,634                       | \$128,010     |
| AI                                             | 2,043                     | 803           | 2,697                           | 1,112         |
| Total provision for income taxes               | \$67,601                  | \$61,813      | \$134,331                       | \$129,122     |
| Segment assets                                 |                           |               |                                 |               |
| AAP                                            | \$3,348,447               | \$3,128,853   | \$3,348,447                     | \$3,128,853   |
| AI                                             | 255,021                   | 199,874       | 255,021                         | 199,874       |
| Total segment assets                           | \$3,603,468               | \$3,328,727   | \$3,603,468                     | \$3,328,727   |

For the twelve weeks ended July 16, 2011, eliminations represented net sales of \$1,962 from AAP to AI and \$1,803 from AI to AAP. For the twelve weeks ended July 17, 2010, eliminations represented net sales of \$1,579

<sup>(1)</sup> from AAP to AI and \$2,234 from AI to AAP. For the twenty-eight weeks ended July 16, 2011, eliminations represented net sales of \$4,707 from AAP to AI and \$3,887 from AI to AAP. For the twenty-eight weeks ended July 17, 2010, eliminations represented net sales of \$3,450 from AAP to AI and \$4,155 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.

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 1, 2011 (filed with the Securities and Exchange Commission, or SEC, on March 1, 2011), which we refer to as our 2010 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;
- competitive pricing and other competitive pressures;
- our ability to implement our business strategy;
- our ability to expand our business, including the location of available and suitable real estate for new store locations, the integration of any acquired businesses and the continued increase in supply chain capacity and efficiency;
- our ability to attract and retain qualified employees, or Team Members;
- deterioration in general macro-economic conditions, including unemployment, inflation or deflation, consumer debt levels, high fuel and energy costs, uncertain credit markets or other recessionary type conditions which could have a negative impact on our business, financial condition, results of operations and cash flows;
- 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;
- business interruptions due to the occurrence of natural disasters, extended periods of unfavorable weather, computer system malfunction, wars or acts of terrorism; and
- the impact of global climate change or legal and regulatory responses to such change.

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 SEC and you should not place undue reliance on those statements.



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### Introduction

We are a leading specialty retailer of automotive aftermarket parts, accessories, batteries and maintenance items primarily operating within the United States. Our stores carry an extensive product line for cars, vans, sport utility vehicles and light trucks. We serve both "do-it-yourself," or DIY, and "do-it-for-me," or Commercial, customers. Our Commercial customers consist primarily of delivery customers for whom we deliver product from our store locations to our Commercial customers' places of business, including independent garages, service stations and auto dealers. At July 16, 2011, we operated a total of 3,627 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 Northeastern, Southeastern and Midwestern regions of 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 16, 2011, we operated 3,424 stores in the AAP segment. Our AAP 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 AAP segment also includes our e-commerce operations.

At July 16, 2011, we operated 203 stores in the AI segment under the "Autopart International" trade name. AI's business primarily serves the Commercial market from its store locations in the Northeastern and Mid-Atlantic regions of the United States and Florida. In addition, its North American Sales Division services warehouse distributors and jobbers throughout North America. For additional information regarding our segments, see Note 10, Segments and Related Information, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

### Management Overview

We generated earnings per diluted share, or diluted EPS, of \$1.46 during our twelve weeks ended July 16, 2011 ("second quarter of Fiscal 2011") compared to \$1.16 for the comparable period of Fiscal 2010. The increase in our diluted EPS was driven by an increase in our operating income and the repurchase of shares of our common stock. Our overall financial results during the second quarter of Fiscal 2011 improved from the previous quarter beginning with more favorable sales results. We believe that adjustments we made during our first quarter to the pace and breadth of change from the implementation of our strategic initiatives contributed to the improvement in our sales growth during the second quarter. Although our sales growth improved during the second quarter, we believe this growth will remain constrained due to the challenging economic environment.

Contributing to our favorable operating income results during the second quarter was the slower growth in our selling, general and administrative expense, or SG&A, rate partially offset by a decrease in our gross profit rate compared to the comparable period of Fiscal 2010. Our SG&A rate decreased as a result of lower incentive compensation, benefits from our new variable store labor model, which enables us to better staff our stores to customer demand, and a focused reduction in support and discretionary expenses partially offset by increased costs associated with the investments we are making in Commercial, e-commerce, global sourcing and other initiatives under our two key strategies. The decrease in our gross profit rate during the second quarter compared to the comparable period in Fiscal 2010 was due to a number of internal and external factors, including higher shrink expense, fuel prices and product acquisition costs and additional supply chain costs associated with our supply chain investments.

Although our operating cash flow for the second quarter of Fiscal 2011 was less than the comparable period of last year, we used available cash and borrowings to repurchase shares of our common stock and invest in capital improvements and initiatives to support our strategies. As discussed in the Business Update below, we remain committed to investing in our two key strategies. However, we have adapted the pace of change in response to our

year-to-date performance in Fiscal 2011 and overall economic uncertainties.

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### Summary of Second Quarter Financial Results

A high-level summary of our financial results for the second quarter of Fiscal 2011 is included below:

Net sales during the second quarter of Fiscal 2011 increased 4.4% to \$1,479.8 million as compared to the second quarter of Fiscal 2010, driven by the addition of 130 net new stores over the past 12 months and a 2.5% increase in comparable store sales.

Our operating income increased \$17.3 million for the second quarter of Fiscal 2011 over the comparable period of Fiscal 2010 and increased as a percentage of total sales by 66 basis points due to the decrease, or leverage, of our SG&A rate partially offset by a lower gross profit rate.

Our inventory balance as of July 16, 2011 increased \$274.9 million, or 15.1%, over the comparable period of last year primarily driven by our Superior Availability initiatives, lower than expected sales during the twenty-eight weeks ended July 16, 2011 and new store growth.

We generated operating cash flow of \$469.6 million during the the twenty-eight weeks ended July 16, 2011, a decrease of 5.2% over the comparable period in Fiscal 2010 primarily due to a larger increase in inventory, net of accounts payable, versus the comparable period of last year.

We used available cash and borrowings to repurchase 4.0 million shares of our common stock under our stock repurchase program at a cost of \$239.7 million during the second quarter of Fiscal 2011.

We completed the refinancing of our revolving credit facility with a similar \$750.0 million facility which matures in May 2016.

Refer to the Results of Operations and Liquidity sections for further details of our income statement and cash flow results, respectively.

### Business Update

In Fiscal 2011, we have increased our focus on differentiating Advance from our competition through our commitment to exceptional service which is reflected in our new customer promise – service is our best part – and the simplification of our previous four key strategies into two strategies – Service Leadership and Superior Availability. Through these two strategies, we believe we can continue to build on the initiatives discussed below and produce favorable financial results over the long-term.

Our Commercial sales, as a percentage of total sales, increased to 37% for the second quarter of 2011 as compared to 34% for the same period in Fiscal 2010. Since 2008 we have completed incremental investments in additional parts professionals, delivery trucks and drivers in approximately half of our AAP stores with Commercial programs. We have decelerated the pace of these investments in recent quarters as we have increased our focus on Service Leadership and specifically in those areas we believe have a direct impact on customer satisfaction for both our Commercial and DIY customers such as labor scheduling, training, commercial delivery execution and increased advertising. On an ongoing basis, we closely monitor independent customer satisfaction scores for both Commercial and DIY customers as a measure of customer service and product availability. Our e-commerce operations continue to supplement our store sales growth through an increase in DIY sales from our AdvanceAutoParts.com website and more recently through the added capability for our Commercial customers to order product on-line.

Our Commercial and DIY sales have benefited from our added parts availability and merchandising initiatives. We continue to expand our supply chain network to increase our ability to get the right product to our customers. We upgraded the inventory levels in 266 of our stores during the quarter and added 14 stores to our HUB store network bringing the total number of HUBs to 253. Our HUB stores stock a wider selection and greater supply of inventory and provide same-day delivery to our other stores in their respective areas. We continue to increase the amount of

product we source globally, which we believe will improve our gross profit across numerous product categories and allow us to more quickly source the products our customers need.

We anticipate the pace of our growth in Commercial to continue to exceed the pace of our DIY growth. The continued growth in our Commercial sales emphasizes our focus on an integrated service model and our goal of achieving a 50/50 mix of Commercial and DIY sales. While we expect our gross profit rate for Fiscal 2011 to be lower than Fiscal 2010 due to higher fuel costs, increased shrink, inflationary pressures in the market place and investments we are making in our supply chain network, we believe our current initiatives are key for our long-term sales growth and improvement in our gross profit rate. Combined with our focus on balancing support and discretionary expenses with the additional cost of investments in our key strategies, we are committed to achieving our longer-term growth and profitability goals.

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## Automotive Aftermarket Industry

The automotive aftermarket industry remains strong despite volatility in the overall economic environment. Favorable industry dynamics include:

- increase in number and average age of vehicles;
- lower new car sales vs. the five-year average;
- long-term expectation that miles driven will increase based on historical trends; and
- fragmented commercial market.

Conversely, there are a number of factors which are negatively affecting the automotive aftermarket industry and include:

- significantly higher gas prices;
- near-term downward trend in miles driven; and
- overall reduction in discretionary spending on elective maintenance and other accessories.

Given the uncertainty in the economic environment, we have adjusted our operations and financial plans without compromising our core strategic investments over the long-term. We believe that the execution of the various initiatives under our key strategies will allow us to continue to increase our share of the total automotive aftermarket with a higher growth potential driven by the more fragmented Commercial market.

## 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 16, 2011 and July 17, 2010, respectively, and fiscal years ended January 1, 2011 and January 2, 2010. We use these key statistics and metrics to measure the financial progress of our key strategies.

|                                              | Twelve Weeks Ended |                  | Twenty-Eight Weeks Ended |               |             |             |
|----------------------------------------------|--------------------|------------------|--------------------------|---------------|-------------|-------------|
|                                              | July 16,<br>2011   | July 17,<br>2010 | July 16, 2011            | July 17, 2010 | FY 2010     | FY 2009     |
| <b>Operating Results:</b>                    |                    |                  |                          |               |             |             |
| Total net sales (in 000s)                    | \$1,479,839        | \$1,417,956      | \$3,377,902              | \$3,248,562   | \$5,925,203 | \$5,412,623 |
| Comparable store sales growth <sup>(1)</sup> | 2.5                | % 5.8            | % 1.9                    | % 6.9         | % 8.0       | % 5.3       |
| Gross profit                                 | 49.7               | % 50.4           | % 50.2                   | % 50.1        | % 50.0      | % 48.9      |
| SG&A                                         | 37.0               | % 38.3           | % 39.1                   | % 39.2        | % 40.1      | % 40.5      |
| Operating profit                             | 12.8               | % 12.1           | % 11.1                   | % 10.9        | % 9.9       | % 8.4       |
| Diluted earnings per share                   | \$1.46             | \$1.16           | \$2.79                   | \$2.34        | \$3.95      | \$2.83      |
| <b>Key Statistics and Metrics:</b>           |                    |                  |                          |               |             |             |
| Number of stores, end of period              | 3,627              | 3,497            | 3,627                    | 3,497         | 3,563       | 3,420       |
| Total store square footage, end of period    | 26,400             | 25,543           | 26,400                   | 25,543        | 25,950      | 24,973      |

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(in 000s)

|                                                            |         |         |         |         |         |         |
|------------------------------------------------------------|---------|---------|---------|---------|---------|---------|
| Total Team Members,<br>end of period                       | 52,141  | 50,961  | 52,141  | 50,961  | 51,017  | 48,771  |
| Average net sales per<br>store (in 000s) <sup>(2)(3)</sup> | \$1,700 | \$1,638 | \$1,700 | \$1,638 | \$1,697 | \$1,595 |
| Operating income per<br>store (in 000s) <sup>(2)(4)</sup>  | \$170   | \$149   | \$170   | \$149   | \$168   | \$134   |
| Gross margin return<br>on inventory <sup>(2)(5)</sup>      | \$5.89  | \$4.70  | \$5.89  | \$4.70  | \$5.05  | \$3.98  |

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- Comparable store sales include net sales from our stores and e-commerce website. The change in 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.
- (1) These financial metrics presented for each quarter are calculated on an annual basis and accordingly reflect the last four fiscal quarters completed.
- (2) Average net sales per store is calculated as net sales divided by the average of the beginning and ending store count for the respective period.
- (3) Operating income per store is calculated as operating income divided by the average of beginning and ending total store count for the respective period. Excluding the impact of store divestitures in Fiscal 2009, operating income per store in the second quarter of Fiscal 2010 was \$153. Operating income per store for Fiscal 2009 was \$142 excluding the \$26,100 impact of store divestitures from operating income.
- (4) 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.
- (5)

## Store Development by Segment

The following table sets forth the total number of new, closed and relocated stores and stores with Commercial delivery programs during the twelve and twenty-eight weeks ended July 16, 2011 and July 17, 2010 by segment. We lease approximately 79% of our AAP stores. We lease 100% of our AI stores. All of our AI stores have Commercial delivery programs.

## AAP

|                                          | Twelve Weeks Ended |                  | Twenty-Eight Weeks Ended |                  |
|------------------------------------------|--------------------|------------------|--------------------------|------------------|
|                                          | July 16,<br>2011   | July 17,<br>2010 | July 16,<br>2011         | July 17,<br>2010 |
| Number of stores at beginning of period  | 3,397              | 3,295            | 3,369                    | 3,264            |
| New stores                               | 28                 | 22               | 56                       | 54               |
| Closed stores                            | (1                 | ) (1             | ) (1                     | ) (2             |
| Number of stores, end of period          | 3,424              | 3,316            | 3,424                    | 3,316            |
| Relocated stores                         | 2                  | —                | 4                        | 4                |
| Stores with commercial delivery programs | 3,074              | 2,968            | 3,074                    | 2,968            |

## AI

|                                          | Twelve Weeks Ended |                  | Twenty-Eight Weeks Ended |                  |
|------------------------------------------|--------------------|------------------|--------------------------|------------------|
|                                          | July 16,<br>2011   | July 17,<br>2010 | July 16,<br>2011         | July 17,<br>2010 |
| Number of stores at beginning of period  | 203                | 167              | 194                      | 156              |
| New stores                               | —                  | 14               | 9                        | 25               |
| Closed stores                            | —                  | —                | —                        | —                |
| Number of stores, end of period          | 203                | 181              | 203                      | 181              |
| Relocated stores                         | 1                  | —                | 2                        | 3                |
| Stores with commercial delivery programs | 203                | 181              | 203                      | 181              |

During Fiscal 2011, we anticipate adding 110 to 120 AAP stores and approximately 10 AI stores and closing approximately 10 total stores.

## 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 16, 2011, we consistently applied the critical accounting policies discussed in our 2010 Form 10-K. For a complete discussion regarding these critical accounting policies, refer to the 2010 Form 10-K.



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## 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 and sales from our e-commerce website. 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) and by including e-commerce sales. We include sales from relocated stores in comparable store sales from the original date of opening.

## 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 (vi) 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.

## Selling, General and Administrative Expenses

SG&A expenses consist 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, closed store expense, impairment charges, if any, and other related expenses.

## Results 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<br>(unaudited) |                  | Twenty-Eight Week Periods<br>Ended (unaudited) |               |
|--------------------------------------------------------------|------------------------------------------|------------------|------------------------------------------------|---------------|
|                                                              | July 16,<br>2011                         | July 17,<br>2010 | July 16, 2011                                  | July 17, 2010 |
| Net sales                                                    | 100.0                                    | % 100.0          | % 100.0                                        | % 100.0       |
| Cost of sales, including purchasing and<br>warehousing costs | 50.3                                     | 49.6             | 49.8                                           | 49.9          |
| Gross profit                                                 | 49.7                                     | 50.4             | 50.2                                           | 50.1          |
| Selling, general and administrative expenses                 | 37.0                                     | 38.3             | 39.1                                           | 39.2          |
| Operating income                                             | 12.8                                     | 12.1             | 11.1                                           | 10.9          |
| Interest expense                                             | (0.5)                                    | ) (0.5)          | ) (0.5)                                        | ) (0.4)       |
| Other expense, net                                           | 0.0                                      | (0.1)            | 0.0                                            | 0.0           |
| Provision for income taxes                                   | 4.6                                      | 4.4              | 4.0                                            | 4.0           |

|            |     |       |       |       |   |
|------------|-----|-------|-------|-------|---|
| Net income | 7.6 | % 7.1 | % 6.6 | % 6.5 | % |
|------------|-----|-------|-------|-------|---|

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Twelve and Twenty-Eight Weeks Ended July 16, 2011 Compared to Twelve and Twenty-Eight Weeks Ended July 17, 2010

## Net Sales

Net sales for the twelve weeks ended July 16, 2011 were \$1,479.8 million, an increase of \$61.9 million, or 4.4%, as compared to net sales for the twelve weeks ended July 17, 2010. This growth was primarily due to sales from new AAP and AI stores opened within the last four fiscal quarters and an increase in comparable store sales.

For the twelve weeks ended July 16, 2011, AAP produced net sales of \$1,409.3 million, an increase of \$46.8 million, or 3.4%, as compared to net sales for the twelve weeks ended July 17, 2010. The AAP comparable store sales increase of 2.1% was driven by an increase in average sales per customer. For the twelve weeks ended July 16, 2011, AI produced net sales of \$74.3 million, an increase of \$15.0 million, or 25.4%, as compared to net sales for the twelve weeks ended July 17, 2010.

|                                         | Twelve Weeks Ended<br>July 16, 2011 |        |       | July 17, 2010 |       |       |   |
|-----------------------------------------|-------------------------------------|--------|-------|---------------|-------|-------|---|
|                                         | AAP                                 | AI     | Total | AAP           | AI    | Total |   |
| Comp Store Sales %                      | 2.1                                 | % 13.4 | % 2.5 | % 6.0         | % 1.1 | % 5.8 | % |
| Net Stores Opened in last twelve months | 108                                 | 22     | 130   | 51            | 39    | 90    |   |

Net sales for the twenty-eight weeks ended July 16, 2011 were \$3,377.9 million, an increase of \$129.3 million, or 4.0%, as compared to net sales for the twenty-eight weeks ended July 17, 2010. This growth was primarily due to sales from new AAP and AI stores opened within the last four fiscal quarters and an increase in comparable store sales.

For the twenty-eight weeks ended July 16, 2011, AAP produced net sales of \$3,223.6 million, an increase of \$95.6 million, or 3.1%, as compared to net sales for the twenty-eight weeks ended July 17, 2010. The AAP comparable store sales increase of 1.6% was driven by an increase in average sales per customer. For the twenty-eight weeks ended July 16, 2011, AI produced net sales of \$162.9 million, an increase of \$34.7 million, or 27.1%, as compared to net sales for the twenty-eight weeks ended July 17, 2010.

|                                         | Twenty-Eight Weeks Ended<br>July 16, 2011 |        |       | July 17, 2010 |       |       |   |
|-----------------------------------------|-------------------------------------------|--------|-------|---------------|-------|-------|---|
|                                         | AAP                                       | AI     | Total | AAP           | AI    | Total |   |
| Comp Store Sales %                      | 1.6                                       | % 10.2 | % 1.9 | % 7.0         | % 3.6 | % 6.9 | % |
| Net Stores Opened in last twelve months | 108                                       | 22     | 130   | 51            | 39    | 90    |   |

## Gross Profit

Gross profit for the twelve weeks ended July 16, 2011 was \$735.8 million, or 49.7% of net sales, as compared to \$715.3 million, or 50.4% of net sales, for the comparable period of last year, representing a decrease of 72 basis points. This decrease in gross profit as a percentage of net sales was driven by increased shrink, supply chain costs and product acquisition costs partially offset by continued improvements in merchandising and pricing capabilities. The increase in supply chain costs was reflective of higher fuel prices and investments in additional HUB stores. We experienced an increase in the cost of certain product categories as a result of rising commodity inflation, which we have not fully passed through to our customers due to market pressures from overall competition and general

economic conditions. In addition, the decrease in our gross profit rate was driven by the increase in our lower margin commercial sales.

Gross profit for the twenty-eight weeks ended July 16, 2011 was \$1,694.0 million, or 50.2% of net sales, as compared to \$1,626.0 million, or 50.1% of net sales, for the comparable period of last year, representing an increase of 10 basis points. This increase in gross profit as a percentage of net sales was driven by improved merchandising and pricing capabilities (such as global sourcing and price optimization) and improved parts availability partially offset by increased shrink, supply chain costs and product acquisition costs.

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SG&A

SG&A expenses for the twelve weeks ended July 16, 2011 were \$546.9 million, or 37.0% of net sales, as compared to \$543.7 million, or 38.3% of net sales, for the comparable period of last year, representing a decrease of 138 basis points. This decrease as a percentage of sales was primarily due to less incentive compensation as a result of lower comparable store sales growth compared to last year, store labor leverage resulting from the benefits of our new variable customer driven labor model and a decrease in support and discretionary costs. Partially offsetting this decrease were costs associated with investments in strategic areas such as Commercial, e-commerce and global sourcing.

SG&A expenses for the twenty-eight weeks ended July 16, 2011 were \$1,319.1 million, or 39.1% of net sales, as compared to \$1,272.3 million, or 39.2% of net sales, for the comparable period of last year, representing a decrease of 11 basis points. This decrease as a percentage of sales was primarily due to lower incentive compensation partially offset by increased advertising.

Operating Income

Operating income for the twelve weeks ended July 16, 2011 was \$188.9 million, or 12.8% of net sales, as compared to \$171.6 million, or 12.1% of net sales, for the comparable period of last year, representing an increase of 66 basis points. This increase was due to a lower SG&A rate partially offset by a lower gross profit rate.

AAP produced operating income of \$184.0 million, or 13.1% of net sales, for the twelve weeks ended July 16, 2011 as compared to \$169.3 million, or 12.4% of net sales, for the comparable period of last year. AI generated operating income for the twelve weeks ended July 16, 2011 of \$4.9 million as compared to \$2.3 million for the comparable period of last year. AI's operating income increased during the second quarter primarily due to the leverage of SG&A as a result of its strong comparable store sales results and decelerated pace of new store openings for Fiscal 2011.

Operating income for the twenty-eight weeks ended July 16, 2011 was \$374.9 million, or 11.1% of net sales, as compared to \$353.8 million, or 10.9% of net sales, for the comparable period of last year, representing an increase of 21 basis points. This increase was due to a higher gross profit rate and a lower SG&A rate.

AAP produced operating income of \$368.3 million, or 11.4% of net sales, for the twenty-eight weeks ended July 16, 2011 as compared to \$350.6 million, or 11.2% of net sales, for the comparable period of last year. AI generated operating income for the twenty-eight weeks ended July 16, 2011 of \$6.5 million as compared to \$3.2 million for the comparable period of last year. AI's operating income increased during the twenty-eight weeks ended July 16, 2011 primarily due to the leverage of SG&A as a result of its strong comparable store sales results and decelerated pace of new store openings for Fiscal 2011.

Interest Expense

Interest expense for the twelve weeks ended July 16, 2011 was \$8.0 million, or 0.5% of net sales, as compared to \$7.2 million, or 0.5% of net sales, for the comparable period in Fiscal 2010. The dollar increase in interest expense is primarily a result of higher average borrowings outstanding during the twelve weeks ended July 16, 2011 compared to the comparable period in Fiscal 2010.

Interest expense for the twenty-eight weeks ended July 16, 2011 was \$17.7 million, or 0.5% of net sales, as compared to \$13.1 million, or 0.4% of net sales, for the comparable period in Fiscal 2010. The increase in interest expense as a percentage of sales is primarily a result of the amortization of the previously recorded losses in accumulated other comprehensive loss over the remaining life of our interest rate swaps and higher average borrowings outstanding

during the twenty-eight weeks ended July 16, 2011 compared to the comparable period in Fiscal 2010. The swaps are associated with bank debt which we repaid near the beginning of our second quarter of Fiscal 2010.

#### Income Taxes

Income tax expense for the twelve weeks ended July 16, 2011 was \$67.6 million, as compared to \$61.8 million for the comparable period of Fiscal 2010. Our effective income tax rate was 37.4% and 38.0% for the twelve weeks ended July 16, 2011 and July 17, 2010, respectively.

Income tax expense for the twenty-eight weeks ended July 16, 2011 was \$134.3 million, as compared to \$129.1 million for the comparable period of Fiscal 2010. Our effective income tax rate was 37.6% and 38.0% for the twenty-eight weeks ended July 16, 2011 and July 17, 2010, respectively.

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### Net Income

Net income for the twelve weeks ended July 16, 2011 was \$113.1 million, or \$1.46 per diluted share, as compared to \$100.9 million, or \$1.16 per diluted share, for the comparable period of Fiscal 2010. As a percentage of net sales, net income for the twelve weeks ended July 16, 2011 was 7.6%, as compared to 7.1% for the comparable period of Fiscal 2010. The increase in diluted EPS was primarily driven by an increase in operating income and our repurchase of 11.0 million shares of our common stock over the last four fiscal quarters.

Net income for the twenty-eight weeks ended July 16, 2011 was \$222.7 million, or \$2.79 per diluted share, as compared to \$210.3 million, or \$2.34 per diluted share, for the comparable period of Fiscal 2010. As a percentage of net sales, net income for the twenty-eight weeks ended July 16, 2011 was 6.6%, as compared to 6.5% for the comparable period of Fiscal 2010. The increase in diluted EPS was primarily driven by our repurchase of 11.0 million shares of our common stock over the last four fiscal quarters and an increase in operating income.

### 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 and estimated income taxes. In addition, we have used available funds to repay borrowings under our revolving credit facility and repurchase shares of our common stock under our stock repurchase program. We have funded these requirements primarily through cash generated from operations, supplemented by borrowings under our revolving credit facilities and notes offering 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 16, 2011, our cash and cash equivalents balance was \$68.8 million, an increase of \$9.6 million compared to January 1, 2011 (the end of Fiscal 2010). This increase in cash primarily resulted from cash inflow from operations partially offset by the purchase of property and equipment and the repurchase of shares of our common stock. Additional discussion of our cash flow results, including the comparison of the activity for the twenty-eight weeks ended July 16, 2011 to the comparable period of Fiscal 2010, is set forth in the Analysis of Cash Flows section.

At July 16, 2011, our outstanding indebtedness was \$566.4 million, or \$264.6 million higher when compared to January 1, 2011, and consisted of borrowings of \$265.0 million under our revolving credit facility, \$298.9 million under our senior unsecured notes, \$2.2 million outstanding on an economic development note and \$0.3 million outstanding under other financing arrangements. Additionally, we had \$93.3 million in letters of credit outstanding, which reduced our total availability under the revolving credit facility to \$391.7 million. The letters of credit serve as collateral for our self-insurance policies and routine purchases of imported merchandise.

#### Capital Expenditures

Our primary capital requirements have been the funding of our continued new store openings, maintenance of existing stores, the construction and upgrading of distribution centers, and the development of both proprietary and purchased information systems. Our capital expenditures were \$151.6 million for the twenty-eight weeks ended July 16, 2011, or \$52.3 million more than the twenty-eight weeks ended July 17, 2010. During the twenty-eight weeks ended July 16, 2011, we opened 56 AAP stores and 9 AI stores.

Our future capital requirements will depend in large part on the number of and timing for new stores we open within a given year and the investments we make in information technology and our supply chain network. We anticipate adding approximately 110 to 120 AAP and approximately 10 AI stores and closing approximately 10 stores during Fiscal 2011. We also plan to make continued investments in the maintenance of our existing stores and additional investments in our supply chain and information technology to support our key strategies.



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## Stock Repurchase Program

Our stock repurchase program allows us to repurchase our common stock on the open market or in privately negotiated transactions from time to time in accordance with the requirements of the SEC. During the twelve weeks ended July 16, 2011, we repurchased 4.0 million shares of our common stock at an aggregate cost of \$239.7 million, or an average price of \$60.31 per share under our \$500 million stock repurchase program authorized by our Board of Directors on February 8, 2011. During the twenty-eight weeks ended July 16, 2011, we repurchased \$8.2 million shares of our common stock at an aggregate cost of \$509.7 million, or an average price of \$62.07 per share. At July 16, 2011, we had \$111.9 million remaining under the \$500 million stock repurchase program.

Additionally, we repurchased 2 thousand shares of our common stock at an aggregate cost of \$98 thousand in connection with the net settlement of shares issued as a result of the vesting of restricted stock during the twelve weeks ended July 16, 2011. During the twenty-eight weeks ended July 16, 2011, we repurchased 72 thousand shares of our common stock at an aggregate cost of \$4.5 million in connection with the net settlement of shares issued as a result of the vesting of restricted stock.

On August 9, 2011, our Board of Directors authorized a new \$300 million stock repurchase program which will replace the \$111.9 million remaining under our \$500 million stock repurchase program.

## Dividend

Since Fiscal 2006, our Board of Directors has declared quarterly dividends of \$0.06 per share to stockholders of record. Subsequent to July 16, 2011, our Board of Directors declared a quarterly dividend of \$0.06 per share to be paid on October 7, 2011 to all common stockholders of record as of September 23, 2011.

## Analysis of Cash Flows

A summary and analysis of our cash flows for the twenty-eight week period ended July 16, 2011 as compared to the twenty-eight week period ended July 17, 2010 is included below.

|                                           | Twenty-Eight Week Periods Ended |               |
|-------------------------------------------|---------------------------------|---------------|
|                                           | July 16, 2011                   | July 17, 2010 |
|                                           | (in millions)                   |               |
| Cash flows from operating activities      | \$469.6                         | \$495.5       |
| Cash flows from investing activities      | (150.6)                         | ) (99.2)      |
| Cash flows from financing activities      | (309.4)                         | ) (335.5)     |
| Net increase in cash and cash equivalents | \$9.6                           | \$60.8        |

## Operating Activities

For the twenty-eight weeks ended July 16, 2011, net cash provided by operating activities decreased \$25.9 million to \$469.6 million. This net decrease in operating cash flow was primarily due to a larger increase in inventory, net of accounts payable, partially offset by an increase in the provision for deferred income taxes. The increase in inventory as of the end of the second quarter of Fiscal 2011 compared to the comparable period of last year was primarily driven by our Superior Availability initiatives, lower than expected sales during the twenty-eight weeks ended July 16, 2011 and new store growth.

## Investing Activities

For the twenty-eight weeks ended July 16, 2011, net cash used in investing activities increased by \$51.3 million to \$150.6 million. The increase in cash used was primarily due to an increase in IT and supply chain investments and an increase in routine spending on our existing stores.

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### 3B Financing Activities

For the twenty-eight weeks ended July 16, 2011, net cash used in financing activities decreased by \$26.1 million to \$309.4 million. Cash flows from financing activities increased as a result of an increase of \$167.2 million in net borrowings.

Cash flows from financing activities decreased as a result of:

- \$71.8 million increase in the repurchase of common stock under our stock repurchase program; and
- \$43.0 million decrease in financed vendor accounts payable.

### Long-Term Debt

#### Bank Debt

On May 27, 2011, we entered into a new \$750.0 million unsecured five-year revolving credit facility with our wholly-owned subsidiary, Advance Stores Company, Incorporated, or Stores, serving as the borrower. This new facility replaced our previous revolving credit facility. Proceeds from the new revolving credit facility were used to repay \$165.0 million of principal outstanding on our previous revolving credit facility. In conjunction with this refinancing, we incurred \$3.6 million of financing costs which we 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 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 revolving credit facility. 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 matures on May 27, 2016.

As of July 16, 2011, we had \$265.0 million outstanding under our revolving credit facility, and had letters of credit outstanding of \$93.3 million, which reduced the availability under the revolving credit facility to \$391.7 million. (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 our 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 our credit rating.

Our revolving credit facility contains covenants restricting our 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 our business and the business conducted by our subsidiaries, (7) enter into certain hedging transactions, and (8) change our status as a holding company. We are also required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. We were in compliance with our covenants in place at July 16, 2011 and January 1, 2011, respectively. Our revolving credit facility also provides for customary events of default, covenant defaults and cross-defaults to its other material indebtedness.

### Senior Unsecured Notes

Our 5.75% senior unsecured notes, the Notes, were issued in April 2010 at 99.587% of the principal amount of \$300 million and are due May 1, 2020. We served as the issuer of the Notes with each of our domestic subsidiaries currently serving as subsidiary guarantors. The terms of the Notes are governed by an indenture and supplemental indenture (collectively the “Indenture”) among us, 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. We 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), we 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. We will be permitted to release guarantees without the consent of holders of the Notes under the circumstances described in the Indenture.

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As of July 16, 2011, we had a credit rating from Standard & Poor's of BBB- and from Moody's Investor Service of Baa3. The current outlooks by Standard & Poor's and Moody's are both stable. The current pricing grid used to determine our borrowing rate under our revolving credit facility is based on our credit ratings. If these credit ratings decline, our interest rate on outstanding balances may increase. Conversely, if these credit ratings improve, our interest rate may decrease. In addition, if our credit ratings decline, our access to financing may become more limited.

### Off-Balance-Sheet Arrangements

As of July 16, 2011, 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 obligations table including operating lease payments, interest payments on our revolving credit facility and letters of credit outstanding.

### Contractual Obligations

As of July 16, 2011, there were no material changes to our outstanding contractual obligations as compared to our contractual obligations outstanding as of January 1, 2011. For information regarding our contractual obligations see "Contractual Obligations" in our 2010 Form 10-K.

### Seasonality

Our business is somewhat seasonal in nature, with the highest sales usually 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.

### New Accounting Pronouncements

For a description of recently announced accounting standards, including the expected dates of adoption and estimated effects, if any, on our condensed consolidated financial statements, see New Accounting Pronouncements in Note 1 of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of July 16, 2011, we have \$298.9 million of senior unsecured notes outstanding with an interest rate of 5.75% due in 2020 and \$265.0 million outstanding on our revolving credit facility which matures in May 2016. As a result of our borrowings under our revolving credit facility, we may be exposed to cash flow risk due to changes in LIBOR.

Historically we have used interest rate swaps to mitigate the impact that movements in LIBOR would have on the interest from our bank debt. As we have paid off our bank debt, these interest rate swaps now present their own exposure to movements in LIBOR. The interest rate swaps outstanding as of July 16, 2011 mature in October 2011. We did not enter into any new interest rate swaps as part of the refinancing of our revolver in May 2011.

The table below presents principal cash flows and related weighted average interest rates on our interest rate swaps outstanding at July 16, 2011, by expected maturity dates. The table includes the impact of the anticipated average pay and receive rates of our interest rate swaps through their maturity dates. Expected maturity dates approximate contract terms. Weighted average variable rates are based on implied forward rates in the yield curve at July 16, 2011. Implied forward rates should not be considered a predictor of actual future interest rates.

|                                      | Remainder<br>of Fiscal<br>2011<br>(dollars in thousands) | Fiscal<br>2012 | Fiscal<br>2013 | Fiscal<br>2014 | Fiscal<br>2015 | Thereafter | Total     | Fair<br>Market<br>Liability |
|--------------------------------------|----------------------------------------------------------|----------------|----------------|----------------|----------------|------------|-----------|-----------------------------|
| Variable rate                        | \$—                                                      | \$—            | \$—            | \$—            | \$—            | \$265,000  | \$265,000 | \$—                         |
| Weighted<br>average<br>interest rate | 1.0                                                      | % 2.0          | % 2.4          | % 3.1          | % 3.9          | % 4.5      | % 2.8     | % —                         |
| Interest rate<br>swaps:              |                                                          |                |                |                |                |            |           |                             |
| Variable to<br>fixed <sup>(1)</sup>  | \$275,000                                                | \$—            | \$—            | \$—            | —              | —          | 275,000   | \$2,888                     |
| Weighted<br>average pay<br>rate      | 4.5                                                      | % —            | —              | —              | —              | —          | 4.5       | % —                         |
| Weighted<br>average<br>receive rate  | —                                                        | —              | —              | —              | —              | —          | —         | —                           |

<sup>(1)</sup> Amounts presented may not be outstanding for the entire year.

## ITEM 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.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended July 16, 2011 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

## 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 16, 2011 (amounts in thousands, except per share amounts):

| Period                         | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share <sup>(1)</sup> | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup> | Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> |
|--------------------------------|-------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| April 24, 2011 to May 21, 2011 | 661                                             | \$64.91                                     | 661                                                                                             | \$308,685                                                                                 |
| May 22, 2011 to June 18, 2011  | 2,789                                           | 59.49                                       | 2,788                                                                                           | 142,794                                                                                   |
| June 19, 2011 to July 16, 2011 | 525                                             | 58.91                                       | 525                                                                                             | 111,880                                                                                   |
| Total                          | 3,975                                           | \$60.31                                     | 3,974                                                                                           | \$111,880                                                                                 |

(1) In addition to the shares of common stock we repurchased under our \$500 million stock repurchase program, we repurchased 2 thousand shares of our common stock at an aggregate cost of \$98 thousand in connection with the net settlement of shares issued as a result of the vesting of restricted stock during the twelve weeks ended July 16, 2011.

Excepted as noted in footnote 1 above, 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 (2) \$500 million in common stock. Our stock repurchase program was authorized by our Board of Directors and publicly announced on February 8, 2011 and expired on August 9, 2011 when our Board of Directors authorized a new \$300 million stock repurchase program.



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## ITEM 6. EXHIBITS

| Exhibit No.            | Exhibit Description                                                                                                              | Incorporated by Reference |         | Filed<br>Filing Date Herewith |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------|-------------------------------|
|                        |                                                                                                                                  | Form                      | Exhibit |                               |
| 3.1                    | Restated Certificate of Incorporation of Advance Auto Parts, Inc. (“Advance Auto”).                                              | 10-Q                      | 3.1     | 8/16/2004                     |
| 3.2                    | Amended and Restated Bylaws of Advance Auto. (effective August 12, 2009).                                                        | 8-K                       | 3.2     | 8/17/2009                     |
| 31.1                   | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                              |                           |         | X                             |
| 31.2                   | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                              |                           |         | X                             |
| 32.1                   | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |                           |         | X                             |
| 101.INS <sup>(1)</sup> | XBRL Instance Document                                                                                                           |                           |         |                               |
| 101.SCH <sup>(1)</sup> | XBRL Taxonomy Extension Schema Document                                                                                          |                           |         |                               |
| 101.CAL <sup>(1)</sup> | XBRL Taxonomy Extension Calculation Linkbase Document                                                                            |                           |         |                               |
| 101.LAB <sup>(1)</sup> | XBRL Taxonomy Extension Labels Linkbase Document                                                                                 |                           |         |                               |
| 101.PRE <sup>(1)</sup> | XBRL Taxonomy Extension Presentation Linkbase Document                                                                           |                           |         |                               |
| 101.DEF <sup>(1)</sup> | XBRL Taxonomy Extension Definition Linkbase Document                                                                             |                           |         |                               |

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise

<sup>(1)</sup> subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except to the extent expressly set forth by specific reference in such filing.

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SIGNATURE

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

ADVANCE AUTO PARTS, INC.

August 24, 2011

By: /s/ Michael A. Norona  
Michael A. Norona  
Executive Vice President and Chief Financial Officer

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